IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PERSONS LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "Prospectus"), whether received by e-mail, accessed from an internet page or received as a result of electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein (the "Bonds").

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF BONDS FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A) ("QIBs") OR (2) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS," AS PERMITTED BY REGULATION S, OR WITHIN THE UNITED STATES TO QIBS IN ACCORDANCE WITH RULE 144A. ANY REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Bonds, you must be (i) outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the Bonds for its own account or for the account of another QIB. By accepting this electronic transmission and accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented to the Russian Federation and to BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, TD Investments Limited and VTB Capital plc (the "Joint Lead Managers") that (1) you understand and agree to the terms set out herein; (2) in respect of Bonds being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and that the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is utilised by someone who is a QIB; (3) in respect of the Bonds being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are outside the United States, and that the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers; and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Bonds.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person and in particular to any U.S. address. Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other jurisdictions. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Ministry of Finance of the Russian Federation acting on behalf of the Russian Federation in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Russian Federation or the Ministry of Finance of the Russian Federation or any officials thereof, BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, TD Investments Limited and VTB Capital plc, any person who controls any of the foregoing, any director, officer, employee, representative or agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and any hard copy version available to you.

Russian Federation

U.S.$2,000,000,000
3.25 per cent. Bonds due 2017
U.S.$2,000,000,000
4.50 per cent. Bonds due 2022
U.S.$3,000,000,000
5.625 per cent. Bonds due 2042

Issue Price of the 2017 Bonds: 99.657 per cent.
Issue Price of the 2022 Bonds: 99.277 per cent.
Issue Price of the 2042 Bonds: 97.553 per cent.

Interest on the U.S.$2,000,000,000 3.25 per cent. Bonds due 2017 (the "2017 Bonds"), the U.S.$2,000,000,000 4.50 per cent. Bonds due 2022 (the "2022 Bonds") and the U.S.$3,000,000,000 5.625 per cent. Bonds due 2042 (the "2042 Bonds", and together with the 2017 Bonds and the 2022 Bonds, the "Bonds") issued by the Ministry of Finance of the Russian Federation (the "Ministry of Finance") acting on behalf of the Russian Federation (the "Issuer," "Russia" or the "Russian Federation") is payable semi annually in arrear on 4 April and 4 October in each year. See "Terms and Conditions of the 2017 Bonds—Interest", "Terms and Conditions of the 2022 Bonds—Interest" and "Terms and Conditions of the 2042 Bonds—Interest." Payments under the Bonds will be made free and clear of, and without withholding or deduction for, any taxes imposed by the Russian Federation, to the extent described under "Terms and Conditions of the 2017 Bonds—Taxation", "Terms and Conditions of the 2022 Bonds—Taxation" and "Terms and Conditions of the 2042 Bonds—Taxation." Unless previously redeemed, or purchased and cancelled, the 2017 Bonds will be redeemed at their principal amount together with accrued interest on 4 April 2017 and are not redeemable prior to that date. See "Terms and Conditions of the 2017 Bonds—Redemption, Purchase and Cancellation." Unless previously redeemed, or purchased and cancelled, the 2022 Bonds will be redeemed at their principal amount together with accrued interest on 4 April 2022 and are not redeemable prior to that date. See "Terms and Conditions of the 2022 Bonds—Redemption, Purchase and Cancellation." Unless previously redeemed, or purchased and cancelled, the 2042 Bonds will be redeemed at their principal amount together with accrued interest on 4 April 2042 and are not redeemable prior to that date. See "Terms and Conditions of the 2042 Bonds—Redemption, Purchase and Cancellation."

Applications have been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UKLA") for the Bonds to be admitted to the official list of the UKLA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to the Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS STARTING ON PAGE 4.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see "Subscription and Sale," "Form and Transfer of the Bonds" and "Transfer Restrictions."

The Bonds will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and within the United States to "qualified institutional buyers" ("QIBs") (as defined in Rule 144A under the Securities Act ("Rule 144A")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Bonds will be offered and sold in registered form in denominations of U.S.$200,000. Each series of Bonds offered and sold in reliance on Regulation S (the "Unrestricted Bonds") will be represented by beneficial interests in an unrestricted global bond (an "Unrestricted Global Bond") in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about 4 April 2012 (the "Closing Date") with a common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Each series of Bonds offered and sold in reliance on Rule 144A (the "Restricted Bonds") will be represented by beneficial interests in one or more restricted global bonds (each a "Restricted Global Bond," and together with the Unrestricted Global Bonds, the "Global Bonds") in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the "Custodian") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("DTC"). It is expected that the Bonds will be issued on the Closing Date. Interests in the Restricted Global Bond will be subject to certain restrictions on transfer. Beneficial interests in the Global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Bonds.

Joint Lead Managers and Joint Bookrunners

BNP Paribas **Citigroup** **Deutsche Bank** **Troika Dialog** **VTB Capital**

Prospectus Dated 2 April 2012

This document (the "Prospectus") comprises a prospectus for the purposes of Directive 2003/71/EC (the "Prospectus Directive"). The Russian Federation accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Russian Federation (which has 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.

Information contained herein that is identified as being derived from a publication of the Russian Federation or one of its agencies or instrumentalities is included herein on the authority of such publication as an official public document of the Russian Federation. All other information contained herein is included as an official public statement made on the authority of the Minister of Finance of the Russian Federation.

No person has been authorised in connection with the offering of the Bonds to give any information or make any representation regarding the Issuer or the Bonds other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by the Issuer or any agency thereof or the Managers (as defined under "Subscription and Sale"). You should carefully evaluate the information provided by the Issuer in light of the total mix of information available to you, recognising that neither the Issuer nor any other person can provide any assurance as to the reliability of any information not contained in this document. Effective from the date of commencement of discussions concerning the Issuer or sale of Bonds, prospective purchasers of Bonds and each of their employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind, including opinions or other tax analyses that the Issuer has provided to such prospective purchasers relating to such U.S. federal income tax treatment and tax structure. Neither the delivery of this Prospectus nor any sales made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change in the affairs of the Issuer since the date hereof.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or any agency thereof or any Manager in any jurisdiction where an offer or invitation by or on behalf of the Issuer or any agency thereof or any Manager is not permitted by the laws of such jurisdiction. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "Subscription and Sale," "Form and Transfer of the Bonds" and "Transfer Restrictions."

Except as otherwise provided herein, any reference in this Prospectus to an action being taken by the Russian Federation should be construed as a reference to such action being taken by the Ministry of Finance acting on behalf of the Russian Federation.

The Fiscal Agent, the Registrar, the Paying Agents and the Transfer Agents referred to herein make no representation regarding this Prospectus or the Bonds.

To the fullest extent permitted by law, the Managers do not accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Managers in connection with the issue and offering of the Bonds. The Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Prospectus or any such statement. Each person receiving this Prospectus acknowledges that such person has not relied on any Manager or any person affiliated with any Manager in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer 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. Furthermore, potential investors should (i) understand thoroughly the terms of the Bonds; (ii) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the information contained in this Prospectus and the merits and risks of investing in the Bonds; (iii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of their particular financial situation, an investment in the Bonds and the effect that investment will have on their overall investment portfolio; (iv) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds; and (v) be able to evaluate (either alone or with the help of a financial advisor) how the Bonds will perform under changing conditions as well as possible economic, interest rate, exchange rate and other developments that may affect their investment and their ability to bear all of the risks of that investment.

The Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In connection with the issue of the Bonds, Deutsche Bank AG, London Branch (the "Stabilising Manager") or any person acting on behalf of the Stabilising Manager may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) 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 Bonds 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 Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States, the resale of the Bonds in the United States in reliance on Rule 144A under the Securities Act and the admission of the Bonds for listing on the London Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any person outside the United States or by any QIB in the United States to any person within the United States (other than any QIB and those persons, if any, retained to advise such person outside the United States or QIB with respect thereto) is unauthorised, and any disclosure without the prior written consent of the Issuer of any of its contents to any such person within the United States (other than any QIB and those persons, if any, retained to advise such person outside the United States or QIB) is prohibited.

Credit ratings included or referred to in this Prospectus have been issued by Moody's Investors Service Limited, Standard & Poor's Credit Market Services France S.A.S. and Fitch Ratings Ltd., each of which is established in the European Union (the "EU") and registered under Regulation (EC) No. 1060/2009 of the European Parliament and European Council of 16 September 2009 on credit rating agencies (the "CRA Regulation"), and included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

PRESENTATION OF CERTAIN INFORMATION

In this Prospectus, all references to "RUB" or "rouble" are to the lawful currency of the Russian Federation, all references to "dollar" and "U.S.$" are to the lawful currency of the United States of America, all references to "euro" and "€" are to the lawful single currency of member states of the EU that adopt or have adopted the euro as their currency in accordance with the legislation of the EU relating to the European Economic and Monetary Union and all references to interest accruing from a specified date or to a specified date are to interest accruing from and including the first specified date to but excluding the second specified date.

Except as otherwise provided, translations of amounts from one currency into another currency are solely for the convenience of the reader and are made at various exchange rates. No representation is made that amounts referred to herein could have been, or could be, converted into another currency at any particular exchange rate or, in the case of rouble and dollar amounts, at all.

Statistical information reported herein has been derived solely from official publications of, and information supplied by, the U.S. Federal Reserve, solely in respect of dollar to euro exchange rates presented in the section "Exchange Rates" on page v, and the following agencies of the Russian Federation: the Federal Service for State Statistics ("Rosstat"), the Central Bank of the Russian Federation (the "Bank of Russia"), the Central Election Commission, the Federal Service for Financial Markets (the "FSFM"), the Ministry of Finance, the Federal Customs Service (the "Customs Service"), the Ministry of Transport, the Ministry of Health and Social Development, the Ministry of Energy, the Ministry of Foreign Affairs, the Ministry of Economic Development, the Ministry of Industry and Trade, the Federal Agency of Air Transport and State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank"). In certain cases, the Ministry of Finance has performed arithmetic calculations or otherwise determined the form in which information is classified or presented herein. Unless otherwise stated, all annual information, including budget information, is based on calendar years, and interim statistical information has not been annualised. Data included in this Prospectus have been subject to rounding adjustments; accordingly, data shown for the same item of information may vary, and total figures may not be arithmetical sums of their components. In addition, certain data presented herein differ from data made public previously due to regular revisions conducted by Rosstat, the Bank of Russia, the Ministry of Finance, the Customs Service, Vnesheconombank and other Russian authorities. The Issuer confirms that such information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. All statements other than statements of historical fact included in this Prospectus regarding, among other things, the Russian Federation's economy, fiscal condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "project," "intend," "estimate," "anticipate," "believe," "continue," "could," "should," "would" or the like. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Prospectus, there can be no assurance that such expectations will prove to have been correct. The Issuer undertakes no obligation to update the forward-looking statements contained in this Prospectus or any other forward-looking statement it may make.

For the Issuer, in addition to the factors described in this Prospectus, including, but not limited to, those discussed under "Risk Factors," the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

- External factors, such as:
  - the impact of the international economic environment on the Russian economy, including liquidity in the international financing markets and volatility in international equity, debt and foreign exchange markets;
  - interest rates in financial markets outside the Russian Federation;
  - the impact of any changes in the credit rating of the Russian Federation;
  - the impact of changes in the international prices of commodities; and
  - economic conditions in Russia's major export markets.
- Internal factors, such as:
  - general economic and business conditions in the Russian Federation;
  - the level of foreign direct and portfolio investment;
  - changes in interest rates;
  - the depreciation or appreciation of the rouble; and
  - governmental, statutory, regulatory or administrative initiatives.

EXCHANGE RATES

The following table sets forth the rouble to dollar, the rouble to euro and the dollar to euro exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated.

	Year ended 31 December					
	2006	2007	2008	2009	2010	2011
	(Rouble per U.S.$)					
Period end[1]	26.33	24.55	29.38	30.24	30.48	32.20
Average for the period[2]	27.18	25.57	24.98	31.93	30.34	29.38
	(Rouble per €)					
Period end[1]	34.70	35.93	41.44	43.39	40.33	41.41
Average for the period[2]	34.11	35.01	36.41	44.13	40.17	41.03
	(U.S.$ per €)					
Period end[1]	1.32	1.46	1.39	1.46	1.31	1.30
Average for the period[2]	1.27	1.38	1.47	1.40	1.33	1.42

Notes:

(1) The period end rates are quoted for the last business day of the relevant period.

(2) The average rates are calculated as the average of the exchange rates on the last business day of each month for the period.

Sources: Bank of Russia; U.S. Federal Reserve.

TABLE OF CONTENTS

OVERVIEW

Issuer	Ministry of Finance of the Russian Federation acting on behalf of the Russian Federation. The Russian Federation is a sovereign and democratic federal state, consisting of 83 sub-federal political units, also referred to as "Federation subjects." Russia is the largest country in the world by land mass, covering 17.1 million square kilometres. Russia borders 16 countries and spans nine time zones, extending some 9,000 kilometres from the Baltic Sea in the west to the Pacific Ocean in the east and some 4,000 kilometres from its southern border on the Black and Caspian Seas to its northern limits on the Arctic Ocean.
Bonds	
Title	U.S.$2,000,000,000 3.25 per cent. Bonds due 2017, U.S.$2,000,000,000 4.50 per cent. Bonds due 2022 and U.S.$3,000,000,000 5.625 per cent. Bonds due 2042.
Interest	The 2017 Bonds bear interest from 4 April 2012 at 3.25 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year, commencing on 4 October 2012. The 2022 Bonds bear interest from 4 April 2012 at 4.50 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year, commencing on 4 October 2012. The 2042 Bonds bear interest from 4 April 2012 at 5.625 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year, commencing on 4 October 2012.
Redemption	Unless previously redeemed, or purchased and cancelled, each 2017 Bond will be redeemed at its principal amount on 4 April 2017 subject as provided in Condition 7 of the Terms and Conditions of the 2017 Bonds, each 2022 Bond will be redeemed at its principal amount on 4 April 2022 subject as provided in Condition 7 of the Terms and Conditions of the 2022 Bonds and each 2042 Bond will be redeemed at its principal amount on 4 April 2042 subject as provided in Condition 7 of the Terms and Conditions of the 2042 Bonds. References herein to "Conditions" are to the Terms and Conditions of the 2017 Bonds, the Terms and Conditions of the 2022 Bonds and the Terms and Conditions of the 2042 Bonds, as applicable.
Repurchase	The Russian Federation may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased may be cancelled or held and resold.
Status	The Bonds of each series constitute direct, unconditional, unsecured and unsubordinated obligations of the Russian Federation and rank *pari passu* without any preference among themselves and *pari passu* in all respects with all other present and future unsecured and unsubordinated obligations of the Russian Federation, including Bonds of the other series.
Events of Default	(1) Failure to pay any amount of principal or interest in respect of the relevant Bonds when due and such failure continues for a period of 30 calendar days. (2) Failure to perform or comply with any obligation in respect of the relevant Bonds, which default (if capable of remedy) is not remedied within 60 days after written notice from any Bondholder (as defined in the relevant Condition 1(b)).

(3) The acceleration of the maturity of any Public External Indebtedness (as defined in the relevant Condition 4(c)), any failure to pay the final instalment of principal in respect of any Public External Indebtedness following the expiration of any applicable grace period, or the acceleration of any obligation under a guarantee constituting Public External Indebtedness or the failure to pay the final instalment of principal in respect of any such guaranteed obligation following the expiration of any applicable grace period, and such guarantee is not honoured; provided that the aggregate amount of the relevant Public External Indebtedness equals or exceeds U.S.$75,000,000 (or its equivalent in any other currency or currencies).

(4) The Russian Federation declares a moratorium on the payment of principal of or interest on any part of its Public External Indebtedness.

(5) The Russian Federation or any agency or entity acting on behalf of the Russian Federation contests the validity of the relevant Bonds or denies any of the Russian Federation's obligations under such Bonds or it is or becomes unlawful for the Russian Federation to perform or comply with any of its obligations under or in respect of such Bonds or under or in respect of the fiscal agency agreement in respect of the 2017 Bonds (the "2017 Fiscal Agency Agreement"), the fiscal agency agreement in respect of the 2022 Bonds (the "2022 Fiscal Agency Agreement"), or the fiscal agency agreement in respect of the 2042 Bonds (the "2042 Fiscal Agency Agreement," and together with the 2017 Fiscal Agency Agreement and the 2022 Fiscal Agency Agreement, each a "Fiscal Agency Agreement"), as applicable, or any of such obligations shall be or become unenforceable or invalid.

(6) Any regulation, decree, consent, approval, licence or other authority necessary to enable the Russian Federation to enter into or perform its obligations under the relevant Bonds or under the relevant Fiscal Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise is void or ceases to remain in full force and effect or is modified in a manner which adversely affects any rights or claims of any holder of such Bonds.

Negative Pledge . . . . So long as any of the relevant Bonds remains outstanding (as defined in the relevant Fiscal Agency Agreement) the Russian Federation will not create or permit to subsist any Lien (as defined in the relevant Condition 4(c)) upon the whole or any part of the International Monetary Assets (as defined in the relevant Condition 4(c)) to secure any Public External Indebtedness unless, at the same time or prior thereto, the obligations of the Russian Federation under such Bonds are secured equally and rateably therewith.

Form . . . . The Bonds of each series will be issued in definitive registered form, without interest coupons attached. Unrestricted Bonds, which are offered and sold outside the United States in reliance on Regulation S under the Securities Act, will be represented by beneficial interests in an Unrestricted Global Bond, which will be registered in the name of a nominee for, and shall be

	deposited on or about the Closing Date with a common depositary for, and in respect of interests held through Euroclear and Clearstream, Luxembourg. Restricted Bonds that are offered and sold within the United States to QIBs in reliance on Rule 144A will be represented by beneficial interests in a Restricted Global Bond, which will be deposited on or about the Closing Date with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC. The Bonds will be subject to certain restrictions on transfer. See "Form and Transfer of the Bonds" and "Transfer Restrictions."
Further Issues	The Russian Federation shall be at liberty from time to time, without the consent of the holders of the relevant Bonds, to create and issue further bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further bonds and, if applicable, the date and amount of the first payment on such further bonds) so that the same shall be consolidated and form a single series with such Bonds, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.
Denomination	U.S.$200,000.
Taxes	Subject to certain exceptions, all payments under the Bonds will be made free and clear of any taxes imposed by the Russian Federation.
Governing Law	English law.
No Waiver of Immunity	The Russian Federation has not waived any of its sovereign immunity, and has not submitted to the jurisdiction of any court, in respect of its obligations under the Bonds.
Listing and Admission to Trading	Application has been made for the Bonds to be listed on the Official List and admitted to trading on the Market.
Risk Factors	Risks associated with the Bonds generally include: (1) there can be no assurance that Russia's credit ratings will not be suspended, downgraded or withdrawn; (2) the terms of the Bonds may be modified pursuant to their collective-action provisions; (3) legal investment considerations may restrict certain investments; and (4) a trading market for the Bonds may not develop, and if a market does develop, it may not be liquid. Risks associated with Russia generally include: (1) any material reduction in the price of crude oil or natural gas may materially and adversely affect the revenues and financial condition of the Russian Federation; (2) the Russian Federation's economy, like many economies, is vulnerable to external shocks, and a global economic crisis, significant future economic difficulties of the Russian Federation's major trading partners, and more general "contagion" effects all could have a material adverse effect on the Russian Federation's economic growth and the market for the Bonds; (3) Russia is a foreign sovereign state, has not waived any rights to sovereign immunity it may have in any jurisdiction and has not submitted to the jurisdiction of any court and accordingly it may be difficult to obtain or enforce judgments against it; and (4) rouble depreciation risks. These risk factors are described in greater detail under "Risk Factors."

RISK FACTORS

The Russian Federation believes that the factors described below represent the principal risks inherent in investing in the Bonds. All of these factors are contingencies, which may or may not occur, and the Russian Federation is not in a position to express a view on the likelihood that one or more of these contingencies will in fact occur.

The Russian Federation does not represent that the statements below are an exhaustive list of the risks inherent in investing in the Bonds, and the Russian Federation may be unable to pay amounts due on the Bonds for reasons not described below. Prospective investors should read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Russian Federation

Any material reduction in the price of crude oil or natural gas may materially adversely affect the revenues and financial condition of the Russian Federation

The Russian Federation's revenues are affected by international oil and natural gas prices, which have fluctuated widely in recent years in response to global supply and demand, general economic conditions, competition from other energy sources and other factors. In 2008, for example, the peak price of Urals oil was U.S.$140.80 per barrel and the average price per barrel was U.S.$94.37, compared to a peak price of U.S.$78.15 and an average price of U.S.$60.89 in 2009. In 2010, the peak price of Urals oil was U.S.$92.05 per barrel and the average price per barrel was U.S.$78.20, compared to a peak price of U.S.$123.38 and an average price of U.S.$109.33 in 2011. Russia's 2012 Budget Law assumes an average price per barrel of Urals oil of U.S.$100, U.S.$97 and U.S.$101 for 2012, 2013 and 2014, respectively. See "Public Finance—2012 Federal Budget Law." Natural gas prices have likewise fluctuated significantly in recent years, in part because crude oil prices often provide a benchmark for natural gas prices. In 2008, the lowest monthly average export price of natural gas was U.S.$294.80 per thousand m^3, the highest monthly average export price of natural gas was U.S.$417.10 per thousand m^3 and the average export price of natural gas was U.S.$359.10 per thousand m^3, compared to the lowest monthly average export price of U.S.$217.70 per thousand m^3, a peak monthly average export price of U.S.$332.90 per thousand m^3 and an average export price of U.S.$257.10 per thousand m^3 in 2009. In 2010, the lowest monthly average export price of natural gas was U.S.$254.40 per thousand m^3, the highest monthly average export price of natural gas was U.S.$287.60 per thousand m^3 and the average export price of natural gas was U.S.$273 per thousand m^3 (excluding trade with Kazakhstan from 1 July 2010), compared to the lowest monthly average export price of U.S.$328.3 per thousand m^3, the peak monthly average export price of U.S.$436 per thousand m^3 and the average export price of U.S.$381.48 per thousand m^3 in 2011. Any material reduction in the price of crude oil or natural gas will have a significant effect on Russia's budgetary revenues and foreign reserves, and, if sustained, may materially adversely affect the Russian Federation's financial condition.

The Russian Federation's economy, like many economies, is vulnerable to external shocks. A global economic crisis, significant future economic difficulties of the Russian Federation's major trading partners, and more general "contagion" effects all could have a material adverse effect on the Russian Federation's economic growth and the market for the Bonds

The Russian Federation's economy and finances were adversely affected in 2008-09 by the global financial crisis. Real gross domestic product ("GDP"), for example, declined by 7.8% in 2009 compared to 2008, and the average unemployment rate (using the definition of the International Labour Organisation (the "ILO")) increased from 7.1% in the fourth quarter of 2008 to 8% in the fourth quarter of 2009. The value of the rouble against the dollar also declined in 2009, by 12.2% in real terms, as did the value of the real effective exchange rate, which fell by 5.6%.

The Russian Federation's economy remains vulnerable to further external shocks. A significant decline in the economic growth of the EU or any of the Russian Federation's other major trading partners could have a material adverse effect on the Russian Federation's balance of trade and adversely affect the Russian Federation's economic growth.

Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors—so-called "contagion effects." The Russian Federation has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments, including the Bonds, will be similarly affected in the future by negative economic or financial developments in countries whose economies or credit ratings are similar to those of the Russian Federation.

There can be no assurance that a future external economic crisis will not have a negative effect on investors' confidence in Russia's markets or on the Russian Federation's economy or ability to raise capital in the international debt markets, all of which could have a material adverse effect on the trading price of the Bonds.

No waiver of immunity; enforcement of liabilities

The Russian Federation is a sovereign state and has not waived any rights to sovereign immunity it may have in any jurisdiction. Accordingly, the Russian Federation may be entitled to immunity from suit in any action or proceeding in any jurisdiction arising out of the Bonds, and the Russian Federation and its assets, properties and revenues may be entitled to immunity in any related enforcement action. The Russian Federation has also not submitted to the jurisdiction of any court, agreed that any disputes may be resolved in any forum or appointed any agent for service of process in any jurisdiction, in connection with any action or proceeding arising out of the Bonds. As a result of the foregoing, it may be difficult or impossible for an investor to obtain a judgment against the Russian Federation in a foreign court and/or have such judgment recognised and/or enforced in any jurisdiction.

A final judgment rendered by a foreign court will generally be recognised and enforced in the Russian Federation if there is an international treaty in effect between the Russian Federation and the country where the judgment is rendered providing for the mutual recognition and enforcement of judgments. There are no international treaties in effect today providing for the mutual recognition and enforcement of foreign judgments rendered by courts in the Russian Federation and courts in most of the countries where Bond investors are likely to reside, including the United States and the United Kingdom.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English and Dutch court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English or Dutch court.

Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

As a result, it may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Bonds.

Exchange rate risks

The depreciation of the rouble against the dollar or other major currencies may adversely affect the financial condition of the Russian Federation, as well as the Russian Federation's ability to repay its debt denominated in currencies other than the rouble, including amounts due under the Bonds.

Risks Relating to the Bonds

Credit ratings may not reflect all risks

The Russian Federation has been assigned foreign currency sovereign credit ratings of Baa1 (Moody's), BBB (Standard & Poor's) and BBB (Fitch), each with a stable outlook. A credit rating is not a recommendation to buy, sell or hold the Bonds, and is subject to revision or withdrawal at any time by the assigning rating agency. No assurance can be given that the Russian Federation's current or future sovereign ratings will not be downgraded or withdrawn entirely, if circumstances in the future so warrant in the judgment of the assigning rating agency. The Russian Federation has no obligation to inform Bondholders of any revision, downgrade or withdrawal of its current or future sovereign credit ratings.

A suspension, downgrade or withdrawal at any time of a credit rating assigned to the Russian Federation may adversely affect the market price of the Bonds.

Modification

Each series of Bonds may generally be modified with the consent of persons holding or representing at least 66⅔ per cent. of the votes cast at a meeting of Bondholders called for that purpose, so long as the meeting is attended by two or more persons holding or representing a clear majority of the aggregate principal amount of such outstanding Bonds (or by two or more persons being or representing Bondholders in the case of an adjourned meeting). The maturity, principal amount, interest rate and other payment terms of such series of Bonds may be modified with the consent of persons holding or representing at least 75 per cent. of the votes cast at a meeting of Bondholders called for that purpose, so long as the meeting is attended by persons holding or representing at least 75 per cent. of the aggregate principal amount of such outstanding Bonds (or by persons holding or representing at least 25 per cent. of the aggregate principal amount of such outstanding Bonds in the case of an adjourned meeting). Under these collective-action provisions, modifications to the terms of the Bonds that are so approved are binding on all Bondholders, including Bondholders that did not attend or vote at the Bondholders' meeting or that voted against the approved modifications.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by applicable authorities. Potential investors should consult their legal advisors to determine whether and to what extent (1) the Bonds are legal investments for them, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to their purchase or pledge of any Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

The secondary market generally

A trading market for the Bonds of any series may not develop, and if a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

TERMS AND CONDITIONS OF THE 2017 BONDS

The following is the text of the terms and conditions of the 2017 Bonds which, subject to amendment, will be endorsed on each Bond Certificate (as defined below) and will be attached and (subject to the provisions thereof) apply to each Global Bond representing the 2017 Bonds.

The U.S.$2,000,000,000 3.25 per cent. Bonds due 2017 (the "**Bonds**") (which expression includes any further Bonds issued pursuant to Condition 13 and forming a single series with the Bonds) of the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**") acting on behalf of the Russian Federation (the "**Russian Federation**") were authorised pursuant to the provisions of Federal Law No. 136-FZ of 29 July 1998 (as amended) "On the Specifics of Issuance and Circulation of State and Municipal Securities"; Federal Law No. 371-FZ of 30 November 2011 "On the Federal Budget for 2012 and for the Planning Period of 2013 and 2014"; Resolution of the Government of the Russian Federation dated 27 December 2011 No. 2390-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Order of the Ministry of Finance dated 24 February 2012 No. 31n; and Order of the Ministry of Finance dated 30 March 2012 No. 144. The fiscal agency agreement dated 3 April 2012 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds by the Russian Federation, Citibank, N.A., London Branch, as fiscal and paying agent (the "**Fiscal Agent**") and as registrar (the "**Registrar**") in London and Citibank, N.A., New York Branch, as transfer agent (together with Citibank, N.A., London Branch, the "**Transfer Agents**") and paying agent in New York (together with the Fiscal Agent and the Registrar, the "**Paying Agents**") and the transfer agents named therein (the "**Transfer Agents**").

In these Conditions, "**Fiscal Agent**," "**Registrar**," "**Paying Agent**," and "**Transfer Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement for the Bonds, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the principal office of the Fiscal Agent (currently 13th Floor, Citigroup Centre, Canada Square, London E14 5LB) and at the specified offices of each of the other Agents. The Bondholders (as defined in Condition 1(b)) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement for the Bonds, including any provision of the Fiscal Agency Agreement which amends or supplements the Bonds.

1 Form, Denomination and Title

(a) ***Form and Denomination***

The Bonds are in definitive fully registered form, without interest coupons attached, in the denomination of U.S.$200,000 (the "**authorised denomination**"). A certificate (each a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding or holdings of Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Russian Federation shall procure to be kept by the Registrar.

(b) ***Title***

Title to the Bonds will pass by and upon registration in the Register. In these Conditions, "**Bondholder**" and "**holder**" mean the person in whose name a Bond is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Bond will (except as otherwise requested by such holder in writing, or as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no person will be liable for so treating the holder.

2 Transfer of Bonds and Issue of Bonds

(a) ***Transfer***

Subject to Condition 2(d), a Bond may be transferred in whole or in part in the authorised denomination upon the surrender of the Bond Certificate representing that Bond, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "**Transfer Form**") duly completed and executed, at the specified office

of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of the Bonds represented by a Bond Certificate, neither the part transferred nor the balance not transferred may be less than the authorised denomination and a new Bond Certificate in respect of the balance not so transferred will be issued to the transferor.

(b) ***Delivery***

Each new Bond Certificate to be issued upon a transfer of any Bonds will, within five business days of the request for transfer being duly made, be delivered at the specified office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) be mailed by uninsured post to such address as the transferee entitled to the Bonds represented by such Bond Certificate may have specified. In this Condition 2(b), "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the cities in which the Registrar and any such Transfer Agent have their respective specified offices.

(c) ***No Charge***

Registration or transfer of Bonds will be effected without charge to the holder or transferee thereof, but upon payment (or against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

(d) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered during the period of 15 calendar days ending on the due date for any payment of principal in respect of such Bond.

(e) ***Regulations Concerning Transfer and Registration***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Russian Federation in a manner which is reasonably required by the Russian Federation (after consultation with the Registrar) to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of the Bondholders. A copy of the current regulations will be sent by the Registrar to any Bondholder who so requests.

3 Status

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Russian Federation and the full faith and credit of the Russian Federation is pledged for the due and punctual payment of principal of, and interest on, the Bonds and for the performance of all other obligations of the Russian Federation pursuant to the Bonds. The Bonds shall at all times rank *pari passu* without any preference among themselves and *pari passu* in all respects with all other present and future unsecured and unsubordinated obligations of the Russian Federation.

4 Negative Pledge and Covenant

(a) ***Negative Pledge***

So long as any of the Bonds remains outstanding (as defined in the Fiscal Agency Agreement) the Russian Federation will not create or permit to subsist any Lien upon the whole or any part of the International Monetary Assets to secure any Public External Indebtedness unless, at the same time or prior thereto, the obligations of the Russian Federation under the Bonds are secured equally and rateably therewith.

(b) ***Covenant***

So long as any Bond remains outstanding the Russian Federation shall obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, 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 for the execution, delivery or performance of the Bonds or for the validity or enforceability thereof.

(c) ***Definitions***

In these Conditions:

"**Excluded Indebtedness**" means any obligation of the Russian Federation, the Government of the Russian Federation, the Ministry of Finance, Vnesheconombank of the U.S.S.R. (now known as state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)") or any other person that may arise from time to time representing restructured indebtedness originally incurred prior to 1 January 1992 by the government of the former Soviet Union or any of its legally authorised entities, other than the Russian Federation U.S. Dollar Denominated Bonds due 2007 to 2030.

"**External Indebtedness**" means Indebtedness (i) which is not Excluded Indebtedness, (ii) which is denominated or payable, or at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Russian Federation and (iii) which was not originally incurred or assumed under an agreement or instrument made with or issued to creditors substantially all of whom were residents of the Russian Federation or entities having their head office or principal place of business within the territory of the Russian Federation. For the avoidance of doubt, External Indebtedness does not include Internal Government Hard Currency Bonds known as "OVVZs," "Taiga" bonds or "MinFins" or any bonds representing restructured internal hard currency bonds of the Government of the Russian Federation.

"**Government of the Russian Federation**" means the Government of the Russian Federation as provided in Article 110 of the Constitution of the Russian Federation, or any successor article, from time to time.

"**IMF**" means the International Monetary Fund.

"**Indebtedness**" means any legal obligation or any obligation intended by its terms to be a legal obligation (whether present or future, actual or contingent, secured or unsecured, incurred as principal, surety, guarantor or otherwise) for the payment or repayment of borrowed money created (or intended by its terms to have been created) under an agreement or instrument in which the Russian Federation, the Government of the Russian Federation or the Ministry of Finance is designated as the obligor, or which by operation of Russian law constitutes a legal obligation of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance (it being understood that neither the Central Bank of the Russian Federation, nor any political subdivision, regional or municipal government, ministry (other than the Ministry of Finance), department, authority or statutory corporation of the Russian Federation nor any joint stock company, enterprise or other entity organised or existing under the laws or regulations of the Russian Federation or any of the above, is considered to be part of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance for purposes hereof).

"**International Monetary Assets**" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the Fund and Foreign Exchange of the Ministry of Finance or the Government of the Russian Federation from time to time (but not, for the avoidance of doubt, any such assets of the Central Bank of the Russian Federation at any time), and the terms "Special Drawing Rights," "Reserve Positions in the Fund" and "Foreign Exchange" have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

"**Lien**" means any lien, pledge, hypothecation, mortgage, security interest, deed of trust, charge or any other encumbrance arising under a security agreement or arrangement.

"**Public External Indebtedness**" means External Indebtedness which (i) is in the form of, or represented by, bonds, notes or other securities or any guarantee thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")).

5 Interest

Each Bond bears interest on its outstanding principal amount from 4 April 2012 at 3.25 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year until maturity, commencing on 4 October 2012 (each, an "**Interest Payment Date**"). Interest will be paid subject to and in accordance with the provisions of Condition 7. The period beginning on and including 4 April 2012 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next successive Interest Payment Date is called an "**Interest Period**".

Each Bond will cease to bear interest from the due date for redemption unless, after surrender of such Bond, payment of principal is improperly withheld or refused, in which case the outstanding principal amount of such Bond will continue to bear interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after notice has been given to the Bondholders that the Fiscal Agent has received all sums due in respect of the Bonds up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

6 Redemption, Purchase and Cancellation

(a) ***Redemption***

Unless previously redeemed, or purchased and cancelled, each Bond will be redeemed at its principal amount on 4 April 2017 (the "**Maturity Date**") subject as provided in Condition 7.

(b) ***Purchase and Cancellation***

The Russian Federation and its affiliates may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the Securities Act). Any Bonds so cancelled will not be reissued.

7 Payments

(a) ***Principal***

Payments of principal in respect of each Bond will be made by transfer to a U.S. dollar account maintained by the Bondholder with a bank in New York City or (i) if it does not have such a U.S. dollar account or (ii) if the principal amount of Bonds held by such person is less than U.S.$300,000, by a U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder by uninsured mail at the risk of the Bondholder. Such payment will be made only upon presentation and surrender of the relevant Bond Certificate at the specified office of any of the Paying Agents and will be rounded downwards, if necessary, to the nearest cent.

For the purposes of this Condition 7(a) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register at the Registrar's close of business on the fifteenth day before the due date for such payment of principal and the outstanding amount of each Bondholder's registered holding will be deemed to be the amount shown as such on the Register for such Bondholder at the same time on that date.

(b) ***Interest***

Payments of interest (other than interest due on redemption) in respect of each Bond will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the holder (or to the first-named of joint holders) of such Bond at the address appearing in the Register not later than the due date for such payment and will be rounded downwards, if necessary, to the nearest cent. For the purposes of this Condition 7(b) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment of interest.

Upon application by a Bondholder with respect to Bonds having a principal amount of U.S.$300,000 or more to the specified office of the Registrar not less than 15 days before the due date for the payment of any interest (other than interest due on redemption) in respect of such Bonds, such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City. Any such application for transfer to a U.S. dollar account shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Bonds which become payable to the Bondholder

who has made the initial application until such time as the Registrar is notified in writing to the contrary by such Bondholder.

Payment of interest due on redemption will be made in the same manner as payment of the principal of a Bond.

(c) ***Payments Subject to Fiscal Laws***

All payments of principal and interest in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

(d) ***Commissions***

No commissions or expenses shall be charged to the Bondholders in respect of any payments of principal or interest in respect of the Bonds.

(e) ***Payments on Business Days***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that is not a business day, for value the first following day which is a business day) will be initiated on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

Where payment is to be made by cheque, the cheque will be mailed on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

In these Conditions, "business day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and, in the case of the surrender of a Bond Certificate, in the place where the Bond Certificate is surrendered.

(f) ***Delay in Payments***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving any amount due in respect of any Bond as a result of (i) the due date not being a business day, (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so) or (iii) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

(g) ***Partial Payments***

If at any time a partial payment is made in respect of any Bond, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.

(h) ***Agents***

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and the Russian Federation reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the Bonds are outstanding it will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) a Paying Agent and a Transfer Agent having a specified office in a major European city which will be in London, so long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 14.

8 Taxation

All payments of principal and interest in respect of the Bonds by the Russian Federation shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Russian Federation or any political subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. If at any time any Taxes are withheld or deducted, the Russian Federation shall increase the payment of principal or interest, as the case may be, to such amount as will result in the receipt by the Bondholders of such amounts as would have been received

by them had no such withholding or deduction been required, except that no such increased amount shall be payable:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes by reason of having some connection with the Russian Federation other than the mere holding of a Bond or the receipt of payments thereunder;

(b) if the Bond Certificate representing a Bond is presented and surrendered for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on presentation and surrender of such Bond Certificate for payment on the last day of such period of 30 days;

(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 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) to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by presenting the relevant Bond Certificate representing a Bond to another Paying Agent in a Member State of the European Union.

If, in relation to any payment under the Bonds (a "**Payment**") any Bondholder has received any increased amount as provided in this Condition 8, the Russian Federation shall have the right to retain any refund of any amount withheld or deducted in respect of such Payment, which refund may be available under a tax treaty or otherwise to such Bondholder. Notwithstanding the foregoing, no Bondholder makes any representation or warranty that the Russian Federation will be entitled to any such refund (or to make any claim in respect thereof) and no Bondholder shall incur any obligation with respect thereto (including, without limitation, incurring any expense or liability in connection therewith).

For the avoidance of doubt, the Russian Federation acknowledges that it shall have no right to make any deduction or withholding in respect of (nor will it purport to set off any amount equal to) any such refund from any payment in respect of any Bond.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest in respect of the Bonds shall be deemed to include any increased amounts which may be payable under this Condition 8.

9 Events of Default

If any of the following occurs and is continuing (each an "**Event of Default**") in respect of the Bonds, as applicable:

(a) ***Non-payment***

The Russian Federation fails to pay any amount of principal or interest in respect of the Bonds, as the case may be, when due and such failure continues for a period of 30 calendar days; or

(b) ***Breach of other obligations or undertakings***

The Russian Federation defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds, as the case may be, which default (if capable of remedy) is not remedied within 60 days after written notice of such default shall have been given to the Russian Federation by any holder of the Bonds, as the case may be, it being understood that a default in respect of the undertaking set forth in Condition 4(a) shall be deemed capable of remedy for purposes hereof; or

(c) ***Cross-acceleration***

Any Public External Indebtedness shall become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall fail to make the final payment of principal in

respect of any Public External Indebtedness on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto or, in the case of any guarantee which constitutes Public External Indebtedness, the underlying obligation in respect of which such guarantee has been given shall have become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the debtor shall have failed to make the final payment of principal in respect of such underlying obligation on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto and the guarantee shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this Condition 9(c) shall have occurred equals or exceeds U.S.$75,000,000 (or its equivalent in any other currency or currencies); and provided, further, that any secured Public External Indebtedness that by its terms is fully non-recourse to the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall not be counted as Public External Indebtedness for purposes of this Condition 9(c); or

(d) ***Moratorium***

A moratorium on the payment of principal of, or interest on, all or any part of Public External Indebtedness; or

(e) ***Unlawfulness or Invalidity***

The validity of the Bonds is contested by the Russian Federation or any agency or entity acting on behalf of the Russian Federation or the Russian Federation or any agency or entity acting on behalf of the Russian Federation shall deny any of the Russian Federation's obligations under the Bonds or it is or will become unlawful for the Russian Federation to perform or comply with any of its obligations under or in respect of the Bonds or under or in respect of the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(f) ***Consents etc.***

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Russian Federation to enter into or perform its obligations under the Bonds or under the Fiscal Agency Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise be void or cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of any of the holders of the Bonds, as the case may be,

then holders of 25 per cent. or more in aggregate outstanding principal amount of the Bonds may declare the Bonds to be immediately due and payable whereupon the Bonds shall become immediately due and payable at their principal amount, together with accrued interest, without any further formality.

If the Russian Federation receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Bonds to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Russian Federation shall give notice thereof to the Bondholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Russian Federation gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Bondholder in relation thereto.

10 Prescription

Claims against the Russian Federation in respect of principal and interest shall become void unless made within a period of three years from the date following the Maturity Date or a relevant Interest Payment Date, as applicable.

11 Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the Transfer Agent with its specified office in London subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Russian Federation may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Written Resolutions; Modification and Waiver

(a) ***Meetings of Bondholders, Written Resolutions***

The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing a clear majority of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned two or more persons being or representing Bondholders (whatever the principal amount of the outstanding Bonds so held or represented), and the majority for passing an Extraordinary Resolution at any such meeting shall be at least 66⅔ per cent. of the votes cast except that at any meeting the business of which includes consideration of proposals on Reserved Matters, including, *inter alia*, (i) to modify the maturity of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (v) to modify the percentage required to pass any resolution, the necessary quorum for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned at least 25 per cent. of the aggregate principal amount of the outstanding Bonds, and the majority for passing an Extraordinary Resolution on a Reserved Matter at any such meeting shall be at least 75 per cent. of the votes cast. An Extraordinary Resolution duly passed at any meeting of Bondholders will be binding on all Bondholders whether or not they are present at the meeting.

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" means a resolution in writing signed by or on behalf of holders of at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a Reserved Matter, or 66⅔ per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in like form, each signed by or on behalf of one or more Bondholders. Any Written Resolution shall be binding on all of the Bondholders, whether or not signed by them.

(b) ***Modification and waiver***

The parties to the Fiscal Agency Agreement may agree, without the consent of the Bondholders, to any modification of any provision of the Fiscal Agency Agreement or the Bonds which is of a formal, minor or technical nature or is made to correct a manifest error.

13 Further Issues

The Russian Federation shall be at liberty from time to time, without the consent of the Bondholders, to create and issue further Bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further Bonds and, if applicable, the date and amount of the first payment on such further Bonds) so that the same shall be consolidated and form a single series with the Bonds, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.

14 Notices

Notices to the Bondholders will be sent to them by mail (airmail if overseas) at their respective addresses on the Register, and will be deemed to have been given on the fourth day after the date of mailing. So long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notices with respect to the Bonds will also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be The Financial Times) or, if such publication is not practicable, in an English language newspaper having general circulation in Europe, and each such notice shall be deemed to have been given on the date of such publication, or if published more than once or on different dates, on the first date on which publication is made.

15 Currency Indemnity

The U.S. dollar is the sole currency of account and payment for all sums payable by the Russian Federation under or in connection with the Bonds, including damages. Any amount received or recovered

in a currency other than the U.S. dollar (whether as a result of, or the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Russian Federation shall only constitute a discharge to the Russian Federation to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Russian Federation shall indemnify such recipient against any loss sustained by it as a result. In any event, the Russian Federation shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Russian Federation's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any judgement or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Bonds and the Fiscal Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with the laws of England.

TERMS AND CONDITIONS OF THE 2022 BONDS

The following is the text of the terms and conditions of the 2022 Bonds which, subject to amendment, will be endorsed on each Bond Certificate (as defined below) and will be attached and (subject to the provisions thereof) apply to each Global Bond representing the 2022 Bonds.

The U.S.$2,000,000,000 4.50 per cent. Bonds due 2022 (the "**Bonds**") (which expression includes any further Bonds issued pursuant to Condition 13 and forming a single series with the Bonds) of the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**") acting on behalf of the Russian Federation (the "**Russian Federation**") were authorised pursuant to the provisions of Federal Law No. 136-FZ of 29 July 1998 (as amended) "On the Specifics of Issuance and Circulation of State and Municipal Securities"; Federal Law No. 371-FZ of 30 November 2011 "On the Federal Budget for 2012 and for the Planning Period of 2013 and 2014"; Resolution of the Government of the Russian Federation dated 27 December 2011 No. 2390-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Order of the Ministry of Finance dated 24 February 2012 No. 31n; and Order of the Ministry of Finance dated 30 March 2012 No. 145. The fiscal agency agreement dated 3 April 2012 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds by the Russian Federation, Citibank, N.A., London Branch, as fiscal and paying agent (the "**Fiscal Agent**") and as registrar (the "**Registrar**") in London and Citibank, N.A., New York Branch, as transfer agent (together with Citibank, N.A., London Branch, the "**Transfer Agents**") and paying agent in New York (together with the Fiscal Agent and the Registrar, the "**Paying Agents**") and the transfer agents named therein (the "**Transfer Agents**").

In these Conditions, "**Fiscal Agent**," "**Registrar**," "**Paying Agent**," and "**Transfer Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement for the Bonds, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the principal office of the Fiscal Agent (currently 13th Floor, Citigroup Centre, Canada Square, London E14 5LB) and at the specified offices of each of the other Agents. The Bondholders (as defined in Condition 1(b)) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement for the Bonds, including any provision of the Fiscal Agency Agreement which amends or supplements the Bonds.

1 Form, Denomination and Title

(a) ***Form and Denomination***

The Bonds are in definitive fully registered form, without interest coupons attached, in the denomination of U.S.$200,000 (the "**authorised denomination**"). A certificate (each a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding or holdings of Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Russian Federation shall procure to be kept by the Registrar.

(b) ***Title***

Title to the Bonds will pass by and upon registration in the Register. In these Conditions, "**Bondholder**" and "**holder**" mean the person in whose name a Bond is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Bond will (except as otherwise requested by such holder in writing, or as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no person will be liable for so treating the holder.

2 Transfer of Bonds and Issue of Bonds

(a) ***Transfer***

Subject to Condition 2(d), a Bond may be transferred in whole or in part in the authorised denomination upon the surrender of the Bond Certificate representing that Bond, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "**Transfer Form**") duly completed and executed, at the specified office

of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of the Bonds represented by a Bond Certificate, neither the part transferred nor the balance not transferred may be less than the authorised denomination and a new Bond Certificate in respect of the balance not so transferred will be issued to the transferor.

(b) ***Delivery***

Each new Bond Certificate to be issued upon a transfer of any Bonds will, within five business days of the request for transfer being duly made, be delivered at the specified office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) be mailed by uninsured post to such address as the transferee entitled to the Bonds represented by such Bond Certificate may have specified. In this Condition 2(b), "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the cities in which the Registrar and any such Transfer Agent have their respective specified offices.

(c) ***No Charge***

Registration or transfer of Bonds will be effected without charge to the holder or transferee thereof, but upon payment (or against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

(d) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered during the period of 15 calendar days ending on the due date for any payment of principal in respect of such Bond.

(e) ***Regulations Concerning Transfer and Registration***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Russian Federation in a manner which is reasonably required by the Russian Federation (after consultation with the Registrar) to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of the Bondholders. A copy of the current regulations will be sent by the Registrar to any Bondholder who so requests.

3 Status

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Russian Federation and the full faith and credit of the Russian Federation is pledged for the due and punctual payment of principal of, and interest on, the Bonds and for the performance of all other obligations of the Russian Federation pursuant to the Bonds. The Bonds shall at all times rank *pari passu* without any preference among themselves and *pari passu* in all respects with all other present and future unsecured and unsubordinated obligations of the Russian Federation.

4 Negative Pledge and Covenant

(a) ***Negative Pledge***

So long as any of the Bonds remains outstanding (as defined in the Fiscal Agency Agreement) the Russian Federation will not create or permit to subsist any Lien upon the whole or any part of the International Monetary Assets to secure any Public External Indebtedness unless, at the same time or prior thereto, the obligations of the Russian Federation under the Bonds are secured equally and rateably therewith.

(b) ***Covenant***

So long as any Bond remains outstanding the Russian Federation shall obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, 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 for the execution, delivery or performance of the Bonds or for the validity or enforceability thereof.

(c) ***Definitions***

In these Conditions:

"**Excluded Indebtedness**" means any obligation of the Russian Federation, the Government of the Russian Federation, the Ministry of Finance, Vnesheconombank of the U.S.S.R. (now known as state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)") or any other person that may arise from time to time representing restructured indebtedness originally incurred prior to 1 January 1992 by the government of the former Soviet Union or any of its legally authorised entities, other than the Russian Federation U.S. Dollar Denominated Bonds due 2007 to 2030.

"**External Indebtedness**" means Indebtedness (i) which is not Excluded Indebtedness, (ii) which is denominated or payable, or at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Russian Federation and (iii) which was not originally incurred or assumed under an agreement or instrument made with or issued to creditors substantially all of whom were residents of the Russian Federation or entities having their head office or principal place of business within the territory of the Russian Federation. For the avoidance of doubt, External Indebtedness does not include Internal Government Hard Currency Bonds known as "OVVZs," "Taiga" bonds or "MinFins" or any bonds representing restructured internal hard currency bonds of the Government of the Russian Federation.

"**Government of the Russian Federation**" means the Government of the Russian Federation as provided in Article 110 of the Constitution of the Russian Federation, or any successor article, from time to time.

"**IMF**" means the International Monetary Fund.

"**Indebtedness**" means any legal obligation or any obligation intended by its terms to be a legal obligation (whether present or future, actual or contingent, secured or unsecured, incurred as principal, surety, guarantor or otherwise) for the payment or repayment of borrowed money created (or intended by its terms to have been created) under an agreement or instrument in which the Russian Federation, the Government of the Russian Federation or the Ministry of Finance is designated as the obligor, or which by operation of Russian law constitutes a legal obligation of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance (it being understood that neither the Central Bank of the Russian Federation, nor any political subdivision, regional or municipal government, ministry (other than the Ministry of Finance), department, authority or statutory corporation of the Russian Federation nor any joint stock company, enterprise or other entity organised or existing under the laws or regulations of the Russian Federation or any of the above, is considered to be part of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance for purposes hereof).

"**International Monetary Assets**" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the Fund and Foreign Exchange of the Ministry of Finance or the Government of the Russian Federation from time to time (but not, for the avoidance of doubt, any such assets of the Central Bank of the Russian Federation at any time), and the terms "Special Drawing Rights," "Reserve Positions in the Fund" and "Foreign Exchange" have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

"**Lien**" means any lien, pledge, hypothecation, mortgage, security interest, deed of trust, charge or any other encumbrance arising under a security agreement or arrangement.

"**Public External Indebtedness**" means External Indebtedness which (i) is in the form of, or represented by, bonds, notes or other securities or any guarantee thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")).

5 Interest

Each Bond bears interest on its outstanding principal amount from 4 April 2012 at 4.50 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year until maturity, commencing on 4 October 2012 (each, an "**Interest Payment Date**"). Interest will be paid subject to and in accordance with the provisions of Condition 7. The period beginning on and including 4 April 2012 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next successive Interest Payment Date is called an "**Interest Period**".

Each Bond will cease to bear interest from the due date for redemption unless, after surrender of such Bond, payment of principal is improperly withheld or refused, in which case the outstanding principal amount of such Bond will continue to bear interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after notice has been given to the Bondholders that the Fiscal Agent has received all sums due in respect of the Bonds up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

6 Redemption, Purchase and Cancellation

(a) ***Redemption***

Unless previously redeemed, or purchased and cancelled, each Bond will be redeemed at its principal amount on 4 April 2022 (the "**Maturity Date**") subject as provided in Condition 7.

(b) ***Purchase and Cancellation***

The Russian Federation and its affiliates may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the Securities Act). Any Bonds so cancelled will not be reissued.

7 Payments

(a) ***Principal***

Payments of principal in respect of each Bond will be made by transfer to a U.S. dollar account maintained by the Bondholder with a bank in New York City or (i) if it does not have such a U.S. dollar account or (ii) if the principal amount of Bonds held by such person is less than U.S.$300,000, by a U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder by uninsured mail at the risk of the Bondholder. Such payment will be made only upon presentation and surrender of the relevant Bond Certificate at the specified office of any of the Paying Agents and will be rounded downwards, if necessary, to the nearest cent.

For the purposes of this Condition 7(a) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register at the Registrar's close of business on the fifteenth day before the due date for such payment of principal and the outstanding amount of each Bondholder's registered holding will be deemed to be the amount shown as such on the Register for such Bondholder at the same time on that date.

(b) ***Interest***

Payments of interest (other than interest due on redemption) in respect of each Bond will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the holder (or to the first-named of joint holders) of such Bond at the address appearing in the Register not later than the due date for such payment and will be rounded downwards, if necessary, to the nearest cent. For the purposes of this Condition 7(b) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment of interest.

Upon application by a Bondholder with respect to Bonds having a principal amount of U.S.$300,000 or more to the specified office of the Registrar not less than 15 days before the due date for the payment of any interest (other than interest due on redemption) in respect of such Bonds, such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City. Any such application for transfer to a U.S. dollar account shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Bonds which become payable to the Bondholder

who has made the initial application until such time as the Registrar is notified in writing to the contrary by such Bondholder.

Payment of interest due on redemption will be made in the same manner as payment of the principal of a Bond.

(c) ***Payments Subject to Fiscal Laws***

All payments of principal and interest in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

(d) ***Commissions***

No commissions or expenses shall be charged to the Bondholders in respect of any payments of principal or interest in respect of the Bonds.

(e) ***Payments on Business Days***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that is not a business day, for value the first following day which is a business day) will be initiated on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

Where payment is to be made by cheque, the cheque will be mailed on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

In these Conditions, "business day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and, in the case of the surrender of a Bond Certificate, in the place where the Bond Certificate is surrendered.

(f) ***Delay in Payments***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving any amount due in respect of any Bond as a result of (i) the due date not being a business day, (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so) or (iii) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

(g) ***Partial Payments***

If at any time a partial payment is made in respect of any Bond, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.

(h) ***Agents***

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and the Russian Federation reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the Bonds are outstanding it will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) a Paying Agent and a Transfer Agent having a specified office in a major European city which will be in London, so long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 14.

8 Taxation

All payments of principal and interest in respect of the Bonds by the Russian Federation shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Russian Federation or any political subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. If at any time any Taxes are withheld or deducted, the Russian Federation shall increase the payment of principal or interest, as the case may be, to such amount as will result in the receipt by the Bondholders of such amounts as would have been received

by them had no such withholding or deduction been required, except that no such increased amount shall be payable:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes by reason of having some connection with the Russian Federation other than the mere holding of a Bond or the receipt of payments thereunder;

(b) if the Bond Certificate representing a Bond is presented and surrendered for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on presentation and surrender of such Bond Certificate for payment on the last day of such period of 30 days;

(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 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) to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by presenting the relevant Bond Certificate representing a Bond to another Paying Agent in a Member State of the European Union.

If, in relation to any payment under the Bonds (a "**Payment**") any Bondholder has received any increased amount as provided in this Condition 8, the Russian Federation shall have the right to retain any refund of any amount withheld or deducted in respect of such Payment, which refund may be available under a tax treaty or otherwise to such Bondholder. Notwithstanding the foregoing, no Bondholder makes any representation or warranty that the Russian Federation will be entitled to any such refund (or to make any claim in respect thereof) and no Bondholder shall incur any obligation with respect thereto (including, without limitation, incurring any expense or liability in connection therewith).

For the avoidance of doubt, the Russian Federation acknowledges that it shall have no right to make any deduction or withholding in respect of (nor will it purport to set off any amount equal to) any such refund from any payment in respect of any Bond.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest in respect of the Bonds shall be deemed to include any increased amounts which may be payable under this Condition 8.

9 Events of Default

If any of the following occurs and is continuing (each an "**Event of Default**") in respect of the Bonds, as applicable:

(a) ***Non-payment***

The Russian Federation fails to pay any amount of principal or interest in respect of the Bonds, as the case may be, when due and such failure continues for a period of 30 calendar days; or

(b) ***Breach of other obligations or undertakings***

The Russian Federation defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds, as the case may be, which default (if capable of remedy) is not remedied within 60 days after written notice of such default shall have been given to the Russian Federation by any holder of the Bonds, as the case may be, it being understood that a default in respect of the undertaking set forth in Condition 4(a) shall be deemed capable of remedy for purposes hereof; or

(c) ***Cross-acceleration***

Any Public External Indebtedness shall become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall fail to make the final payment of principal in

respect of any Public External Indebtedness on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto or, in the case of any guarantee which constitutes Public External Indebtedness, the underlying obligation in respect of which such guarantee has been given shall have become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the debtor shall have failed to make the final payment of principal in respect of such underlying obligation on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto and the guarantee shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this Condition 9(c) shall have occurred equals or exceeds U.S.$75,000,000 (or its equivalent in any other currency or currencies); and provided, further, that any secured Public External Indebtedness that by its terms is fully non-recourse to the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall not be counted as Public External Indebtedness for purposes of this Condition 9(c); or

(d) ***Moratorium***

A moratorium on the payment of principal of, or interest on, all or any part of Public External Indebtedness; or

(e) ***Unlawfulness or Invalidity***

The validity of the Bonds is contested by the Russian Federation or any agency or entity acting on behalf of the Russian Federation or the Russian Federation or any agency or entity acting on behalf of the Russian Federation shall deny any of the Russian Federation's obligations under the Bonds or it is or will become unlawful for the Russian Federation to perform or comply with any of its obligations under or in respect of the Bonds or under or in respect of the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(f) ***Consents etc.***

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Russian Federation to enter into or perform its obligations under the Bonds or under the Fiscal Agency Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise be void or cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of any of the holders of the Bonds, as the case may be,

then holders of 25 per cent. or more in aggregate outstanding principal amount of the Bonds may declare the Bonds to be immediately due and payable whereupon the Bonds shall become immediately due and payable at their principal amount, together with accrued interest, without any further formality.

If the Russian Federation receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Bonds to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Russian Federation shall give notice thereof to the Bondholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Russian Federation gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Bondholder in relation thereto.

10 Prescription

Claims against the Russian Federation in respect of principal and interest shall become void unless made within a period of three years from the date following the Maturity Date or a relevant Interest Payment Date, as applicable.

11 Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the Transfer Agent with its specified office in London subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Russian Federation may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Written Resolutions; Modification and Waiver

(a) ***Meetings of Bondholders, Written Resolutions***

The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing a clear majority of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned two or more persons being or representing Bondholders (whatever the principal amount of the outstanding Bonds so held or represented), and the majority for passing an Extraordinary Resolution at any such meeting shall be at least 66⅔ per cent. of the votes cast except that at any meeting the business of which includes consideration of proposals on Reserved Matters, including, *inter alia*, (i) to modify the maturity of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (v) to modify the percentage required to pass any resolution, the necessary quorum for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned at least 25 per cent. of the aggregate principal amount of the outstanding Bonds, and the majority for passing an Extraordinary Resolution on a Reserved Matter at any such meeting shall be at least 75 per cent. of the votes cast. An Extraordinary Resolution duly passed at any meeting of Bondholders will be binding on all Bondholders whether or not they are present at the meeting.

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" means a resolution in writing signed by or on behalf of holders of at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a Reserved Matter, or 66⅔ per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in like form, each signed by or on behalf of one or more Bondholders. Any Written Resolution shall be binding on all of the Bondholders, whether or not signed by them.

(b) ***Modification and waiver***

The parties to the Fiscal Agency Agreement may agree, without the consent of the Bondholders, to any modification of any provision of the Fiscal Agency Agreement or the Bonds which is of a formal, minor or technical nature or is made to correct a manifest error.

13 Further Issues

The Russian Federation shall be at liberty from time to time, without the consent of the Bondholders, to create and issue further Bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further Bonds and, if applicable, the date and amount of the first payment on such further Bonds) so that the same shall be consolidated and form a single series with the Bonds, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.

14 Notices

Notices to the Bondholders will be sent to them by mail (airmail if overseas) at their respective addresses on the Register, and will be deemed to have been given on the fourth day after the date of mailing. So long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notices with respect to the Bonds will also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be The Financial Times) or, if such publication is not practicable, in an English language newspaper having general circulation in Europe, and each such notice shall be deemed to have been given on the date of such publication, or if published more than once or on different dates, on the first date on which publication is made.

15 Currency Indemnity

The U.S. dollar is the sole currency of account and payment for all sums payable by the Russian Federation under or in connection with the Bonds, including damages. Any amount received or recovered

in a currency other than the U.S. dollar (whether as a result of, or the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Russian Federation shall only constitute a discharge to the Russian Federation to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Russian Federation shall indemnify such recipient against any loss sustained by it as a result. In any event, the Russian Federation shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Russian Federation's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any judgement or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Bonds and the Fiscal Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with the laws of England.

TERMS AND CONDITIONS OF THE 2042 BONDS

The following is the text of the terms and conditions of the 2042 Bonds which, subject to amendment, will be endorsed on each Bond Certificate (as defined below) and will be attached and (subject to the provisions thereof) apply to each Global Bond representing the 2042 Bonds.

The U.S.$3,000,000,000 5.625 per cent. Bonds due 2042 (the "**Bonds**") (which expression includes any further Bonds issued pursuant to Condition 13 and forming a single series with the Bonds) of the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**") acting on behalf of the Russian Federation (the "**Russian Federation**") were authorised pursuant to the provisions of Federal Law No. 136-FZ of 29 July 1998 (as amended) "On the Specifics of Issuance and Circulation of State and Municipal Securities"; Federal Law No. 371-FZ of 30 November 2011 "On the Federal Budget for 2012 and for the Planning Period of 2013 and 2014"; Resolution of the Government of the Russian Federation dated 27 December 2011 No. 2390-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Order of the Ministry of Finance dated 24 February 2012 No. 31n; and Order of the Ministry of Finance dated 30 March 2012 No. 146. The fiscal agency agreement dated 3 April 2012 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds by the Russian Federation, Citibank, N.A., London Branch, as fiscal and paying agent (the "**Fiscal Agent**") and as registrar (the "**Registrar**") in London and Citibank, N.A., New York Branch, as transfer agent (together with Citibank, N.A., London Branch, the "**Transfer Agents**") and paying agent in New York (together with the Fiscal Agent and the Registrar, the "**Paying Agents**") and the transfer agents named therein (the "**Transfer Agents**").

In these Conditions, "**Fiscal Agent**," "**Registrar**," "**Paying Agent**," and "**Transfer Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement for the Bonds, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the principal office of the Fiscal Agent (currently 13th Floor, Citigroup Centre, Canada Square, London E14 5LB) and at the specified offices of each of the other Agents. The Bondholders (as defined in Condition 1(b)) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement for the Bonds, including any provision of the Fiscal Agency Agreement which amends or supplements the Bonds.

1 Form, Denomination and Title

(a) ***Form and Denomination***

The Bonds are in definitive fully registered form, without interest coupons attached, in the denomination of U.S.$200,000 (the "**authorised denomination**"). A certificate (each a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding or holdings of Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Russian Federation shall procure to be kept by the Registrar.

(b) ***Title***

Title to the Bonds will pass by and upon registration in the Register. In these Conditions, "**Bondholder**" and "**holder**" mean the person in whose name a Bond is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Bond will (except as otherwise requested by such holder in writing, or as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no person will be liable for so treating the holder.

2 Transfer of Bonds and Issue of Bonds

(a) ***Transfer***

Subject to Condition 2(d), a Bond may be transferred in whole or in part in the authorised denomination upon the surrender of the Bond Certificate representing that Bond, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "**Transfer Form**") duly completed and executed, at the specified office

of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of the Bonds represented by a Bond Certificate, neither the part transferred nor the balance not transferred may be less than the authorised denomination and a new Bond Certificate in respect of the balance not so transferred will be issued to the transferor.

(b) ***Delivery***

Each new Bond Certificate to be issued upon a transfer of any Bonds will, within five business days of the request for transfer being duly made, be delivered at the specified office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) be mailed by uninsured post to such address as the transferee entitled to the Bonds represented by such Bond Certificate may have specified. In this Condition 2(b), "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the cities in which the Registrar and any such Transfer Agent have their respective specified offices.

(c) ***No Charge***

Registration or transfer of Bonds will be effected without charge to the holder or transferee thereof, but upon payment (or against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

(d) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered during the period of 15 calendar days ending on the due date for any payment of principal in respect of such Bond.

(e) ***Regulations Concerning Transfer and Registration***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Russian Federation in a manner which is reasonably required by the Russian Federation (after consultation with the Registrar) to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of the Bondholders. A copy of the current regulations will be sent by the Registrar to any Bondholder who so requests.

3 Status

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Russian Federation and the full faith and credit of the Russian Federation is pledged for the due and punctual payment of principal of, and interest on, the Bonds and for the performance of all other obligations of the Russian Federation pursuant to the Bonds. The Bonds shall at all times rank *pari passu* without any preference among themselves and *pari passu* in all respects with all other present and future unsecured and unsubordinated obligations of the Russian Federation.

4 Negative Pledge and Covenant

(a) ***Negative Pledge***

So long as any of the Bonds remains outstanding (as defined in the Fiscal Agency Agreement) the Russian Federation will not create or permit to subsist any Lien upon the whole or any part of the International Monetary Assets to secure any Public External Indebtedness unless, at the same time or prior thereto, the obligations of the Russian Federation under the Bonds are secured equally and rateably therewith.

(b) ***Covenant***

So long as any Bond remains outstanding the Russian Federation shall obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, 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 for the execution, delivery or performance of the Bonds or for the validity or enforceability thereof.

(c) ***Definitions***

In these Conditions:

"**Excluded Indebtedness**" means any obligation of the Russian Federation, the Government of the Russian Federation, the Ministry of Finance, Vnesheconombank of the U.S.S.R. (now known as state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)") or any other person that may arise from time to time representing restructured indebtedness originally incurred prior to 1 January 1992 by the government of the former Soviet Union or any of its legally authorised entities, other than the Russian Federation U.S. Dollar Denominated Bonds due 2007 to 2030.

"**External Indebtedness**" means Indebtedness (i) which is not Excluded Indebtedness, (ii) which is denominated or payable, or at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Russian Federation and (iii) which was not originally incurred or assumed under an agreement or instrument made with or issued to creditors substantially all of whom were residents of the Russian Federation or entities having their head office or principal place of business within the territory of the Russian Federation. For the avoidance of doubt, External Indebtedness does not include Internal Government Hard Currency Bonds known as "OVVZs," "Taiga" bonds or "MinFins" or any bonds representing restructured internal hard currency bonds of the Government of the Russian Federation.

"**Government of the Russian Federation**" means the Government of the Russian Federation as provided in Article 110 of the Constitution of the Russian Federation, or any successor article, from time to time.

"**IMF**" means the International Monetary Fund.

"**Indebtedness**" means any legal obligation or any obligation intended by its terms to be a legal obligation (whether present or future, actual or contingent, secured or unsecured, incurred as principal, surety, guarantor or otherwise) for the payment or repayment of borrowed money created (or intended by its terms to have been created) under an agreement or instrument in which the Russian Federation, the Government of the Russian Federation or the Ministry of Finance is designated as the obligor, or which by operation of Russian law constitutes a legal obligation of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance (it being understood that neither the Central Bank of the Russian Federation, nor any political subdivision, regional or municipal government, ministry (other than the Ministry of Finance), department, authority or statutory corporation of the Russian Federation nor any joint stock company, enterprise or other entity organised or existing under the laws or regulations of the Russian Federation or any of the above, is considered to be part of the Russian Federation, the Government of the Russian Federation or the Ministry of Finance for purposes hereof).

"**International Monetary Assets**" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the Fund and Foreign Exchange of the Ministry of Finance or the Government of the Russian Federation from time to time (but not, for the avoidance of doubt, any such assets of the Central Bank of the Russian Federation at any time), and the terms "Special Drawing Rights," "Reserve Positions in the Fund" and "Foreign Exchange" have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

"**Lien**" means any lien, pledge, hypothecation, mortgage, security interest, deed of trust, charge or any other encumbrance arising under a security agreement or arrangement.

"**Public External Indebtedness**" means External Indebtedness which (i) is in the form of, or represented by, bonds, notes or other securities or any guarantee thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")).

5 Interest

Each Bond bears interest on its outstanding principal amount from 4 April 2012 at 5.625 per cent. per annum, payable semi-annually in arrear on 4 April and 4 October in each year until maturity, commencing on 4 October 2012 (each, an "**Interest Payment Date**"). Interest will be paid subject to and in accordance with the provisions of Condition 7. The period beginning on and including 4 April 2012 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next successive Interest Payment Date is called an "**Interest Period**".

Each Bond will cease to bear interest from the due date for redemption unless, after surrender of such Bond, payment of principal is improperly withheld or refused, in which case the outstanding principal amount of such Bond will continue to bear interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after notice has been given to the Bondholders that the Fiscal Agent has received all sums due in respect of the Bonds up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

6 Redemption, Purchase and Cancellation

(a) ***Redemption***

Unless previously redeemed, or purchased and cancelled, each Bond will be redeemed at its principal amount on 4 April 2042 (the "**Maturity Date**") subject as provided in Condition 7.

(b) ***Purchase and Cancellation***

The Russian Federation and its affiliates may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the Securities Act). Any Bonds so cancelled will not be reissued.

7 Payments

(a) ***Principal***

Payments of principal in respect of each Bond will be made by transfer to a U.S. dollar account maintained by the Bondholder with a bank in New York City or (i) if it does not have such a U.S. dollar account or (ii) if the principal amount of Bonds held by such person is less than U.S.$300,000, by a U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder by uninsured mail at the risk of the Bondholder. Such payment will be made only upon presentation and surrender of the relevant Bond Certificate at the specified office of any of the Paying Agents and will be rounded downwards, if necessary, to the nearest cent.

For the purposes of this Condition 7(a) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register at the Registrar's close of business on the fifteenth day before the due date for such payment of principal and the outstanding amount of each Bondholder's registered holding will be deemed to be the amount shown as such on the Register for such Bondholder at the same time on that date.

(b) ***Interest***

Payments of interest (other than interest due on redemption) in respect of each Bond will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the holder (or to the first-named of joint holders) of such Bond at the address appearing in the Register not later than the due date for such payment and will be rounded downwards, if necessary, to the nearest cent. For the purposes of this Condition 7(b) the holder of such Bond will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment of interest.

Upon application by a Bondholder with respect to Bonds having a principal amount of U.S.$300,000 or more to the specified office of the Registrar not less than 15 days before the due date for the payment of any interest (other than interest due on redemption) in respect of such Bonds, such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City. Any such application for transfer to a U.S. dollar account shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Bonds which become payable to the Bondholder

who has made the initial application until such time as the Registrar is notified in writing to the contrary by such Bondholder.

Payment of interest due on redemption will be made in the same manner as payment of the principal of a Bond.

(c) ***Payments Subject to Fiscal Laws***

All payments of principal and interest in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

(d) ***Commissions***

No commissions or expenses shall be charged to the Bondholders in respect of any payments of principal or interest in respect of the Bonds.

(e) ***Payments on Business Days***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that is not a business day, for value the first following day which is a business day) will be initiated on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

Where payment is to be made by cheque, the cheque will be mailed on the due date for payment or, if later, in the case of principal and interest due on redemption, on the business day on which the relevant Bond Certificate is presented and surrendered at the specified office of any of the Paying Agents.

In these Conditions, "business day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and, in the case of the surrender of a Bond Certificate, in the place where the Bond Certificate is surrendered.

(f) ***Delay in Payments***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving any amount due in respect of any Bond as a result of (i) the due date not being a business day, (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so) or (iii) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

(g) ***Partial Payments***

If at any time a partial payment is made in respect of any Bond, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.

(h) ***Agents***

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and the Russian Federation reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the Bonds are outstanding it will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) a Paying Agent and a Transfer Agent having a specified office in a major European city which will be in London, so long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 14.

8 Taxation

All payments of principal and interest in respect of the Bonds by the Russian Federation shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Russian Federation or any political subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. If at any time any Taxes are withheld or deducted, the Russian Federation shall increase the payment of principal or interest, as the case may be, to such amount as will result in the receipt by the Bondholders of such amounts as would have been received

by them had no such withholding or deduction been required, except that no such increased amount shall be payable:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes by reason of having some connection with the Russian Federation other than the mere holding of a Bond or the receipt of payments thereunder;

(b) if the Bond Certificate representing a Bond is presented and surrendered for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on presentation and surrender of such Bond Certificate for payment on the last day of such period of 30 days;

(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 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) to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by presenting the relevant Bond Certificate representing a Bond to another Paying Agent in a Member State of the European Union.

If, in relation to any payment under the Bonds (a "**Payment**") any Bondholder has received any increased amount as provided in this Condition 8, the Russian Federation shall have the right to retain any refund of any amount withheld or deducted in respect of such Payment, which refund may be available under a tax treaty or otherwise to such Bondholder. Notwithstanding the foregoing, no Bondholder makes any representation or warranty that the Russian Federation will be entitled to any such refund (or to make any claim in respect thereof) and no Bondholder shall incur any obligation with respect thereto (including, without limitation, incurring any expense or liability in connection therewith).

For the avoidance of doubt, the Russian Federation acknowledges that it shall have no right to make any deduction or withholding in respect of (nor will it purport to set off any amount equal to) any such refund from any payment in respect of any Bond.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest in respect of the Bonds shall be deemed to include any increased amounts which may be payable under this Condition 8.

9 Events of Default

If any of the following occurs and is continuing (each an "**Event of Default**") in respect of the Bonds, as applicable:

(a) ***Non-payment***

The Russian Federation fails to pay any amount of principal or interest in respect of the Bonds, as the case may be, when due and such failure continues for a period of 30 calendar days; or

(b) ***Breach of other obligations or undertakings***

The Russian Federation defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds, as the case may be, which default (if capable of remedy) is not remedied within 60 days after written notice of such default shall have been given to the Russian Federation by any holder of the Bonds, as the case may be, it being understood that a default in respect of the undertaking set forth in Condition 4(a) shall be deemed capable of remedy for purposes hereof; or

(c) ***Cross-acceleration***

Any Public External Indebtedness shall become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall fail to make the final payment of principal in

respect of any Public External Indebtedness on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto or, in the case of any guarantee which constitutes Public External Indebtedness, the underlying obligation in respect of which such guarantee has been given shall have become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the debtor shall have failed to make the final payment of principal in respect of such underlying obligation on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto and the guarantee shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this Condition 9(c) shall have occurred equals or exceeds U.S.$75,000,000 (or its equivalent in any other currency or currencies); and provided, further, that any secured Public External Indebtedness that by its terms is fully non-recourse to the Russian Federation, the Government of the Russian Federation or the Ministry of Finance shall not be counted as Public External Indebtedness for purposes of this Condition 9(c); or

(d) ***Moratorium***

A moratorium on the payment of principal of, or interest on, all or any part of Public External Indebtedness; or

(e) ***Unlawfulness or Invalidity***

The validity of the Bonds is contested by the Russian Federation or any agency or entity acting on behalf of the Russian Federation or the Russian Federation or any agency or entity acting on behalf of the Russian Federation shall deny any of the Russian Federation's obligations under the Bonds or it is or will become unlawful for the Russian Federation to perform or comply with any of its obligations under or in respect of the Bonds or under or in respect of the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(f) ***Consents etc.***

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Russian Federation to enter into or perform its obligations under the Bonds or under the Fiscal Agency Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise be void or cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of any of the holders of the Bonds, as the case may be,

then holders of 25 per cent. or more in aggregate outstanding principal amount of the Bonds may declare the Bonds to be immediately due and payable whereupon the Bonds shall become immediately due and payable at their principal amount, together with accrued interest, without any further formality.

If the Russian Federation receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Bonds to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Russian Federation shall give notice thereof to the Bondholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Russian Federation gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Bondholder in relation thereto.

10 Prescription

Claims against the Russian Federation in respect of principal and interest shall become void unless made within a period of three years from the date following the Maturity Date or a relevant Interest Payment Date, as applicable.

11 Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the Transfer Agent with its specified office in London subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Russian Federation may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Written Resolutions; Modification and Waiver

(a) ***Meetings of Bondholders, Written Resolutions***

The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing a clear majority of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned two or more persons being or representing Bondholders (whatever the principal amount of the outstanding Bonds so held or represented), and the majority for passing an Extraordinary Resolution at any such meeting shall be at least 66⅔ per cent. of the votes cast except that at any meeting the business of which includes consideration of proposals on Reserved Matters, including, *inter alia*, (i) to modify the maturity of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (v) to modify the percentage required to pass any resolution, the necessary quorum for passing an Extraordinary Resolution shall (subject as provided in the Fiscal Agency Agreement in the event that all outstanding Bonds are held by one person) be two or more persons holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, or at any meeting that is adjourned at least 25 per cent. of the aggregate principal amount of the outstanding Bonds, and the majority for passing an Extraordinary Resolution on a Reserved Matter at any such meeting shall be at least 75 per cent. of the votes cast. An Extraordinary Resolution duly passed at any meeting of Bondholders will be binding on all Bondholders whether or not they are present at the meeting.

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" means a resolution in writing signed by or on behalf of holders of at least 75 per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a Reserved Matter, or 66⅔ per cent. of the aggregate principal amount of the outstanding Bonds, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in like form, each signed by or on behalf of one or more Bondholders. Any Written Resolution shall be binding on all of the Bondholders, whether or not signed by them.

(b) ***Modification and waiver***

The parties to the Fiscal Agency Agreement may agree, without the consent of the Bondholders, to any modification of any provision of the Fiscal Agency Agreement or the Bonds which is of a formal, minor or technical nature or is made to correct a manifest error.

13 Further Issues

The Russian Federation shall be at liberty from time to time, without the consent of the Bondholders, to create and issue further Bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further Bonds and, if applicable, the date and amount of the first payment on such further Bonds) so that the same shall be consolidated and form a single series with the Bonds, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.

14 Notices

Notices to the Bondholders will be sent to them by mail (airmail if overseas) at their respective addresses on the Register, and will be deemed to have been given on the fourth day after the date of mailing. So long as the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notices with respect to the Bonds will also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be The Financial Times) or, if such publication is not practicable, in an English language newspaper having general circulation in Europe, and each such notice shall be deemed to have been given on the date of such publication, or if published more than once or on different dates, on the first date on which publication is made.

15 Currency Indemnity

The U.S. dollar is the sole currency of account and payment for all sums payable by the Russian Federation under or in connection with the Bonds, including damages. Any amount received or recovered

in a currency other than the U.S. dollar (whether as a result of, or the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Russian Federation shall only constitute a discharge to the Russian Federation to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Russian Federation shall indemnify such recipient against any loss sustained by it as a result. In any event, the Russian Federation shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Russian Federation's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any judgement or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Bonds and the Fiscal Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with the laws of England.

USE OF PROCEEDS

The proceeds of the issue of the 2017 Bonds (net of commissions but before deduction of expenses) are expected to amount to approximately U.S.$1,991,740,000, the proceeds of the issue of the 2022 Bonds (net of commissions but before deduction of expenses) are expected to amount to approximately U.S.$1,984,140,000 and the proceeds of the issue of the 2042 Bonds (net of commissions but before deduction of expenses) are expected to amount to approximately U.S.$2,924,490,000. The proceeds of each issue will be used for general governmental purposes. Total commissions and expenses payable by the Russian Federation in connection with the 2017 Bonds are expected to be approximately U.S.$1,400,000, total commissions and expenses payable by the Russian Federation in connection with the 2022 Bonds are expected to be approximately U.S.$1,400,000 and total commissions and expenses payable by the Russian Federation in connection with the 2042 Bonds are expected to be approximately U.S.$2,100,000.

RUSSIAN FEDERATION

Territory, Population and Natural Resources

The Russian Federation is a sovereign and democratic federal state, consisting of 83 sub-federal political units. Russia is the largest country in the world by land mass, covering 17.1 million square kilometres. Russia borders 16 countries and spans nine time zones, extending some 9,000 kilometres from the Baltic Sea in the west to the Pacific Ocean in the east and some 4,000 kilometres from its southern border on the Black and Caspian Seas to its northern limits on the Arctic Ocean.

Russia is rich in natural resources. It is the world's second-largest producer of natural gas, the world's leading producer of oil and a significant producer of coal, uranium, nickel, palladium and platinum. As of 1 January 2009, Russia's A, B and C1 natural gas reserves (which include explored reserves considered to be fully extractable pursuant to the Russian reserves system) were estimated at 47.8 trillion cubic metres. The country also has substantial gold deposits (located mainly in Eastern Siberia and the Russian Far East) as well as significant deposits of zinc, lead, tin, silver, other rare metals and precious and semiprecious stones. Russia is among the world's leading producers of electricity, steel, fertilisers, cotton textiles and other goods. Forests cover approximately 52% of Russia's total land area, and Russia's timber reserves, the largest of any country, are estimated at 83.3 billion cubic metres.

Russia is home to approximately 143 million people, ranks ninth in the world by population and has a population density of approximately 8.3 persons per square kilometre. Roughly 79% of the population lives in European Russia, and approximately the same percentage of Russia's population lives in cities. Russia's capital and largest city is Moscow with 11.5 million inhabitants, and 11 other Russian cities have a population of more than one million residents.

According to the preliminary results of the 2010 general census, ethnic Russians are the largest demographic group and account for approximately 81% of the total population. Other ethnic groups include Tatars (approximately 3.9% of the total population), Ukrainians (1.4%), Bashkirs (1.2%), Chuvashs (1.1%) and Chechens (1%). No other ethnic group accounts for more than 1% of Russia's total population.

Russia has a well-developed system of education, with a literacy rate exceeding 99%, and grammar and middle school education is compulsory. Russia had approximately 1,115 institutions of higher education, with approximately 7.4 million students, during the 2009-10 educational year, and an estimated labour force of 75.4 million people in December 2009. As of year-end 2010, over 99% of the labour force had at least eight years of schooling, 95% had at least ten years, 28.9% had received higher education and 45.9% had received professional training.

Political System

Constitution

The Constitution of Russia provides for a tripartite governmental structure in which the power of the state is divided among the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal, sub-federal and local authorities.

The Constitution protects certain fundamental "rights and freedoms of the person and the citizen," and charges the state with guaranteeing the equal treatment of people of all races, nationalities and beliefs. Under the Russian Constitution all forms of property (including private property) are equal before the law, and ideological diversity and a multi-party system are expressly recognised.

In general, the Constitution may be amended through passage of a special federal constitutional law, and its ratification by the legislatures of at least two-thirds of the Federation subjects. See "—Federal Structure and Regional Issues" for more information on Federation subjects. Passage of such a law requires the vote of a two-thirds majority of the State Duma, a three-fourths majority of the Federation Council (the upper house of the Federal Assembly) and signature by the President. The provisions of the Constitution that govern the nature of the constitutional system, individual rights of citizens and the amendment process, however, can be changed only by convening a Constitutional Assembly. A proposed new constitution may be adopted either by the vote of a two-thirds majority of the Constitutional Assembly or by a simple majority in a national referendum in which more than half of the eligible voters participate.

President

The President of the Russian Federation is currently Dmitry Medvedev, who was elected President in March 2008, receiving 70.28% of the vote. On 4 March 2012, Vladimir Putin was elected to be the next President of Russia, receiving 63.60% of the vote. Mr Putin will assume the office of President on 7 May 2012. Mr. Putin has already served two terms as President and was acting President between January 2000, following Boris Yeltsin's resignation, and March 2000. In March 2000, Mr. Putin was elected to his first term in office as President, receiving approximately 53% of the vote, and in March 2004 Mr. Putin was re-elected with approximately 71% of the vote. From May 2008, Mr. Putin was Prime Minister under the presidency of Mr. Dmitry Medvedev. Mr. Putin will cease to hold that office when he assumes the office of President. See "—Political Parties, Recent Elections and Political Developments."

The President is the Head of State and the Supreme Commander of the Armed Forces. The President has broad powers, including the authority to declare a state of emergency, subject to approval of the Federation Council, the ability to commence military engagements, subject to immediate notification of the State Duma and Federation Council, the power to issue decrees and orders that have the force of law (although these may not contravene the Constitution or federal legislation), to suspend acts of sub-federal and local executive authorities, and to call national referenda. In addition, the President is empowered to arbitrate disputes between the federal authorities and the Federation subjects. The President is also responsible for foreign policy.

The President has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President may dissolve the State Duma if (i) the State Duma fails to accept the President's proposed candidate for Prime Minister in three successive votes, (ii) the State Duma twice within three months passes a motion of no confidence in the Government or (iii) the Government loses a confidence motion put before the State Duma by the Prime Minister. The State Duma may not, however, be dissolved at any time during the last six months of a presidential term, during the period between passage by the State Duma of an accusation initiating impeachment proceedings against the President and action by the Federation Council on such accusation, while a state of emergency covering all of Russia is in effect, or, in the case of (ii) or (iii) above, within the first year after State Duma elections. In the event the State Duma is dissolved, the President must schedule elections and a newly elected State Duma must be convened within four months.

The President has significant appointment powers, including the power to appoint the Prime Minister (with the consent of the State Duma) and the other members of the Government (upon the nomination of the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time and may dismiss the Prime Minister, which would simultaneously lead to a dismissal of the Government. In addition, the President nominates candidates for governor of the Bank of Russia (for appointment by the State Duma), Prosecutor General (for appointment by the Federation Council) and judges to the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Federation Council). The President also has the power to dismiss the legislative and executive authorities of Federation subjects under certain circumstances. Beginning in December 2004, the President's powers were expanded to include nominating the heads of Federation subjects, who are now appointed by the legislatures of the respective Federation subjects. See "—Federal Structure and Regional Issues."

The President is elected in a national election for a term of six years. Under Russia's Constitution, the President may not serve more than two consecutive terms. The Constitution also provides for the early termination of the President's term of office in the event of the President's death, resignation, impeachment, or persistent inability to exercise his powers for health reasons. New presidential elections must be held within three months of an early termination. Impeachment of the President requires an accusation supported by the vote of a two-thirds majority of the State Duma, followed by a vote in favour of impeachment by a two-thirds majority of the Federation Council, with the subsequent confirmation by the Supreme Court of the legality of the accusation and by the Constitutional Court of the observance of due process. Under the Constitution, whenever the President is incapable for any reason of carrying out his duties, the obligations of the office are temporarily assumed by the Prime Minister, except that the Prime Minister, as acting President, may not dissolve the State Duma or propose any national referendum or changes to the Constitution.

Government

The Government consists of the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election in order to permit the President to form a new Government.

The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Prime Minister of the Russian Federation is currently Vladimir Putin, the incoming President of Russia, who took office in May 2008 following his nomination by President Medvedev.

Legislative Branch

The legislative branch consists of the Federal Assembly, which comprises a lower chamber, known as the State Duma, and an upper chamber, known as the Federation Council.

The State Duma consists of 450 deputies, elected to a five-year term by a system of proportional representation. In accordance with the Federal Law on the Elections of Deputies of the State Duma, which became effective in December 2006, deputies are chosen from "party lists" on the basis of a nationwide election, with seats allocated in proportion to the number of votes received by the party, if the party receives 7% or more of the vote (5% or more of the vote beginning with the December 2016 elections). Currently, parties that garner between 6% and 7% of the vote are allocated two seats in the State Duma, and parties that collect between 5% and 6% of the vote are allocated one seat in the State Duma. Deputies are not able to change party affiliation during their term of office without surrendering their seat. No person may simultaneously serve as a State Duma deputy and hold a position in the Government.

The Federation Council, with 166 deputies, represents Russia's 83 Federation subjects. See "—Federal Structure and Regional Issues." Each Federation subject appoints two members of the Federation Council, one chosen by the legislative body of the Federation subject and the other by its executive body. The members of the Federation Council have to work on a full-time basis and cannot occupy any other office.

For a bill to become federal law, it must first be passed by a majority vote in the State Duma, then be approved by a majority vote in the Federation Council and finally be signed by the President. Rejection of a bill by the Federation Council can be overridden by a two-thirds majority vote in the State Duma. Rejection of a bill by the President can be overridden by a two-thirds majority of each of the Federation Council and the State Duma.

Judicial Branch

Russia has three courts of final appeal. The Constitutional Court has jurisdiction over matters relating to the interpretation of the Constitution, including the constitutionality of federal laws, decrees of the President, resolutions of the Government, resolutions of the State Duma and the Federation Council, laws and legal documents of Federation subjects and agreements between federal and sub-federal authorities. The Supreme Arbitration Court and lower arbitration courts have jurisdiction over economic disputes. Judicial authority is otherwise vested in the Supreme Court and lower courts of general jurisdiction over civil, criminal, administrative and other matters.

Judges of the Constitutional Court, Supreme Arbitration Court and Supreme Court are nominated by the President and appointed by the Federation Council. Judges of lower federal courts are appointed by the President in accordance with procedures established by federal legislation.

Political Parties, Recent Elections and Political Developments

Under the Constitution and federal law, Russian citizens who are at least 18 years old have the right to vote in presidential and State Duma elections, regional and local elections and regional and local referenda.

Russian legislation contains a number of provisions designed to encourage the development of a stable party system. First, candidates must collect a specified number of signatures to qualify for elections. In the case of presidential elections, a candidate must collect at least two million signatures of the electorate. In order to participate in elections to the State Duma, a political party must also obtain a specified number of signatures supporting its party-list (150,000 signatures for the December 2011 elections, and 120,000 signatures for elections thereafter), unless such party has seats in the current State Duma, in which case the requirement to collect signatures does not apply. Second, political parties must garner at least 7% (5% beginning with the next State Duma elections in December 2016) of the vote in party-list elections to qualify for seats allocated on the basis of proportional representation in the State Duma, though parties are currently awarded one seat for collecting between 5% and 6% of the vote and two seats for collecting between 6% and 7% of the vote. See "—Political System—Legislative Branch." Third, the rules for presidential elections, which call for a run-off election between the first and second place candidates if no candidate wins more than 50% in the initial round of voting, discourage fragmentation of the vote.

In the most recent State Duma election, held in December 2011, the party *Edinaya Rossiya* (United Russia), which is currently led by Prime Minister Putin and is the product of the 2001 merger of two large parties, *Yedinstvo* (Unity) and *Otechestvo-Vsya Rossiya* (Fatherland-All Russia), received 49.3% of the votes cast, down from 64.3% of the votes cast in December 2007, and currently holds 238 State Duma seats. As a result of the election, United Russia lost the two-thirds constitutional majority it had held in the State Duma since 2007. The Communist Party received 19.2% of the votes cast in 2011 and now holds 92 State Duma seats. Two other parties are also represented in the State Duma: the Liberal Democratic Party (11.7% of the votes cast and a total of 56 seats) and Fair Russia (13.2% of the votes cast and a total of 64 seats). Parties that received votes in the December 2011 election, but did not pass the 7% threshold required to seat members in the State Duma, include the Russian Democratic Party "Yabloko" (3.4% of the votes cast) and several other parties, none of which received more than 1% of the vote. Currently, the Ministry of Justice has registered seven political parties.

Following the December 2011 State Duma elections, several large-scale demonstrations have taken place across Russia, precipitated in large part by allegations of voting irregularities.

Federal Structure and Regional Issues

Russia consists of 83 Federation subjects, comprising 21 republics, nine *krais*, 46 *oblasts*, two cities of federal importance (Moscow and St. Petersburg), one autonomous *oblast* and four autonomous *okrugs.*

Many of the republics and autonomous regions contain a substantial number of ethnic non-Russians, with non-Russians constituting a majority in certain regions (e.g., the Republic of Tatarstan and the Republic of Kalmykia).

Federation subjects form the intermediate level of government, and are further subdivided into approximately 23,500 municipalities, comprising cities or geographically separated county territories (*raions*). Lower-level governments at the county (*raion*), city and village levels are subordinate to their respective Federation subjects.

Throughout its history, Russia has generally been a unitary state with a single central government. Since the dissolution of the Soviet Union, however, Federation subjects have obtained greater decision-making authority and financial autonomy, and Russia is now a federal state.

The Federation Treaty of 31 March 1992, signed by 87 Federation subjects (all but the Chechen Republic and the Republic of Tatarstan), initially granted each Federation subject a measure of control over budgetary and external policy, as well as local natural resources. The Constitution subsequently refined the division of authority between Russia and the Federation subjects, expressly incorporating the provisions of the Federation Treaty to the extent they were not inconsistent with other provisions of the Constitution. Certain areas of governance are reserved by the Constitution exclusively to the federal authorities, including management of federal property, the issuance of currency and currency regulation, customs policy, foreign relations, military defence, atomic energy and space exploration. Joint federal-regional authority is prescribed in a number of other areas, including tax administration, ownership and use of land and natural resources, environmental protection, social assistance, education, health, science and cultural facilities, and the selection of certain court and law enforcement officials. Responsibility for all matters not reserved to the federal authorities or to joint federal-regional competence is reserved for Federation subjects. The Constitution prohibits any sub-federal barriers to the free movement of goods, capital and labour throughout Russia.

In May 2000, President Putin signed a presidential decree creating seven federal circuits, each comprising several Federation subjects, and authorising the President to appoint a representative to each federal circuit. The representatives' responsibilities include facilitating the implementation of the President's domestic and foreign policies, supervising the implementation of federal decisions in the Federation subjects and reporting to the President on the state of affairs in the Federation subjects. In January 2010, pursuant to Presidential decree, a separate North Caucasus federal circuit was created, bringing the total number of federal circuits to eight.

In August 2000, a law aimed at improving management of the Federation subjects and lower-level authorities came into effect. The law grants the President the power to dismiss the chief legislative and executive authorities of a Federation subject if the authorities refuse to repeal local legislation held by a court to be contrary to the Constitution or federal law and harmful to the fundamental rights and freedoms of Russian citizens or that prevent federal authorities from performing their statutory functions.

A new law abolishing the direct election of executives of the Federation subjects was adopted in December 2004. Under this law, the President may nominate and dismiss the executives of a Federation subject, but Presidential nominations must still be approved by the Federation subject's legislative body. This law was intended to strengthen central control of the country and facilitate the Government's efforts in combating domestic terrorism.

In general, disputes between the federal authorities and Federation subjects have been resolved peacefully through the political process, with the notable exception of the military confrontation in the Chechen Republic and periodic unrest in the other republics of the North Caucasus, including Daghestan and Ingushetia.

International Relations

Russia's Position in the International Community

Russia has been recognised by the international community as the successor to the Soviet Union. Russia is currently a member of many international organisations, including the United Nations, where it is a permanent member of the Security Council and, accordingly, plays an active role in maintaining international peace and security.

Russia is a member of the G8 group of industrial nations, having chaired that group in 2006, and the G20. Since 1992, Russia has been a member of the International Monetary Fund ("IMF") and the International Bank for Reconstruction and Development (the "World Bank"). See "Public Debt and Related Matters—Relations with International Financial Institutions." Russia is also a member of the International Finance Corporation and participates as a donor in the International Development Association. In December 1996, the Bank of Russia became a member of the Bank for International Settlements, and in September 1997 Russia became a member of the Paris Club of creditor nations.

In June 1993, Russia applied for membership in the General Agreement on Tariffs and Trade, which later became the World Trade Organisation (the "WTO"), and in December 2011 concluded all accession agreements required for membership in the WTO. Formal membership in the WTO is subject to ratification by the State Duma, which should take place within 220 days from 16 December 2011.

In 1994, Russia concluded a Declaration on Cooperation with the Organisation for Economic Cooperation and Development (the "OECD"), and, in May 1996, Russia formally applied for membership in the OECD. In 2007, the OECD on a ministerial level made the decision to invite Russia to begin negotiations regarding its accession. Such negotiations are currently underway. Russia is currently participating on a permanent basis in the activities of more than 20 working groups of the OECD.

In 1997, President Yeltsin and the leaders of 16 NATO nations signed the "Founding Act on Mutual Cooperation," establishing new principles to govern their relationship and providing for consultation between Russia and NATO. In December 2001, Russia and NATO agreed upon a process aimed at enhancing future cooperation. In May 2002, a NATO-Russia Council was established, under which more than 20 working groups have been created to enhance political contacts and develop cooperation between Russia and NATO members on issues of mutual interest, including terrorism, crisis management, missile defence, arms control and civil defence.

Russia and Regional Cooperation

Russia has wide-ranging contacts with the EU, its most significant economic partner and one of its most important political partners. The Agreement on Partnership and Cooperation between Russia and the EU, in effect since December 1997, was amended in April 2004 and March 2008 to allow new

EU members to accede to it. This agreement establishes a framework for the parties' economic and political relationship.

On 15 June 2001, Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan signed a declaration on the creation of the Shanghai Co-operation Organisation (SCO). Russia chaired the SCO in 2008-2009. Russia is a member of the European Bank for Reconstruction and Development (the "EBRD") and the Black Sea Bank for Trade and Development. Russia also participates in a number of other regional cooperation forums, including the Association of South-East Asian Nations (ASEAN).

Russia, the Former Soviet Union and the CIS

After the dissolution of the Soviet Union, Russia concluded separate agreements ("zero-option agreements") with all of the other republics of the former Soviet Union except the three Baltic republics. All of the zero-option agreements have been mutually ratified, except the agreement with Ukraine, which has not yet been ratified by Ukraine. Each zero-option agreement provides that, as between Russia and the other former Soviet republic, Russia is responsible for virtually all the external debt contracted on behalf of the authorities of the former Soviet Union and receives in return all claims on former Soviet Union assets located outside the territory of the other former Soviet republic. The Government regularised its relations with virtually all the external creditors of the former Soviet Union and agreed to a schedule for the repayment of former Soviet Union debt.

In April 1996, the Government entered into an agreement rescheduling approximately U.S.$33 billion of indebtedness to the Paris Club of official creditors. In August 1999, the Government concluded a further rescheduling agreement providing for the deferral of approximately U.S.$8.3 billion of indebtedness to Paris Club creditors. In the summer of 2005, Russia prepaid U.S.$15 billion of its Paris Club indebtedness. In August 2006, Russia prepaid the remaining balance of approximately U.S.$21.6 billion owed to its Paris Club creditors.

In December 1997, Vnesheconombank restructured the Soviet-era debt owed to the London Club of commercial creditors. In the wake of the events of 17 August 1998, when the Government announced that it would not meet its obligations under its short-term rouble-denominated treasury bills, i.e., GKOs and OFZs, Russia, Vnesheconombank and a committee of London Club creditors agreed, in February 2000, on terms for the further restructuring of Vnesheconombank's London Club debt. The agreed restructuring terms have been implemented through a series of exchange offers. In December 2002, December 2006 and December 2009, Russia restructured most of the Soviet-era debt owed to uninsured trade creditors, and in March 2004 Russia restructured most of the Soviet-era debts owed by Vnesheconombank to the International Bank for Economic Co-operation ("IBEC") and to the International Investment Bank ("IIB"). See "Public Debt and Related Matters—External Debt Restructuring" for a further discussion of Russia's indebtedness to the Paris Club, the London Club, Soviet-era uninsured trade creditors, IBEC and the IIB.

Russia is a member of the Commonwealth of Independent States (the "CIS"), which was founded in December 1991 to promote mutual cooperation among its members. Currently, 11 of the 15 former Soviet Republics are members of the CIS. The three Baltic states never joined the organisation, and Georgia withdrew from the organisation, effective August 2009.

In 1995, Russia, Belarus and Kazakhstan signed a framework agreement to form a customs union. Kyrgyzstan and Tajikistan acceded to this agreement in 1996 and 1999, respectively. In October 2007, Russia, Belarus and Kazakhstan signed a tripartite agreement on the creation of a customs union, which entered into force in October 2008. In November 2009, Russia, Belarus and Kazakhstan concluded several agreements that unified customs tariff and non-tariff regulations among the three nations effective 1 January 2010 and established a Customs Code to harmonise customs procedures effective July 2010. The process of finalising customs integration among the three parties is expected to continue through 2012. See "The Russian Economy—Civil and Commercial Law—" for a discussion of the Customs Code. Effective 1 January 2012, a Common Economic Space among Russia, Belarus and Kazakhstan went into effect. The commission of the Common Economic Space is expected to begin work on 1 July 2012 and to assume the responsibilities currently handled by the commission of the customs union.

Since 1995, Russia and Belarus have pursued closer economic and political integration. In December 1999, Russia and Belarus signed a treaty on the creation of a unified state and a programme for its implementation. Under the treaty, Russia and Belarus are to preserve their independence and sovereignty, while developing a single economic space, agreed social policies and coordinated foreign and defence policies. In November 2011, Russia, Belarus and Kazakhstan signed the Declaration on the Establishment of the Eurasian Economic Union, which calls for the creation of the Eurasian Economic Union by 2015.

Russia is also a member of the Collective Security Treaty Organisation, founded in 2002 on the basis of the 1992 Collective Security Treaty, to promote collective security among its members, which include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

In August 2008, Russia and Georgia fought a brief war over the territories of South Ossetia and Abkhazia. Both territories are now *de facto* independent from Georgia and have been legally recognised by Russia, Nicaragua, Venezuela and the Pacific island states of Nauru and Tuvalu. In the aftermath of the August 2008 hostilities, Georgia severed diplomatic relations with Russia, and Russian troops are currently stationed in both South Ossetia and Abkhazia.

On several occasions since the collapse of the Soviet Union, disputes have arisen with Ukraine concerning the supply and transit of natural gas and with Belarus concerning the supply and transit of both natural gas and oil. Russia is dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas it exports to western Europe (Russia supplies approximately one-quarter of the natural gas consumed in the EU), and Ukraine and Belarus are, in turn, dependent on Russian gas to meet their domestic requirements. In 2006, Russia and Belarus reached agreement on the supply of Russian gas to Belarus through 2011, and in 2011 they reached a similar agreement for the period 2012-2014. In addition, at the end of 2011, State-controlled Gazprom purchased a 50% stake in Beltransgaz, making it the sole shareholder in Belarus' principle gas transportation company. On 19 January 2009, following a dispute regarding Russian gas supplies to Ukraine, Russia and Ukraine agreed to a 10-year transit and supply contract. Under both of these agreements, prices for gas supplies are set pursuant to a European pricing formula.

THE RUSSIAN ECONOMY

Overview

Russia's initial economic reform programme, first outlined by President Yeltsin in October 1991, set out to achieve three principal goals: liberalisation, privatisation and financial stabilisation.

Liberalisation of the Russian economy required a fundamental redefinition of the role of the state, which had in the Soviet era regulated virtually all economic and financial activities. The subsequent liberalisation of most prices has permitted market forces to determine prices to a significant extent and to play an increased role in the allocation of resources and output. At present, only certain public services and legislatively defined "natural monopolies" (for example, pipeline transport of oil and gas, electricity transmission and production, railway transport, terminal, port and airport services, and postal services) are subject to price regulation. Internationally, liberalisation of Russia's trade regime has helped redirect trade flows away from historically important former socialist markets towards OECD countries and developing nations and contributed to an overall rise in exports. See "Balance of Payments and Foreign Trade—Foreign Trade."

Beginning in January 1992, the Government implemented a privatisation programme, made possible by the legal recognition of private property and the creation of an economic and legal environment more conducive to the development of private economic activity.

Russia's economic programme came under severe pressure in the second half of 1997 and the first half of 1998, following the Asian currency and financial crisis and a sharp fall in world prices for oil and other commodities, which adversely affected the Government's ability to continue to finance its budget deficit and to maintain the value of the rouble against the dollar. In 1999, Russia was assigned sovereign credit ratings of CCC (Fitch), B3 (Moody's) and CCC− (Standard & Poor's). Russia's current foreign currency sovereign credit ratings are Baa1 (Moody's), BBB (Standard & Poor's) and BBB (Fitch), each with a stable outlook.

In 2004, the responsibilities of federal Governmental structures were reformed. A new three-tiered system of federal executive bodies was established, which assigned responsibility to federal ministries for the elaboration of state policy and legal regulation, to federal services for the supervision, control and protection of state security and state borders and to federal agencies for the provision of public services and the management of state property and law enforcement (other than supervision and control).

In January 2006, the Government adopted a Medium-Term Programme for the period 2006-2008. The principal priorities of the program were improving the investment climate, diversifying the economy, modernising the industrial sector, reducing Government involvement in the economy, stimulating Russian innovation, developing the housing and mortgage markets and improving the quality of the healthcare and education systems.

In November 2008, the Government adopted a Long-Term Programme for Social and Economic Development through 2020 (the "Development Programme through 2020"), the primary objectives of which are to stimulate Russian innovation, including in high-technology industries, diversify the economy, promote regional economic development and reform the country's natural monopolies.

General Anti-Crisis Measures

In response to the global financial crisis that began in the fall of 2008, Russia enacted a set of measures designed to restore investor confidence and support the medium-term economic growth of the country. Many of these measures were aimed at bolstering the liquidity of the Russian banking sector and facilitating the flow of credit within the economy. See "Monetary and Financial System—Banking—Anti-Crisis Measures" for a discussion of the policies specifically related to the banking sector. However, the Government also implemented policies to support the real sector of the economy, the labour market and households.

In April 2009, the Government adopted its Anti-Crisis Programme for 2009, allocating to it approximately 1.2 trillion roubles in federal budget financing. In addition to policies aimed at the banking sector, the programme included the following principal measures:

- The allocation of 300 billion roubles for federal budget loans and transfers to sub-federal governments. In 2009, approximately 306 billion roubles were spent on federal budget loans and transfers to sub-federal governments, including 150 billion roubles in financial aid and 87 billion roubles in subsidies.

- The allocation of funds to support approximately 300 key enterprises with supplemental recapitalisations, state loan guarantees (for which the Government has allocated 300 billion roubles) and direct state support. In 2009, enterprises requested state loan guarantees amounting to approximately 276.6 billion roubles, and the Government issued state loan guarantees totalling 145.9 billion roubles.

- The increase of federal support for the defence-industrial complex, including (i) the allocation of (x) up to 100 billion roubles in state guarantees of previously issued loans to companies in the defence industry, and (y) an increase of three billion roubles in payments to certain strategic companies of the defence-industrial complex; and (ii) equity injections into certain key companies, including 15 billion roubles into Russian Aircraft Company "MIG"("MIG") and eight billion roubles into the Khrunichev Space Center. In 2009, the Government made disbursements to certain defence companies for the repayment of interest under existing loan facilities and injected over 100 billion roubles of capital into certain key companies, including 15 billion roubles into MIG and 13.5 billion roubles into the Open Joint Stock Company "Unified Aviation Construction Corporation.

- The allocation of over 200 billion roubles to support development of the agricultural and fishing industries. In 2009, approximately 205 billion roubles were spent on the development of these industries. An additional 95 billion roubles from regional budgets were earmarked for the same purpose.

- The initial allocation of 39 billion roubles to support the automotive industry. In 2009, approximately 78 billion roubles were spent in support of the automotive industry, which includes the disbursement of a 37 billion rouble, interest-free loan to AVTOVAZ.

- To support the transport industry, the initial allocation of (i) 560 billion roubles for general development, including approximately 342 billion roubles to improve roads; (ii) 50 billion roubles to subsidise losses incurred by Open Joint Stock Company "Russian Railways" ("Russian Railways") in connection with state regulation of tariffs for railway shipments in 2009; and (iii) 11.3 billion roubles for additional contributions to the share capital of Russian Railways. In 2009, 570 billion roubles were spent on general development of the transport industry, including 194 billion roubles to improve roads (122.5 billion roubles of which were spent on improving federal roads), 40.7 billion roubles were spent to subsidise losses incurred by Russian Railways as a result of lower tariffs on freight transport, 36.4 billion roubles were spent to subsidise falling revenues incurred by Russian Railways due to state regulation of tariffs on passenger transport and three billion roubles were spent on additional contributions to the share capital of Russian Railways. Within the framework of the Anti-Crisis Programme for 2009, Russian Railways also carried out the issuance and placement of 145 billion roubles of corporate bonds in 2009. The Government also created a new transport leasing company, injecting 10 billion roubles into its charter capital, to finance road construction companies.

- The investment of 343.5 billion roubles in housing construction and development.

In December 2009, the Government passed its Anti-Crisis Programme for 2010, which, in its implementation, combines support for enterprises adversely affected by the crisis with measures to modernise the economy. The key elements of the Anti-Crisis Programme for 2010 include the following:

- The allocation of approximately 36 billion roubles to support the labour market, which amount was subsequently increased to 40.5 billion roubles as a result of a February 2010 Government resolution. In the first half of 2010, approximately 33 billion roubles were spent on such measures.

- The allocation of 40 billion roubles for the support of certain strategic enterprises. In the first half of 2010, approximately 34 billion roubles were spent on measures to support certain strategic enterprises.

- To support the automotive industry, the allocation of (i) 21 billion roubles in subsidies to trade organisations for losses incurred in Russia's "cash for clunkers" programme; (ii) 20 billion roubles for the purchase by federal authorities of various automotive products and machinery for road repairs; and (iii) 10 billion roubles in subsidies from the federal budget to the Federation subjects for the purchase of vehicles and automotive parts. In 2010, approximately 11.6 billion roubles were spent on subsidies to trade organisations for losses incurred in connection with the "cash for clunkers" programme, approximately 8.4 billion roubles were spent on the purchase of automotive products and machinery for road repairs and 28.7 billion roubles were spent on federal subsidies to the Federation subjects for the purchase of vehicles and automotive parts. In addition, the Government has allocated 38 billion roubles to the state corporation "Rostekhnologiya" to provide financial support to OAO "Avtovaz."

- The allocation of 27 billion roubles to support modernisation measures in single-industry towns, including 10 billion roubles in interbudgetary transfers for the implementation of investment projects and 10 billion roubles in budgetary credits.
- The allocation of funds for investment in housing construction and development. In the first half of 2010, 122.8 billion roubles were spent on such investments.

The Government did not adopt an anti-crisis programme for 2011 and has not adopted an anti-crisis programme for 2012.

As the Russian economy continues to recover from the global financial crisis, the Government plans to prioritise the modernisation initiative that forms a central part of its Development Programme through 2020. The modernisation initiative is based on several key priority areas, including the following: diversifying the Russian economy, including developing certain high-tech industries; stimulating innovation; improving regulation of the domestic financial markets; and reducing the share of state ownership in the economy. The Government also intends to improve the investment climate, in particular, by taking steps to strengthen the financial sector, the legal system and corporate governance.

Civil and Commercial Law

Since 1992, Russia has sought to establish a legal framework for economic relations between independent legal persons and entities. The rule of law in Russia nonetheless continues to be undermined by persistent gaps in legislation, inconsistencies between legal norms at the federal level as well as between norms at the federal and regional levels, the significant degree of discretion given to state officials in many areas and the inexperience of some Russian judges and their susceptibility to outside influences, especially at the regional and local levels.

The Constitution protects the right of Russian citizens to hold private property. Property rights and basic rules for commercial relations are set out in Russia's Civil Code. Part I of the Civil Code, passed in 1994, establishes the principles of contract and property law. The Civil Code also specifies the forms that private enterprises may take, including corporations, partnerships and limited liability companies. Part II of the Civil Code, passed in 1996, regulates particular types of contractual relationships, including sales contracts, leases, credit agreements and insurance policies. Part III of the Civil Code came into effect in 2002 and covers inheritance law and private international law. The fourth and final part of the Civil Code, which came into effect on 1 January 2008, codifies rules on intellectual property matters.

The Federal Law on the Enactment of the Land Code (the "Land Code"), enacted in 2001, regulates the ownership of non-agricultural real estate and establishes general principles of private land ownership. The law in this area remains incomplete, however, and there are many local rules and standards that limit the purchase and ownership of land. As a result, private ownership of land is not widespread in Russia, and a land market does not exist to the same extent as is common in countries with more developed market economies. According to the Land Code, legal entities that are currently using their land based on the right of permanent (perpetual) use are required to purchase or lease such land before 1 July 2012, with the exception of land on which power transmission lines, telephone lines, pipelines, roads, railways and other similar facilities are located, which must be purchased or leased before 1 January 2015. Agricultural land is regulated by the Land Code and the Federal Law on the Circulation of Agricultural Land (the "Agricultural Land Code"). The Agricultural Land Code, which was enacted in July 2002, creates a unified market framework at the federal level for the purchase and sale of farmland. Under the Agricultural Land Code, foreigners are not allowed to purchase farmland.

The Law on Privatisation of State and Municipal Property dated 21 December 2001 (the "Privatisation Law") sets forth the procedures that govern the privatisation of state and municipal property, including the requirements for potential buyers and other related matters. Under the Privatisation Law, a privatisation programme, including a list of enterprises to be sold, is adopted for a one to three year period. In accordance with the privatisation programme for 2010, the Government sold off its 13.1% stake in Rosgosstrakh, a leading Russian insurance company, in an auction held in September 2010.

Proceeds from the sale amounted to approximately 8.7 billion roubles, bringing overall proceeds from privatisations in 2010 to approximately 22.65 billion roubles. In November 2010, the Government published the list of enterprises to undergo privatisation in 2011, 2012 and 2013, which includes Sberbank, Rosneft, Sovcomflot, VTB, the Federal Grid Company and RusHydro. In February 2011, the Government sold a 10% stake in VTB, generating U.S.$3.3 billion in proceeds. According to the Ministry of Economic Development, overall privatisation proceeds in 2011 totalled 120 billion roubles. Based on the Principal Priorities of the Budget Policy for 2012 and the Planning Period 2013 and 2014, prepared by the Ministry of Finance, the Government expects to generate approximately 885 billion roubles in privatisation proceeds from 2012 through 2014.

The Law on Joint-Stock Companies dated 26 December 1995 came into effect in 1996 and was subsequently amended on several occasions between 1999 and 2010. The Law on Joint-Stock Companies sets forth the basic framework for corporate organisation and corporate governance, including the formation of companies, shareholder rights and liabilities (including the ability to enter into shareholder agreements), the role of directors, interested party transactions, mergers and acquisitions, shareholder buy-outs and share capital and dividends. The Law on the Securities Market, adopted in 1996 and subsequently amended, regulates the issuance and circulation of securities. Pursuant to this law, companies that issue securities must, with limited exceptions, register the issuance by filing a prospectus and publicly reporting certain information on a quarterly basis. The law also regulates the activities of professional participants in the securities market, aims to strengthen the protection of investors by imposing rules on market professionals and contains framework provisions on the listing and public trading of securities of foreign issuers in Russia.

The Law on Limited Liability Companies dated 8 February 1998, as amended, sets forth the basic framework for the organisation and governance of limited liability companies. On 1 July 2009, substantial amendments to this law came into effect, the primary purposes of which were to streamline procedures for establishing limited liability companies, to improve the regulation of the purchase and sale of interests in limited liability companies and to make the ownership structure of limited liability companies more transparent.

The Federal Law "On Insolvency (Bankruptcy)" (the "Bankruptcy Law"), which replaced the prior law adopted in 1998, came into effect in November 2002 and was subsequently amended. The Bankruptcy Law provides basic rules for declaring an enterprise bankrupt, for managing and liquidating an enterprise after it has been declared bankrupt, for satisfying creditors' claims and for the bankruptcy process generally. The Bankruptcy Law permits an enterprise to be declared bankrupt if it is unable to make payments to its creditors (including tax authorities) in excess of 100,000 roubles within three months of such payments becoming due. The Bankruptcy Law also expands the types of legal entities that are subject to the Bankruptcy Law and clarifies the procedure for appointing managers of bankrupt enterprises and for initiating insolvency proceedings. In July 2010, amendments to the Bankruptcy Law went into effect, setting forth certain procedures related to the bankruptcy of financial organisations, including credit institutions, insurance companies, professional participants on the securities markets and non-state pension funds.

The legislative framework for the restructuring of credit institutions is further set out in the Law on Insolvency (Bankruptcy) of Credit Institutions, which was adopted in February 1999 and subsequently amended between 2000 and 2009. This legislation details the standards for the appointment by the Bank of Russia of temporary bank administrators, provides an expedited liquidation procedure for banks and gives the Bank of Russia the power to accredit the receivers of bankrupt banks and to propose receivers for approval by arbitration courts.

Russia's Strategic Investments Law, which came into force in May 2008, regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance in matters of state defence and security and, inter alia, requires foreign investors to receive prior consent of a special government commission before acquiring control (including through the purchase of certain percentages of voting shares or certain management rights) of such strategic companies.

Under Russia's Foreign Investment Law, adopted in July 1999, foreign investors are ensured equal treatment with domestic investors, with some exceptions in the area of land ownership and leasing, access to natural resources and participation in privatisations. The law provides protections against nationalisation and expropriation without compensation, ensures the free transfer of investment proceeds in foreign currency and the reinvestment of profits in local currency and provides recourse to Russian courts. The Foreign Investment Law provides that any acquisition (whether direct or indirect) by a foreign state or international organisation or entities controlled by them of (i) more than 25% of the voting shares of a Russian company; or (ii) any power to block decisions of the management bodies of a Russian company requires prior approval of the special government commission established by the Strategic Investments Law.

Russia's Federal Law "On Protection of Competition" (the "Competition Law") came into force in October 2006. The Competition Law generally prohibits any concerted action, agreement or coordination of business activity that results or may result in the restriction of competition, including (a) price fixing; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) fixing of disparate prices for the same goods for reasons other than economic or technical reasons; and (e) creation of barriers to entering or exiting a market. The Competition Law also regulates persons (or a group of affiliated persons) who have a dominant position in a particular market. A dominant position may arise in circumstances when (a) the person has a market share in a particular market in excess of 50%, unless it is specifically established that the person does not have a dominant position; (b) the person has a market share in a particular market in excess of 35% but less than 50%, and it is specifically established by the Federal Antimonopoly Service (the "FAS") that the person has a dominant position based on certain factors; or (c) in certain circumstances, the person has a market share in a particular market less than 35% but exceeding shares of competitors in the same market, which can have a crucial impact on general conditions of commodity circulation in the market. The FAS is authorised to employ a variety of means to restrain anti-competitive behaviour and can in extreme cases compel the break-up of enterprises. In addition, the Competition Law establishes a merger control regime, pursuant to which FAS consent is required prior to closing in particular circumstances, including the following: (a) acquisitions of voting rights in a joint stock company or assets of a person above a certain threshold; (b) mergers and consolidations that result in an aggregate asset value or aggregate annual revenues above a certain amount; and (c) creation of a company, if its share capital or the contributors of such share capital meet certain specifications. The Competition Law also provides for a mandatory post-transactional notification (within 45 days of the closing) to FAS in certain circumstances.

The Customs Code of the Customs Union among Russia, Belarus and Kazakhstan took effect in July 2010, replacing Russia's prior Customs Code passed in January 2004. The new Customs Code seeks to harmonise customs procedures, reduce the volume of required documentation and shorten customs clearance times, reflecting a shift in policy to a focus on developing foreign economic activity. This law strives to bring current legislation into line with international standards.

In an attempt to maximise value and increase the efficiency of state assets, a law on concession agreements, enacted in July 2005, establishes a framework for the Government to transfer the management of state-owned property to private companies for a term provided for in the relevant concession agreement. Under the law, the private company is entitled to retain the profits generated from the property in exchange for investing in and managing it.

A law on special economic zones in the Russian Federation, adopted in July 2005, aims to create technical, industrial, production, tourist and health resort zones. Commercial and industrial residents of these zones enjoy reductions in property and land tax and import duties. They also benefit from greater depreciation allowances (except with respect to technical zones) and are permitted to write-off research and development costs within the periods when such costs were incurred without limitation.

Gross Domestic Product

The following table sets forth certain information regarding Russia's GDP for the periods indicated:

Gross Domestic Product(1)

	For the year ended 31 December				
	2007	2008	2009	2010	2011
Nominal GDP (billions of roubles)	33,248	41,277	38,809	45,166	54,369
Real GDP index (%) (2003 prices=100%)	133.8	140.9	129.8	135.4	141.2
Real GDP growth/(decline) (%, period-on-period)	8.5	5.2	(7.8)	4.3	4.3
Nominal GDP per capita (roubles)	233,948	290,771	273,318	314,396	382,035
Real GDP per capita index (%) (2003 prices=100%)	136.1	143.4	132.3	137.0	142.8
Real GDP per capita growth/(decline) (%, period-on-period)	8.8	5.4	(7.8)	3.5	4.3
GDP deflator (%, period-on-period)	13.8	18.0	2.0	11.6	15.4
Memo:					
Total population, millions (end of period)	142.0	141.9	142.9	142.9	143.0

Note:

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat. Figures in this table are current as of 31 January 2012.

Source: Rosstat.

Between 2007 and 2011, real GDP grew by 14.5%, with significant economic growth recorded through the first three quarters of 2008. Real GDP grew by 8.5% in 2007. Despite substantial growth in the first nine months of 2008 (9.1%, 7.7% and 6.4% in the first, second and third quarters, respectively, against the relevant periods in the previous year), the effects of the global financial crisis contributed to a slowdown in overall growth in 2008 (5.2%), which was until that time the slowest rate of growth recorded since 2002. As a result of the global financial crisis, the economy contracted by 7.8% in 2009 compared to 2008. In 2010 and 2011, the Russian economy began to recover from the global financial crisis, growing by 4.3% in each year.

Economic growth in 2007 and 2008 resulted mainly from improved labour productivity due to substantial increases in investment and improved management and from a rapid expansion in private consumption. The surge in investments and private consumption was, in turn, fuelled by high commodity prices and a significant expansion in credit. Overall consumption as a percentage of GDP remained roughly constant during this period because of relatively flat growth in public consumption, which, in turn, was the result of strong fiscal discipline on the part of the Government.

Strong real appreciation of the rouble and production growth contributed to an aggregate increase in the dollar value of Russia's GDP in 2007 and 2008. From 1999 through 2008, Russia registered an average GDP growth rate of approximately 6.9%, and, by 2008, based on purchasing power parity, Russia's economy was the world's sixth largest.

Russia experienced particularly adverse economic and financial effects as a result of the global financial crisis. In the fourth quarter of 2008, due to a decline in gross investment and net exports and despite a nominal increase in both private and public consumption, real GDP fell by 1.1% relative to the fourth quarter of 2007. In 2009, real GDP decreased by 7.8% compared to 2008, primarily because of a contraction in private-sector consumption and gross investment. The decline in real GDP in 2009 was slightly offset by a rise in net exports that was, in turn, caused by a disproportionate drop in imports, a result of falling domestic demand and depreciation of the rouble (the average rouble rate fell by 27.4% in 2009 compared to 2008). The rouble depreciation as well as the overall decline in the Russian economy led to a decrease in the dollar value of Russia's GDP in 2009 relative to 2008.

The Russian economy began to recover from the global financial crisis in the first quarter of 2010, when it registered real GDP growth of 3.1% compared to the first quarter of 2009. As a result of an increase in domestic demand, including consumption and gross investment, as well as an increase in net exports, supported, in turn, by higher prices for Russia's principal commodity exports, real GDP grew by 4.3% in 2010 compared to 2009. Appreciation of the rouble as well as the overall growth in the Russian economy resulted in an increase in the dollar value of Russia's GDP in 2010 relative to 2009.

The Russian economy continued to grow in 2011, sustaining real GDP growth of 4.3% compared to 2010. Growth in 2011 was largely driven by an increase in domestic demand, including consumption, which grew by 4.8%, and gross investment, which grew by 22.4%. The dollar value of Russia's GDP also increased in 2011 compared to 2010 due mainly to the continued growth in the Russian economy and, to a lesser degree, the strengthening of the average rouble/dollar exchange rate.

In September 2011, the Ministry of Economic Development officially published several estimates of anticipated real GDP growth, each based on a different oil price assumption. Under its "moderately optimistic" estimate, which assumes an average price per barrel of Urals oil of U.S.$108 in 2011, U.S.$100 in 2012, U.S.$97 in 2013 and U.S.$101 in 2014, real GDP was expected to grow by 4.1% in 2011 and is expected to grow by 3.7% in 2012, 4% in 2013 and 4.6% in 2014. The projected real GDP figures are used by the Ministry of Finance in preparing the annual budget. There can be no assurance that such figures will prove to be accurate. See "Forward-Looking Statements" for a description of the various external and domestic factors that may cause estimates of real GDP to differ from actual results.

GDP and Gross Added Value by Sector

The following table illustrates Russia's GDP and gross added value by economic sector for the periods indicated.

Gross Domestic Product and Gross Added Value by Sector(1)(2)

	For the year ended 31 December									
	2007		2008		2009		2010		2011	
	%	% change(3)	%	% change(3)	%	% change(3)	%	% change(3)	%	% change(3)
GDP total	**—**	**8.5**	**—**	**5.2**	**—**	**(7.8)**	**—**	**4.3**	**—**	**4.3**
Gross added value (in base prices)	**100**	**8.4**	**100**	**5.2**	**100**	**(6.7)**	**100**	**3.7**	**100**	**4.0**
Agriculture(4)	4.2	1.3	4.2	6.4	4.4	1.5	3.8	(9.7)	4.1	16.1
Fishery	0.2	(0.9)	0.2	(5.6)	0.2	5.6	0.2	(12.6)	0.2	13.2
Mining(5)	10.1	(2.2)	9.3	1.0	8.5	(2.4)	9.8	7.1	10.7	1.7
Manufacturing	17.6	7.5	17.5	(2.1)	14.9	(14.6)	15.0	8.3	16.1	6.1
Electricity, water and gas production and distribution	3.0	(3.4)	2.9	0.7	4.1	(4.7)	3.9	3.5	3.8	0.4
Construction	5.7	13.0	6.3	11.1	6.2	(14.7)	6.7	3.2	6.6	4.8
Trade(6)	20.3	11.7	20.3	9.9	17.9	(5.8)	18.9	6.3	19.0	5.0
Hotels and restaurants	1.0	13.6	1.0	10.1	1.0	(14.9)	1.0	2.6	1.0	4.8
Transportation and communications	9.7	4.8	9.3	5.2	9.6	(8.6)	9.6	4.8	8.9	2.9
Financial services	4.4	29.1	4.4	13.5	5.0	1.5	4.5	(2.1)	4.1	3.4
Operations with real estate, including rent and services	10.9	20.8	11.3	10.9	12.6	(4.5)	12.4	5.7	11.6	2.6
Public administration, defence and mandatory social security	5.1	3.9	5.4	3.0	6.5	(0.1)	6.0	0.1	5.8	2.8
Education	2.7	1.1	2.8	(0.1)	3.4	(1.4)	3.0	(1.9)	2.9	(0.8)
Public health and social services	3.3	1.1	3.4	0.9	4.0	(0.2)	3.7	(0.3)	3.7	3.1
Communal and other services	1.8	8.6	1.8	1.4	1.7	(20.0)	1.5	(6.4)	1.5	1.0

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat. Figures in this table are current as of 31 January 2012.

(2) Sectoral figures in this table are calculated pursuant to gross added value, which does not take into account taxes on products, but does take into account subsidies on products. For this reason, sectoral contributions for each period total 100% of gross added value, but do not total 100% of GDP for that period. For the same reason, GDP growth rates and gross added value growth rates over the same period may also differ.

(3) In constant prices. Percent changes reflect period-on-period changes, based on figures for gross added value.

(4) Includes hunting and forestry.

(5) Includes extraction of oil, gas, coal, metal ores and other minerals.

(6) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

Source: Rosstat.

From 2007 through 2010, the major trend in the composition of gross added value by sector was an increase in the contribution of real estate and a decrease in the share of the manufacturing and trade sectors. As a share of gross added value, operations with real estate rose from 10.9% in 2007 to 12.4% in 2010. Manufacturing decreased from 17.6% of gross added value in 2007 to 15% of gross added value in 2010, and trade declined from 20.3% of gross added value in 2007 to 18.9% of gross added value in 2010. In 2011, manufacturing experienced a recovery, with its share of gross added value increasing to 16.1% in 2011, whereas the share of operations with real estate decreased to 11.6% of gross added value in 2011. From 2007 through 2011, mining, electricity, water and gas production and distribution, construction, public administration, defence and mandatory social security, education and public health and social services increased their respective contributions to overall gross added value whereas the share of overall gross added value attributable to agriculture, transportation and communications, financial services and communal services declined.

These shifts in the composition of Russia's gross added value resulted from changes in performance in real terms and from changes in relative prices. Between 2007 and 2011, the fastest rate of growth among Russia's large sectors was recorded in financial services (50.6%), real estate (38.7%), trade (28.9%) construction (15.8%) and agriculture (14.6%), all of which exceeded the GDP growth rate during this period of 14.5%. Buoyant economic growth and the real appreciation of the rouble between 2006 and 2008, together with the economic recovery in 2010 and 2011, were the principal reasons for the improvement in these sectors. From 2007 through 2011, growth was recorded in all sectors except for the fishery sector, which contracted by 2.4%, education, which declined by 3.1%, and communal and other services, which declined by 16.7%.

Of the country's largest sectors, manufacturing, construction, trade, real estate and transportation and communications were the worst affected by the global financial crisis in 2009. Compared to 2008, manufacturing declined by 14.6%, construction by 14.7%, trade by 5.8%, hotels and restaurants by 14.9%, transportation and communications by 8.6% and real estate by 4.5%. Every industry with the exception of agriculture, fishery and financial services experienced a decline in 2009 compared to 2008.

Due to improved economic conditions following the global financial crisis, key sectors of the Russian economy expanded in 2010 compared to 2009. For example, manufacturing grew by 8.3%, mining by 7.1%, transportation and communications by 4.8%, construction by 3.2% and trade by 6.3%. In contrast, agriculture and financial services experienced year-on-year declines of 9.7% and 2.1%, respectively.

In 2011, the continued economic recovery was broadly reflected across Russia's key sectors. At 16.1%, agriculture experienced the highest year-on-year growth, with manufacturing recording 6.1% growth and trade recording 5% growth. Education was the only sector to contract in 2011, declining by 0.8%.

GDP by Use

The following table illustrates Russia's GDP by use for the periods indicated:

Gross Domestic Product by Use(1)

	For the year ended 31 December									
	2007		2008		2009		2010		2011	
	%	% change(2)	%	% change(2)	%	% change(2)	%	% change(2)	%	% change(2)
GDP	**100**	**8.5**	**100**	**5.2**	**100**	**(7.8)**	**100**	**4.3**	**100**	**4.3**
Consumption(3)	**66.8**	**11.2**	**65.9**	**8.6**	**74.1**	**(3.9)**	**69.5**	**3.3**	**66.5**	**4.8**
Private	48.8	14.3	47.8	10.6	53.1	(5.1)	50.8	5.1	48.9	6.4
Public	17.5	2.7	17.6	3.4	20.4	(0.6)	18.2	(1.4)	17.2	0.8
Non-profit institutions	0.5	2.7	0.5	(1.4)	0.6	(8.0)	0.5	(0.5)	0.4	(2.9)
Gross investment	**24.4**	**22.0**	**25.1**	**10.5**	**18.6**	**(41.0)**	**22.4**	**28.9**	**25.0**	**22.4**
Fixed assets accumulation	21.2	21.0	22.0	10.6	21.7	(14.4)	21.4	5.8	20.6	6.0
Inventory accumulation	3.2	29.3	3.1	9.5	(3.1)	n/a	1.0	n/a	4.4	n/a
Net exports	**8.8**	**(26.6)**	**9.0**	**(34.8)**	**7.3**	**n/a**	**8.1**	**n/a**	**8.5**	**n/a**
Exports	30.6	6.3	30.8	0.6	27.4	(4.7)	29.4	7.0	30.5	1.0
Imports	21.8	26.2	21.8	14.8	20.1	(30.4)	21.3	26.1	22.0	21.5

Notes:
n/a = not available

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat. Figures in this table are current as of 31 January 2012.

(2) In constant prices. Percent changes reflect period-on-period changes.

(3) Represents expenses on final consumption.

Source: Rosstat.

The composition of GDP by use was affected by the overall condition of the Russian economy—from its growth in 2007 and 2008, on the back of high commodity prices, to its contraction, particularly in 2009, as a result of the global financial crisis, and to its subsequent recovery in 2010 and 2011.

From 2007 through 2011, domestic demand, i.e., consumption and gross investment, accounted for an average of 91.7% of annual GDP and net exports accounted for an average of 8.3% of annual GDP.

Domestic consumption's contribution to GDP decreased slightly between 2007 and 2008, before expanding to 74.1% of GDP in 2009. In 2010, domestic consumption grew by 3.3% relative to 2009, accounting for 69.5% of GDP, and, in 2011, domestic consumption grew by 4.8% relative to 2010, accounting for 66.5% of GDP. The decline in domestic consumption's contribution to GDP in 2010 and 2011 was primarily due to a more rapid expansion of gross investment over the same period. Overall, between 2007 and 2011, domestic consumption grew by approximately 25.6%, despite a 3.9% decline in 2009 compared to 2008.

Between 2007 and 2011, overall private consumption rose in real terms by 34.2%, outpacing the overall growth rate of GDP during the period, whereas public consumption increased in real terms by only 4.9%, which reflected the country's relatively conservative fiscal policy during the period. In 2007 and 2008, private consumption increased in real terms by 26.4% due to the overall strength of the Russian economy during that period, including high oil prices and a rapid expansion of available credit. However, as a result of the global financial crisis and its negative effects on Russian consumers, private consumption contracted by 5.1% in 2009 compared to 2008. Private consumption grew by 5.1% in 2010 relative to 2009 and by 6.4% in 2011 relative to 2010, as the economy began to recover from the global financial crisis. The contribution to GDP made by private consumption fluctuated slightly during this period, averaging 48.3% per year in 2007 and 2008, before increasing to 53.1% in 2009 and then decreasing to 50.8% in 2010 and 48.9% in 2011. The contribution to GDP made by public consumption remained roughly the same in 2007 and 2008 (17.5% in 2007, compared to 17.6% in 2008), before increasing to 20.4% in 2009 and 18.2% in 2010. In 2011, public consumption accounted for 17.2% of GDP. The rise in the share of public consumption as a percentage of GDP in 2009 and 2010 was mainly a function of the Government's fiscal stimulus package.

Between 2007 and 2011, gross investment grew by 25.5% in real terms. In 2007 and 2008, gross investment grew by 34.8%. In 2009, gross investment contracted by 41% due to the adverse effects of the global financial crisis on the Russian economy. Gross investment returned to strong growth following the crisis, expanding by 28.9% in 2010 and 22.4% in 2011. Between 2007 and 2011, investments in fixed assets grew by 28.5% in real terms, which included a 14.4% contraction in 2009 compared to 2008. The contribution of fixed asset investments to GDP increased from 21.2% in 2007 to 22% in 2008 before declining to 21.7% in 2009, 21.4% in 2010 and 20.6% in 2011.

Between 2007 and 2011, exports grew at a slower pace than overall GDP, while imports accelerated at a faster rate than GDP. During this period, the real value of exports grew by 10.1%, and the real value of imports grew by 54.5%. Exports as a share of GDP contracted in 2009 and 2010, when they stood at 27.4% and 29.4%, respectively, compared to over 30% in each of 2007, 2008 and 2011. Exports declined by 4.7% in 2009 compared to 2008 due mainly to lower commodity prices and reduced global demand for Russian exports. However, exports increased by 7% in 2010 and 1% in 2011 due mainly to an increase in the price and volume of Russia's principal exports. The high growth in imports in 2007 and 2008 (26.2% and 14.8%, respectively) was a result, generally, of high rates of economic growth in Russia during this period, and, in particular, of rising consumer incomes. The contraction in imports in 2009 compared to 2008 (30.4%) as well as the decline in imports as a share of GDP (from 21.8% in 2008 to 20.1% in 2009) was mainly due to the negative effects of the global financial crisis on the Russian economy. Imports returned to strong growth in 2010 and 2011, increasing by 26.1% and 21.5%, respectively, due mainly to an expansion in import volumes, which, in turn, was the result of an improvement in domestic demand, as well as to a moderate rise in the price of Russia's principal imports. See "Balance of Payments and Foreign Trade—Balance of Payments—Current Account."

Principal Sectors of the Economy

Industry

Russia is highly industrialised, with a large share of its industrial activity concentrated in manufacturing. Russia is the world leader in oil extraction and produces significant amounts of natural gas, electricity, iron, steel, rolled products, mineral fertilisers and coal. Manufacturing activity is heavily concentrated in metallurgy, coke and petrochemicals, food processing, machine and equipment building, the production of electrical equipment and the production of transport vehicles and equipment.

The following table illustrates the structure of industrial output and period-on-period changes in real industrial output by sector for the periods indicated:

Industrial Output by Sector(1)

	For the year ended 31 December									
	2007		2008		2009		2010		2011	
	%(2)	% change(3)	%(2)	% change(3)	%(2)	% change(3)	%(2)	% change(3)	%(2)	% change(3)
Industrial Output	**100.0**	**6.8**	**100.0**	**0.6**	**100.0**	**(9.3)**	**100**	**8.2**	**100**	**4.7**
Extraction	21.8	3.3	21.3	0.4	22.7	(0.6)	22.1	3.6	23.4	1.9
Of which										
Fuels	19.3	2.7	18.8	0.1	20.2	0.4	19.4	3.1	20.5	1.3
Other minerals	2.5	4.0	2.5	1.1	2.5	(7.4)	2.7	7.3	2.9	4.8
Manufacturing	67.8	10.5	68.3	0.5	63.9	(15.2)	65.0	11.8	65.0	6.5
Of which										
Foods	10.4	7.3	10.7	1.9	12.6	(0.6)	11.4	5.4	10.6	1.0
Paper products	2.4	8.3	2.2	0.3	2.2	(14.3)	2.1	5.9	1.9	1.8
Coke and petrochemicals	11.0	2.8	12.1	2.8	11.8	(0.6)	12.4	5.0	13.0	2.9
Chemicals	4.6	6.6	5.3	(4.6)	4.7	(6.9)	5.0	14.6	5.2	5.2
Metallurgy	14.3	4.5	13.3	(2.2)	10.6	(14.7)	11.9	12.4	11.7	2.9
Machines and equipment	3.9	26.7	4.0	(0.5)	3.6	(31.5)	3.3	12.2	3.2	9.5
Electrical equipment	4.0	10.9	3.7	(7.4)	3.6	(32.2)	3.7	22.8	3.7	5.1
Transport vehicles and equipment	6.2	7.8	6.1	0.4	5.0	(37.2)	5.9	32.2	6.5	24.6
Textiles and clothing	0.7	(0.5)	0.6	(5.4)	0.7	(16.2)	0.6	12.1	0.6	2.6
Leather and footwear	0.1	2.3	0.1	(0.3)	0.2	(0.1)	0.2	18.7	0.1	8.6
Wood products	1.1	7.9	1.0	(0.1)	1.0	(20.7)	0.9	11.4	0.8	4.0
Rubber and plastics	1.7	25.5	1.6	22.8	1.7	(12.6)	1.7	21.5	1.7	13.1
Other non-metal mineral products	4.1	8.3	4.1	(2.9)	3.0	(27.5)	2.9	10.7	2.9	9.3
Other	1.8	4.6	1.8	1.7	1.4	(20.7)	1.5	17.7	1.4	4.5
Electricity, water and gas production and distribution	10.4	(0.6)	10.4	0.6	13.5	(3.9)	12.9	4.1	11.6	0.1

Notes:

(1) Figures are based on sales of industrial output and therefore include sales from inventories, but exclude output that is produced but not sold. Figures in this table are current as of 31 January 2012. Figures for 2011 are preliminary.

(2) In prices prevailing at time of sale.

(3) Percent changes in this column are calculated pursuant to production indices and reflect period-on-period changes. Figures adjusted for shadow economic activity.

Source: Rosstat.

Industrial output grew by 6.8% in 2007 and 0.6% in 2008, mainly due to growth in manufacturing, which, in turn, was the result of improved competitiveness of Russian products in both domestic and international markets, improved management, growth in private investment and strong global commodity prices. Growth in industrial production decelerated in 2008 because of lower commodity prices and the onset of the global financial crisis, which led to a contraction in industrial output in the fourth quarter of the year (a contraction of 9.1% compared to the fourth quarter of 2007) and reduced investment.

In 2007, growth was recorded in all major industrial sectors. The greatest growth was recorded in machines and equipment (26.7%) rubber and plastics (25.5%), and electrical equipment (18.1%), as these industries benefited from high levels of investment and external demand. Growth in the extraction industry amounted to 3.3%. The two sectors that experienced a contraction in output in 2007 were textiles and clothing, which contracted by 0.5%, and electricity, water and gas production and distribution, which fell by 0.6%, due in part to government-mandated price caps.

In 2008, Russia's total industrial output decelerated, increasing by 0.6% in real terms compared to 2007. Overall annual growth was recorded in several industries, including rubber and plastics (22.8%), coke and petrochemicals (2.8%) and foods (1.9%). Electrical equipment, textiles and clothing and chemicals experienced the largest contractions in output in 2008, falling by 7.4%, 5.4% and 4.6%, respectively, relative to 2007. Overall industrial growth decelerated in 2008 due to the global financial crisis, which began to have a significant negative impact on Russia's real economy in the fourth quarter of 2008. While industrial output grew in each of the first three quarters of 2008 (6%, 4.3% and 1.9%, respectively, against the corresponding quarters of 2007), output contracted in the fourth quarter by 9.1% against the fourth quarter of 2007.

In 2009, Russia's total industrial output decreased by 9.3% in real terms compared to 2008. Industrial output contracted in all major industries, with transport vehicles and equipment (37.2%), electrical equipment (32.2%) and machines and equipment (31.5%) experiencing the sharpest declines. The overall contraction was due to the effects of the global financial crisis, including a substantial decline in the overall demand for industrial products and a decrease in global commodity prices.

In 2010, industrial output increased by 8.2% compared to 2009. Growth was recorded in all major industrial sectors due to the overall improvement of the economy following the global financial crisis, and, in particular, an increase in both foreign and domestic demand for industrial products. The transport vehicles and equipment, electrical equipment, rubber and plastics, leather and footwear and chemicals sectors experienced the most significant year-on-year growth, rising by 32.2%, 22.8%, 21.5%, 18.7% and 14.6%, respectively.

In 2011, according to preliminary estimates, industrial output increased by 4.7% in real terms compared to 2010. As in 2010, growth was recorded in all major industries. The strongest growth was in the transport vehicles and equipment sector (24.6%) and in rubbers and plastics (13.1%), whereas the slowest growth was recorded in extraction (1.9%), foods (1%), paper products (1.8%) and electricity, water and gas production and distribution (0.1%).

Energy

In 2009 and 2010, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 67.4% and 68.4%, respectively, of Russia's exports. In 2009, oil and petroleum products accounted for 49.3% of total exports, while natural gas accounted for 13.9%, coal for 2.4% and electricity approximately 0.3%. In 2010, oil and petroleum products accounted for 51.6% of total exports, while natural gas accounted for 12%, coal for 2.3% and electricity for approximately 0.3%.

Domestic energy prices were heavily subsidised in the Soviet Union (amounting to only 10-20% of world market prices in 1992). By 1996, however, domestic energy prices had risen relative to other prices as a result of export liberalisation and the real appreciation of the rouble against foreign currencies. The devaluation of the rouble in 1998 led to a sharp fall in domestic energy prices in dollar terms. Despite a recovery in prices in subsequent years, domestic prices for gas, electricity and crude oil remain lower than international prices. Domestic prices for petroleum products, however, are more similar to international prices after deducting export duties and transportation costs. Federal budget revenues and Russia's balance of payments are affected to a significant extent by world prices for oil and gas. See "Balance of Payments and Foreign Trade" and "Public Finance."

Oil and Natural Gas

Russian methodologies for calculating oil and gas reserves and Russian reserves classifications differ from standard international methodologies and classifications, in particular with respect to the manner and extent to which commercial factors affecting exploration, development and production are taken into account. Generally, Russian methodologies classify oil and gas deposits as reserves if such deposits are technically recoverable, even if the recovery of a portion of such reserves, using currently available technology, is uneconomic. In contrast, most international methodologies classify oil and gas deposits as reserves only if such deposits are economically extractable on the basis of existing technologies, prices and costs. Accordingly, the gas reserves information contained in this Prospectus is not comparable, and cannot be made comparable, to gas reserves information provided on the basis of standard international methodologies and classifications. The gas reserves information contained in this Prospectus represents total "explored" reserves, consisting of gas reserves in categories A, B and C1 of the Russian classification system.

Oil

Oil output declined significantly following the dissolution of the Soviet Union but has been growing in recent years. Output in 2010 was approximately 505 million tonnes, an increase of 5.6% over production in 2009, and output in 2011 equalled 509.4 million tonnes. Between 2006 and 2010, oil output increased by 105.2%. In 2009 and 2010, oil exports to non-CIS countries were 211.0 million tonnes and 224.1 million tonnes, respectively, while exports to the CIS were 36.5 million tonnes and 22.9 million tonnes, respectively.

Beginning in 1993, the state oil industry was split into several holding companies and operating subsidiaries. This resulted in the creation of a number of large vertically integrated oil groups, with each holding company managing and controlling a stake in many operating subsidiaries. The Government privatised its shareholdings in Slavneft (75%) and Lukoil (13.5%) between 2002 and 2003. In December 2004, a 76.79% stake in Yuganskneftegaz, the main production subsidiary of what was then Russia's largest oil company, Yukos, was sold at auction for U.S.$9.35 billion, in partial settlement of Yukos' tax obligations, to Baikalfinancegroup, which was in turn acquired by Rosneft, then a wholly state-owned entity. In July 2006, the Government privatised approximately 15% of its shareholdings in Rosneft as part of the company's initial public offering.

In 2005, three Yukos shareholders commenced three related arbitrations under the Energy Charter Treaty. The claimants originally sought in the aggregate U.S.$33.1 billion, and are currently seeking in the aggregate U.S.$103.6 billion, as compensation for the Russian Federation's alleged breach of its treaty obligations. Other Yukos-related claims have also been asserted before the European Court of Human Rights and under the Russian Federation's bilateral investment treaty with Spain. In addition, an arbitration tribunal has awarded another Yukos shareholder U.S.$3.5 million in damages in respect of a claim asserted under Russia's bilateral investment treaty with the United Kingdom. The Russian Federation has challenged the jurisdiction of the arbitration tribunal to hear that claim under the Russian Federation's bilateral investment treaty with the United Kingdom.

Natural Gas

Russia's A, B and C1 natural gas reserves (which include explored reserves considered to be fully extractable pursuant to the Russian reserves system) were estimated at 47.8 trillion cubic metres as of 1 January 2009. Natural gas output stabilised after declining immediately following the dissolution of the Soviet Union. Between 2005 and 2008, natural gas output increased by 3.9% (from 640.8 billion cubic metres in 2005 to 665.6 billion cubic metres in 2008). Then, in 2009, output decreased to 582.7 billion cubic metres, or by 12.5% compared to 2008. Natural gas output in 2010 was 652 billion cubic metres, an increase of 11.9% over production in 2009. In 2009 and 2010, natural gas exports to non-CIS countries were approximately 120.5 billion cubic metres and 107.4 billion cubic metres, respectively, while exports to the CIS were 47.9 billion cubic metres and 66.9 billion cubic metres, respectively.

Russia's natural gas industry is dominated by Gazprom, which has an effective monopoly on gas transmission, storage and export, and accounts for most of Russia's natural gas reserves and production. Approximately 38.4% of Gazprom's shares are owned directly by the Russian Government, although through its ownership of other Gazprom shareholders, the Government controls a majority stake in the company. Gazprom held production licences with respect to approximately 70% of Russia's natural gas reserves at year-end 2010, accounted for approximately 78% of Russia's natural gas production in 2010 and owns and operates the Unified Gas Supply System, which includes approximately 162,000 kilometres of high pressure pipelines.

Coal

Russia's A, B and C1 coal reserves were estimated at 194 billion tonnes as of 1 January 2011. Currently, nearly all of Russia's coal is extracted by companies in the private sector. As a result of the restructuring of the coal industry following the dissolution of the Soviet Union, together with growing demand, coal production increased by 10.1% between 2005 and 2008. In 2009, coal production nearly returned to 2005 levels. Approximately 301.3 million tonnes of coal were produced in Russia in 2009, a decrease of approximately 8.3% compared to 2008 caused mainly by the global financial crisis. 322 million tonnes of coal were produced in Russia in 2010, an increase of approximately 6.6% compared to 2009, and 333.8 million tonnes of coal were produced in 2011, an increase of approximately 3.8% compared to 2010. In 2011, coal exports amounted to approximately 110.6 million tonnes, compared to 115.7 million tonnes in 2010. Columbia, the United States and Ukraine are the primary destinations for Russia's coal exports.

Electricity

In 2010, Russia's electricity output was 1,038 billion kWh, an increase of 4.6% compared to 2009. Of the total output in 2010, thermal power plants accounted for 699.2 billion kWh (67.4%), hydrogenation for 168.4 billion kWh (16.2%) and nuclear generation for 170.4 billion kWh (16.4%). In 2011, Russia's electricity output equalled 1,050.2 billion kWh, an increase of 1.2% compared to 2010. Of the total output in 2011, thermal power plants accounted for 713 billion kWh (67.8%), hydrogenation for 165 billion kWh (15.7%) and nuclear generation for 173 billion kWh (16.5%).

As at 1 January 2010, total Russian generating capacity was 211.8 GW, 7.0% of which was attributable to thermal power plants, 20% to hydro power plants and 10% to nuclear power plants. Electricity is exported primarily to CIS countries, China, Finland, Latvia, Lithuania and Norway.

Following the collapse of the Soviet Union, in 1992, the Russian electricity industry was initially restructured and split into RAO Unified Energy Systems ("UES"), 72 regional energy companies (*energos*), and a separate nuclear power industry operated by state-owned Rosenergoatom (re-named the Energoatom Concern in 2008).

Until the restructuring of UES, described below, UES was the largest producer of electricity in Russia. At year-end 2007, UES owned more than 72.2% of Russia's generating capacity and was the monopoly high voltage distributor and wholesale purchaser and seller of electricity. Until its sell-off, the Russian Government owned approximately 53% of UES.

In recent years, the Russian electricity industry has undergone a major restructuring, including the break-up of almost all vertically-integrated power companies controlled by UES and the formation of new mono-profile companies with the following activity types: generation, transmission, distribution, retail sales and repairs and servicing operations. The restructuring process culminated on 1 July 2008 in the de-merging of UES into more than 20 independent companies, each engaged in either the competitive sector (power generation) or the non-competitive sector (transmission and distribution).

The electricity generation sector is currently principally comprised of thermal power plants, hydro power plants and nuclear generation complexes.

The thermal power plants, which are powered by fossil fuels, are owned primarily by OGKs (wholesale generating companies, of which there are six), TGKs (regional generating companies, of which there are 14) and several other energy companies, such as OJSC Bashkirenergo and OJSC Irkutskenergo. The OGKs are the largest generators in the wholesale electricity (capacity) market except for RusHydro and Mosenergo. Each OGK owns plants in different regions in order to minimise competition abuse. With the exception of Mosenergo, the TGKs are smaller than the OGKs (as measured by capacity and output) and operate principally on a regional level.

State-controlled RusHydro owns more than 50% of the installed capacity of hydro power plants, with the remainder owned by several TGKs and other regional energy companies. Energoatom Concern, a wholly State-owned company, operates all of Russia's nuclear plants.

Russia's transmission network of high-voltage power lines is operated by the state-owned Federal Grid Company. Most of the country's medium- and low-voltage distribution networks are consolidated into 11 inter-regional distribution companies, which are indirectly controlled by the Russian Federation.

Retail electricity sales are made by the electricity companies that were spun-off from the energos and sold by UES in public auctions and other independent electricity retail companies.

In 2004, all dispatching functions of the Russian electricity sector were transferred from the energos to the System Operator of the Unified Energy System, which is 100% state-owned.

The Russian electricity market is divided into a wholesale electricity market, a capacity market and a retail market. On 1 September 2006, new rules governing the wholesale electricity market took effect pending full liberalisation of the sector. Under these rules, trading in electricity is conducted on the basis of the following mechanisms: regulated contracts; unregulated bilateral contracts; the "one-day-ahead" market; and the balancing market. Regulated contracts are effectively take-or-pay obligations at a regulated tariff for electricity and capacity volumes. Each generator (except those facilities commissioned after 2007) is required to enter into regulated contracts covering a certain percentage of its planned 2007 annual output. This percentage, which was reduced semi-annually, was 35-40% for the six months ended 30 June 2010 and 15-20% for the six months ended 31 December 2010. Since 1 January 2011, wholesale electricity generators are no longer obligated to sell electricity under regulated contracts. The volumes of planned generation that are not traded under regulated contracts may be sold pursuant to unregulated bilateral contracts or traded on the one-day-ahead market or balancing market. The one-day-ahead market is effectively a spot market for those who wish to trade electricity at unregulated prices. Participants on the one-day-ahead market submit bids for the purchase and sale of electricity for a certain volume and price for each hour of the following day. The balancing market was established as a real-time platform to allow the trading of electricity in order to cover deviations on the one-day-ahead market between planned power volumes and volumes actually generated or consumed.

Since 1 September 2006, electricity capacity has been sold separately from electricity. Currently, capacity is sold on the wholesale market pursuant to both regulated and unregulated contracts. Beginning in 2008, there has been a gradual liberalisation of the capacity market similar to the liberalisation underway on the wholesale electricity market. From 1 July to 31 December 2010, at least 15-20% of a generator's capacity must be sold under regulated contracts. The remaining capacity (and any capacity from power plants commissioned in 2008 or later) can be sold at unregulated prices. Pursuant to resolutions adopted in 2010, new rules governing the capacity market went into effect on 1 January 2011. Under these new rules, capacity is divided into two types: (i) capacity to be sold pursuant to capacity auctions, which includes existing capacity, and (ii) capacity to be constructed under 10-year capacity supply agreements, which is expected to be sold at tariffs indexed to inflation and designed to compensate the generating company for standard capital expenses, operating expenses, property tax, gas and electricity grid connection costs as well as allow a certain rate of return on investments and a payback period of 15 years.

New rules governing the retail electricity market also came into effect on 1 September 2006. Purchasers on the retail market include (i) large industrial consumers, which pay for electricity supplies pursuant to a formula that takes into account the cost of electricity in the competitive wholesale electricity market; and (ii) households, which pay according to below-market tariffs set by a state regulator. Therefore, until full liberalisation of the retail market, which is expected to occur in conjunction with deregulation of the wholesale market, industrial consumers will continue to, in effect, subsidise retail consumers.

Agriculture

Russia's agricultural sector has faced significant challenges in recent years, as major structural changes have been implemented under difficult conditions. Since the dissolution of the Soviet Union, Government subsidies to the agricultural sector have decreased significantly, the state food purchasing monopoly has been replaced by a decentralised market system and the share of agricultural output purchased by the state has fallen steadily.

The agricultural sector consists primarily of large agricultural concerns (estimated to account for approximately 66% of arable land and 44.5% of agricultural output in monetary terms) and private plots, including both private farm collectives and individual farms (estimated to account for 34% of arable land and 55.5% of agricultural output in monetary terms). The Agricultural Land Code, which came into effect in January 2003, created a unified market framework at the federal level for the purchase and sale of farmland. It also prohibits the non-agricultural use of farmland, regulates the amount of farmland any one owner may hold and prohibits foreign ownership of farmland.

Agricultural output declined by 9.7% in 2010 compared to 2009. In the summer of 2010, due to uncharacteristically hot weather, Russia suffered a severe drought that caused tens of billions of roubles in damage, led to an increase in prices for many agricultural products and set off thousands of wildfires. As a result of the drought, Russia's 2010 grain harvest was 61 million tonnes, 37.3% lower than the harvest in 2009, and Russia imposed a temporary ban on the export of grain, which was rescinded in July 2011. Russia's grain harvest recovered in 2011, equaling 94.2 million tonnes. See "—Environment," below, for a discussion of the environmental impact of the drought and wildfires. In 2011, agricultural output increased by 16.1%. While Russia still imports substantial amounts of food and agricultural products, foodstuffs and agricultural products amounted to 2.2% and 2.3% of total exports in 2010 and 2011, respectively.

Construction

The construction sector accounted for approximately 6.7% of gross added value in 2010 and 6.6% of gross added value in 2011. Following a steep decline after the dissolution of the Soviet Union and until the onset of the global financial crisis, output in the construction industry grew significantly. In 2007 and 2008, the construction sector grew by 13% and 11.1%, respectively. As a result of the global financial crisis, the construction sector experienced a 14.7% decline in output in 2009 compared to 2008, including a contraction in new housing construction from 64.1 million square metres in 2008 to 59.9 million square metres in 2009. Construction output expanded again in 2010 and 2011, increasing by 3.2% and 4.8%, respectively.

Transport and Communications

Russia has a railway network, a large merchant fleet, a large number of airports, a developed system of municipal transport, a comprehensive road network, modern telecommunications infrastructure and a major space industry. The market for the provision of transport and communication services has been liberalised and restructured, particularly in automotive transport, air transport, water transport and communications. Despite a 8.6% decline in 2009 compared to 2008, the transportation and communications sector grew by 8.7% between 2007 and 2011, supported by a 4.8% increase in 2010 compared to 2009 and a 2.9% increase in 2011 relative to 2010. In 2010 and 2011, the transportation and communications sector accounted for 9.6% and 8.9% of gross added value, respectively.

Railways

At year-end 2008, there were approximately 86,000 kilometres of railways in Russia for general passenger and freight transportation. In 2010 and 2011, railways accounted for approximately 85% of all freight transport in tonne-kilometres (excluding pipeline transport) and for over 30% of all passenger journeys in passenger-kilometres, making it the country's most important form of transport.

Tariffs for passenger transport are currently subsidised from the railway freight profits of Russian Railways and from the federal budget. Russian Railways, which is wholly-state owned and was founded in 2003, plays a significant role in the Russian railway sector. Among other activities, it is the owner and operator of the Russian Federation's integrated passenger and freight network and related infrastructure, owns and operates nearly all of the locomotives in Russia, is the largest Russian owner, operator and lessor of freight rolling stock and the largest Russian freight rail operator and, through its subsidiary the Federal Passenger Company, carries nearly all suburban and long-haul rail passengers. Substantial funding has been allocated to the renovation and maintenance of railway track and locomotive parks, as well as to the replacement of rolling stock.

The Government has developed a multi-stage programme of structural reforms in the railway sector. Key aspects of the reforms include (i) increasing the safety of railway transport as well as the quality of services offered by the railway sector; (ii) meeting the increasing demand for railway transport; and (iii) enhancing the overall efficiency of the railway sector. As part of these reforms, and in an effort to foster competition and increase private investment in the industry, control and management functions of the railway sector were separated, including through the establishment of Russian Railways, the spin-off of non-core assets of Russian Railways and the creation of new independent operating companies. Currently, more than 65% of freight cars are under the control of such private operating companies. The Government has also taken steps toward reducing or partially eliminating cross-subsidies, including the creation of a federal passenger company in April 2010. The third stage of the reform programme, currently underway, also envisages the privatisation of subsidiaries of Russian Railways, the approval of a market model for freight transport through 2015 and the transition to a new system of tariff regulation.

Roads

As of 1 January 2011, there were approximately 1,004,000 kilometres of roads in Russia (including both public- and private-use roads), approximately 78% of which have hard surfaces. Some 83% of the hard-surface roads are in public use, 70% of which are under regional or municipal ownership, 23% of which are under local ownership and some 8% of which are under federal control. 17%, or approximately 128,905 kilometres, of the hard-surface roads are not in public use, are controlled by legal entities and generally are used to connect with the public road network. Roads falling under federal jurisdiction are renovated and maintained by means of the federal budget, while roads falling under the jurisdiction of Federation subjects are renovated and maintained by the Federation subjects in which they are located through the respective regional and local budget as well as transfers from the federal budget.

Ports and Shipping

Currently, Russia has 64 seaports. In the first 11 months of 2011, the volume of freight shipments in Russian seaports amounted to 489.3 million tonnes, an increase of 1.5% compared to the first 11 months of 2010. In 2011, freight turnover by means of sea transport equalled 77.5 billion tonne-kilometres, a decrease of 22.8% compared to 2010. In November 2007, a new federal law took effect that regulates the activities of seaports and intends to promote the growth of commercial transport by sea. Substantial resources are being invested to improve the competitiveness of Russian ports.

As of 1 January 2010, Russia had approximately 101,500 kilometres of internal navigable waterways with 723 hydraulic installations, including 110 locks as well as several pumping stations, pressure dikes and dams and canals. In 2011, freight turnover on Russia's internal waterways equalled approximately

61 billion tonne-kilometres, representing 2.4% of Russia's total freight turnover (excluding pipeline transport), an increase of 13% compared to freight turnover in 2010.

Air Transport

At year-end 2011, Russia had 236 airports, 69 of which were international. The largest international airports are located in Moscow, St. Petersburg, Yekaterinburg and Novosibirsk. According to preliminary estimates, in 2011, turnover of passengers traveling by air equalled approximately 167 billion passenger-kilometres, a 13.4% increase compared to 2010.

Aeroflot was the monopoly carrier until 1991. Following the dissolution of the Soviet Union, Aeroflot was split into 140 regional airlines and an international carrier, Aeroflot-Russian International Airlines. Most of the regional airlines were subsequently privatised. In 1995, Aeroflot-Russian International Airlines was partially privatised, although the state continues to own 51% of its shares. As of July 2011, 151 airlines were registered to operate in Russia, the 10 largest of which accounted for roughly 80.5% of passenger turnover. In 2011, the largest airlines in terms of market share were Open Joint Stock Company "Aeroflot-Russian Airlines," Open Joint Stock Company "Transaero Airlines" and Open Joint Stock Company "UTair Aviation."

The largest Russian airports are those situated in Moscow, which handled more than 51% of airline passenger throughput in 2010. Domodedovo Airport, Sheremyetevo Airport and Vnukovo Airport were responsible for 22.4%, 19% and 9.5%, respectively, of passenger throughput in 2010. The largest regional air traffic hubs in Russia include St. Petersburg, Ekaterinburg and Novosibirsk. Airport infrastructure in Russia is developing rapidly. At Sheremetyevo Airport, a new Terminal C opened in March 2007, a new Terminal D opened in November 2009, a new Terminal E opened in April 2010, the planned transit capacity of which is expected to be seven million passengers per year, and a new Terminal A for business travelers opened in January 2012. In February 2009, Joint Stock Company "International Airport Sheremetyevo" adopted a master plan for development of the airport through 2030. Pursuant to this plan, a new luggage sorting system was installed at the airport, and Terminal F (formerly known as Terminal 2) was expanded by 4,000 square metres. According to the master plan, which also envisages modernisation of Terminal B (formerly known as Terminal 1), overall transit capacity of the airport is expected to reach 64 million passengers per year.

Pipelines

As of the end of 2010, Russia had approximately 233,000 kilometres of trunk pipelines, consisting of approximately 168,000 kilometres of natural gas pipelines, 49,000 kilometres of oil pipelines and 16,000 kilometres of oil product pipelines. In 2011, freight turnover by means of pipeline transport totalled 2,421.9 billion tonne-kilometres, an increase of 1.7% compared with 2010.

Pipelines from major oil- and gas-producing areas in Russia are generally connected to pipelines in the CIS and former Soviet bloc countries. A number of significant new pipeline projects are planned or under construction. Gazprom, together with international partners, has completed the Yamal-Europe project, building new trunk pipelines that extend nearly 6,000 kilometres from the northern part of the Tyumen region of Russia through Belarus and Poland to Germany. Gazprom is also participating in the Nord Stream pipeline construction, expected to extend 1,200 kilometres from Vyborg, Russia to Griefswald, Germany. Nord Stream's first pipeline went into operation in November 2011. Gazprom has also constructed a trunk pipeline to Turkey (the "Blue Stream project") that crosses the Black Sea, significantly increasing Russia's gas export capacity. Initial gas flows through the undersea portion of this pipeline commenced in December 2002, with the first commercial delivery to Turkey in February 2003. The pipeline for the Blue Stream project has an annual projected capacity of 16 billion cubic metres. Gazprom is considering supplying gas to Europe by other export routes, including under the Black Sea to the coast of Bulgaria (the South Stream project).

New pipeline-related projects intended to increase the export capacity of the oil industry are also being implemented or planned in Europe and Asia, including the Baltic pipeline system, which connects West Siberia with a major new harbour at St. Petersburg. The project was completed in 2006 and increased annual pipeline capacity to 65 million tonnes of crude oil. Other programmes currently underway include the Baltic pipeline system-2, the construction of which began in June 2009 and which is expected to have an annual pipeline capacity of up to 50 million tonnes of crude oil, upgrading the Druzhba oil pipeline through Eastern Europe by constructing by-passes and extensions and the construction of the East Siberia–Pacific Ocean pipeline, which is expected to have a capacity of 80 million tonnes and will extend from Taishet to Primorski Krai, connecting West and East Siberia with the Asia-Pacific region. The first section of the East Siberia–Pacific pipeline came on line in December 2009. Work on the second, and final, phase began in January 2010.

A significant portion of Russia's existing oil pipeline network has been in operation for at least 20 years. The gas pipeline network is also ageing. Repair and maintenance costs are accordingly high.

The crude oil and oil product trunk pipeline networks are owned and managed by state-owned monopolies, Transneft and Transnefteprodukt, respectively. Transneft's pipeline capacity, including its export pipeline capacity, is allocated quarterly to oil producers, generally in proportion to the amount of oil produced and delivered to Transneft's pipeline network in the prior quarter. Generally, a Russian oil company is given an allocation for export to non-CIS countries equal to approximately one-third of the total crude oil it produces and delivers to Transneft. The gas trunk pipeline network is owned and managed by Gazprom. Third-party access to the gas trunk pipeline network is determined generally on the basis of available spare transport capacity, the quality and technical parameters of the natural gas supplies, the availability of supplier input connections and customer output connections and customer demand.

Telecommunications

In 2011, the value of the information technology market was estimated to be 649 billion roubles. The value of telephone services in 2011 was approximately 1.4 trillion roubles, an increase of 6.1% compared to 2010. There are over 4,500 telephone operators on the local market. By November 2011, there were approximately 226.4 million mobile telephone subscribers, a market penetration rate of 156%. Mobile phone services are available across the entirety of the Russian Federation.

In recent years, in an effort to lower administrative barriers to entry as well as enhance customer choice, the market for intercity and international telephone services began to undergo a process of liberalisation. Over 65 licences have already been issued for the provision of intercity and international telephone services. Recipients of these licences include Rostelecom, Transtelecom, Interregional Transit Telecom, Vimpelcom, Megafon, Sinterra, Comstar-OTS and others.

Strategic Enterprises

The Decree of the President of the Russian Federation No. 1009 dated 4 August 2004 established a list of strategic enterprises that are strategically important to state defence and security or to the public morals, health or rights of the citizens of the Russian Federation. In June 2010, as part of the country's modernisation policy, President Medvedev signed a decree, reducing the number of federal state unitary enterprises on this list from 295 to 165 and the number of joint stock companies considered to be strategic enterprises from 214 to 48. Currently, there are approximately 150 federal state unitary enterprises and 50 joint stock companies on the list of strategic enterprises. Strategic enterprises include, among others, Russian Railways, Aeroflot and Transneft, which operates an extensive crude oil pipeline network in the country. Such companies, which may be privatised only upon their removal from the list by decision of the President, are subject to specific rules of corporate governance. For example, the Government may retain operating control over these companies through the exercise of a "golden share," and dilution of the Government's stake in such companies remains subject to approval by the President.

Sochi Winter Olympics

The southern city of Sochi will host the XXII Olympic Winter Games in 2014, the first time that the Winter Olympics will be held in the Russian Federation. In preparation for the Games, the Government spent approximately 197.8 billion roubles from the federal budget in 2010. The total costs of preparing for the Games is expected to reach one trillion roubles. A substantial portion of the financing will be spent on improving the power, transportation and telecommunications infrastructure in and around the Sochi region and on building and modernising sports venues and hotels. The Government created the state corporation Olympstroi to oversee preparations for the Games.

Environment

Following a 2005 Government restructuring, environmental protection in Russia has primarily been the responsibility of the Federal Service for Ecological, Technological and Atomic Supervision. Environmental regulations require enterprises to pay fees for emissions or discharges of most pollutants. These fees, which are low by international standards, may be used to fund investment to improve the environment. Russia's environmental protection programme has focused on replanting forests, constructing spent gas treatment plants, installing water recycling systems and constructing sewage purification plants. A major component of the country's Development Programme through 2020 is to establish priority measures for protecting the environment, including tax incentives for enterprises using ecologically clean technology.

In the summer of 2010, due to uncharacteristically hot weather, Russia suffered a severe drought that led to thousands of wildfires and caused tens of billions of roubles in damage. As a result of the fires, thousands of homes were destroyed across European Russia, and, in August, toxic emissions in the atmosphere over European Russia, including carbon monoxide, reached significantly higher levels. In August 2010, the Government announced that, in addition to expenses connected with battling the fires, it had spent approximately five billion roubles on compensating victims and repairing or replacing homes. See "—Principal Sectors of the Economy—Agriculture," above, for a discussion of the agricultural impact of the drought and wildfires.

In November 2004, President Putin signed the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which became effective in February 2005. Under the terms of the Kyoto Protocol, Russia is to maintain its emissions of greenhouse gases at a level no higher than the level prevalent in 1990.

Employment

Overall employment declined in Russia from the dissolution of the Soviet Union through 1999. Beginning in 2000 and until the onset of the global financial crisis in the second half of 2008, employment was increasing, in large part due to the rise in export volumes and import substitution that began in 1999. The rate of increase in employment was less than the rate of increase in real GDP, however, due to gains in labour productivity. Based on the methodology of the ILO, the average number of unemployed workers in 2006 and 2007 was 5.3 million, or 7.2% of the economically active population, and 4.6 million, or 6.1% of the economically active population, respectively. The decline in unemployment levels during this period was primarily due to strong domestic demand and a positive economic outlook. In late 2008, unemployment began to rise. In the fourth quarter of 2008, the average number of unemployed workers rose to 5.4 million, or 7.1% of the economically active population, from an average of 4.4 million, or 5.9% of the economically active population, in the third quarter of 2008. Unemployment continued to rise in 2009, with the average number of unemployed workers in 2009 amounting to 6.4 million, or 8.4% of the economically active population. The rise in unemployment in the second half of 2008 and in 2009 was primarily the result of the global financial crisis, and, in particular, of a contraction both in domestic demand and in worldwide demand for Russian products. As the Russian economy began to recover from the global financial crisis, the average number of unemployed workers fell to 5.7 million, or 7.5% of the economically active population, in 2010, and to 5 million, or 6.6% of the economically active population, in 2011.

The following table sets forth quarterly information regarding unemployment in Russia for the periods indicated:

Unemployment (quarterly average)

	Unemployed (ILO definition)(1)		Registered unemployed(2)	
	Million	% of economically active population	Million	% of economically active population
2006				
First Quarter	5.7	7.8%	1.9	2.6%
Second Quarter	5.5	7.4%	1.8	2.4%
Third Quarter	5.0	6.7%	1.7	2.3%
Fourth Quarter	5.0	6.8%	1.7	2.3%
2007				
First Quarter	5.2	7.0%	1.7	2.3%
Second Quarter	4.5	6.0%	1.6	2.1%
Third Quarter	4.3	5.7%	1.4	2.1%
Fourth Quarter	4.4	5.8%	1.5	2.0%
2008				
First Quarter	5.1	6.7%	1.6	2.1%
Second Quarter	4.3	5.6%	1.4	1.9%
Third Quarter	4.4	5.9%	1.3	1.7%
Fourth Quarter	5.4	7.1%	1.4	1.8%
2009				
First Quarter	6.8	9.1%	2.0	2.6%
Second Quarter	6.5	8.6%	2.2	2.9%
Third Quarter	6.0	7.8%	2.1	2.7%
Fourth Quarter	6.1	8.0%	2.1	2.7%
2010				
First Quarter	6.6	8.8%	2.2	3.0%
Second Quarter	5.6	7.4%	2.0	2.7%
Third Quarter	5.2	6.8%	1.7	2.2%
Fourth Quarter	5.2	6.9%	1.5	2.1%
2011				
First Quarter	5.6	7.5%	1.6	2.2%
Second Quarter	5.0	6.6%	1.5	2.0%
Third Quarter	4.8	6.2%	1.3	1.7%
Fourth Quarter	4.7	6.3%	1.2	1.6%

Notes:

(1) Numbers through the second quarter of 2009 are based on data from surveys carried out quarterly. Subsequent numbers are based on surveys carried out monthly. Persons between the ages of 15 and 72 not working, looking for a job and ready to start work are counted as unemployed.

(2) Based on number of individuals who choose to register as unemployed with the various employment agencies, as recorded by the Federal Labour and Employment Service.

Source: Rosstat.

These figures do not take into account certain "hidden unemployment" resulting from shortened workdays and temporary lay-offs. Based on monthly averages, workers working reduced hours totaled 1,033.4 thousand in 2009, 402.7 thousand in 2010 and 283.5 thousand in 2011, and workers put on leave without pay equalled 886.6 thousand in 2009, 621.3 thousand in 2010 and 627.3 thousand in 2011. Beginning in March 2010, the number of workers working reduced hours or put on leave without pay began to decrease due, in part, to the various economic and social measures adopted in support of domestic industries.

Wages and Income

Real wages increased by 17.2% in 2007. In 2008, primarily due to higher inflation and the effects of the financial crisis on the labour market in the fourth quarter of 2008, the growth in real wages decelerated to 11.5%. In 2009, real wages declined by 3.5% compared to 2008 primarily due to inflation and the negative impact of the global financial crisis on private-sector nominal wage levels. As the economy began to recover after the global financial crisis, real wages began to increase, growing by 5.2% in 2010 compared to 2009 and by 3.5% (according to preliminary estimates) in 2011 compared to 2010.

The minimum wage has remained relatively low, amounting to just 19.9% of the average monthly wage as of June 2010. The minimum wage, established by the State Duma, serves as a benchmark in setting the level of federal benefits and also plays a role in determining certain types of budget expenditures and the size of unemployment benefits. The minimum wage was increased by approximately 37.5% in May 2006 (to 1,100 roubles/month), by an additional 109.1% in September 2007 (to 2,300 roubles/month), by an additional 88.3% in January 2009 (to 4,330 roubles/month) and then once again in June 2011 by 6.5% (to its current level of 4,611 roubles/month). Beginning 1 September 2007, each Federation subject has discretion to set the minimum wage in its territory, provided it is not lower than the amount set by the federal Government.

Approximately 13.3% and 13.4% of the population had income below the official subsistence level in 2007 and 2008, respectively, compared to 15.2% in 2006. This decline was the result primarily of consistently high income growth. In the first nine months of 2009, the percentage of the population falling below the subsistence level increased slightly to 14% due mainly to the negative effects of the global financial crisis on the Russian economy, including the incomes of Russian citizens. By year-end 2009, however, this percentage dropped to 13.2%, due, in part, to a decline in the unemployment rate in the fourth quarter of 2009. In 2010 and the first nine months of 2011, the percentage of people living beneath the subsistence level equalled 12.6% and 14.3%, respectively. Between 2005 and 2007, real disposable income increased by approximately 43%. In 2008 and 2009, growth in real disposable income decelerated, increasing by 2.4% in 2008 compared to 2007 and 3.1% in 2009 compared to 2008, due mainly to the global financial crisis. Real disposable income increased by 5.1% in 2010 compared to 2009 and by 0.8% in 2011 compared to 2010.

Organised labour does not play a prominent role in the Russian economy. Whereas nearly 100% of workers in the Soviet Union were unionised, approximately 50% of Russian workers are now members of labour organisations.

Social Benefits and Expenditure

Social security reforms were introduced in Russia beginning in 1991, with new institutions founded to deliver social benefits, including unemployment insurance and benefits for the very poor.

Total social expenditure (other than housing subsidies), based on the enlarged budget, amounted to approximately 17.6% of GDP in 2007, 17.7% of GDP in 2008, 21.3% of GDP in 2009, 22.6% of GDP in 2010 and 20.7% of GDP in 2011.

Most social expenditure is provided through state extra-budgetary funds or by sub-federal authorities. In 2007, 2008, 2009, 2010 and 2011, 43.2%, 44.1%, 46%, 51.7% and 47.2%, respectively, of social expenditure was provided by state extra-budgetary funds, and 43.5%, 42%, 39.5%, 36% and 40.4%, respectively, was provided by sub-federal authorities. Direct payments from the federal budget accounted for approximately 13.3%, 13.9%, 14.5%, 12.3% and 12.4% of social expenditure in 2007, 2008, 2009, 2010 and 2011, respectively. The state extra-budgetary funds finance expenditure on health, certain social benefits and pensions. Sub-federal budgets finance housing and transportation subsidies, most education and health expenditures and certain social benefits, while the federal budget is responsible for a portion of the expenditure on education, health, culture and social benefits. See "Public Finance—Federal-Sub-Federal Fiscal Relations."

In 2005, several benefit-related fiscal measures took effect. These measures eliminated unfunded benefit entitlements and replaced social privileges financed by the federal budget, e.g., free passenger transportation and free medical drugs, with targeted social benefits largely in the form of monthly cash compensation of between 50 roubles and 2,000 roubles, adjusted for inflation. This monetisation of federal social benefits is available to the disabled, World War II veterans, survivors of the siege of Leningrad, Chernobyl cleanup workers, heroes of the Soviet Union and Russia and certain other groups.

Decisions related to the eligibility for and the provision of social benefits and compensation to other groups is delegated to regional authorities. Regional beneficiaries include labour veterans, victims of Soviet-era political repression, people with dependent children and students.

Pension Reform

Pension reform legislation was enacted in 2001, and a new pension system came into effect on 1 January 2002. Under this system, which remained in effect through 2009, a retiree's pension consisted of a basic pension, an insurance pension and a funded pension. Amendments to the pension legislation were passed in 2009, according to which a retiree's pension, effective 1 January 2010, consists of an insurance pension and a funded pension.

The insurance pension is made up of two components: a fixed amount, which is set by law, and a variable amount, which is dependent on past contributions by the pensioner and length of employment. The fixed amount, in effect, replaces the pre-2010 basic pension. The basic pension was funded from the budget through payments of the Unified Social Tax (the "UST"). The UST was abolished as of 1 January 2010, and as a result both elements of the insurance pension come from the Pension Fund of the Russian Federation (the "Pension Fund").

The funded pension is based on the amount of funds accumulated in a pensioner's individual pension account, which in turn depends on the beneficiary's year of birth. For those born before 1967, all mandatory contributions to the pension system are made to the insurance pension. For those born in 1967 or after, the share of contributions accumulated in funded pensions now must equal 6% of the first 512,000 roubles of the employee's annual salary. Regardless of age, an employee may elect to make funded pension contributions in excess of his mandatory pension contributions. For voluntary contributions between 2,000 roubles and 12,000 roubles per year, the Government will make a matching contribution, provided the employee files the appropriate application before 1 October 2013.

The Pension Law envisages that the size of pensions will be adjusted for inflation and growth in average salary levels. The most recent indexation took place in February 2012, when the average pension amount was increased by 7%.

Contributions to the funded pension system are collected by the Pension Fund and are managed by state and private trust companies and private pension funds. According to the Law On Investments for Financing the Funded Part of Pensions, enacted in 2002, individuals may choose once a year a private trust manager from those selected on the basis of a public tender or a private pension fund. The initial tender for private trust managers was held in September 2003, and 55 private trust companies were selected. Individuals were required to choose a trust manager by 31 December 2003, and funds were transferred to private trust companies in the beginning of 2004. As of January 2012, there were 116 private pension funds and 52 private trust companies. Only a limited number of individuals choose private trust companies or private pension funds, leaving most pension savings to be managed by Vnesheconombank, which was appointed as the State Trust Management Company. As the State Trust Management Company, Vnesheconombank is responsible for the management of funds held by individuals who selected Vnesheconombank as their pension fund manager, as well as funds held by those citizens who did not select a trust company or private pension fund. Private trust companies and private pension funds may invest pension savings in various assets, including securities of Russian private and public issuers, rouble and foreign currency bank deposits and shares in foreign securities index funds. Vnesheconombank may invest pension savings only in certain types of assets, including Russian state securities, securities issued by subfederal political units, certain types of bonds issued by Russian issuers, certain types of mortgage securities, rouble and foreign currency bank deposits and rouble and foreign currency accounts with credit organisations. See "Public Finance—State Extra-Budgetary Funds" for further discussion of the Pension Fund.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets forth the balance of payments of the Russian Federation for the periods indicated:

Balance of Payments of the Russian Federation[(1)(2)]
(billions of dollars)

	For the year ended 31 December					For the nine months ended 30 September	
	2006	2007	2008	2009	2010	2010	2011
Current account	94.7	77.8	103.5	48.6	70.3	57.6	71.5
Goods and services	125.7	112.0	155.5	91.7	122.5	94.4	118.5
Export	334.7	393.7	522.8	345.0	445.5	320.2	417.7
Import	(209.0)	(281.6)	(367.3)	(253.2)	(323.1)	(225.8)	(299.2)
Goods	139.3	130.9	179.7	111.6	151.7	115.3	144.8
Export (fob)	303.6	354.4	471.6	303.4	400.4	287.5	377.8
Import (fob)	(164.3)	(223.5)	(291.9)	(191.8)	(248.7)	(172.3)	(233.0)
Services	(13.6)	(18.9)	(24.3)	(19.8)	(29.2)	(20.9)	(24.4)
Export	31.1	39.3	51.2	41.6	45.1	32.7	39.9
Import	(44.7)	(58.1)	(75.5)	(61.4)	(74.3)	(53.5)	(66.2)
Investment income and employee compensation	(29.4)	(30.8)	(49.2)	(40.3)	(48.6)	(34.7)	(45.1)
Received	29.8	47.4	61.8	33.2	37.4	28.3	33.1
Paid	(59.2)	(78.1)	(110.9)	(73.5)	(86.0)	(63.0)	(78.3)
Employee compensation	(4.2)	(7.3)	(14.4)	(8.9)	(8.5)	(6.2)	(7.1)
Received	1.9	2.6	3.8	3.3	3.6	2.7	2.9
Paid	(6.1)	(9.9)	(18.1)	(12.2)	(12.1)	(8.9)	(10.0)
Investment income	(25.3)	(23.4)	(34.8)	(31.4)	(40.1)	(28.5)	(38.0)
Received	27.9	44.8	58.0	29.9	33.7	25.6	30.3
Paid	(53.1)	(68.2)	(92.8)	(61.3)	(73.8)	(54.0)	(68.2)
Current Transfers	(1.5)	(3.5)	(2.8)	(2.9)	(3.6)	(2.1)	(1.9)
Received	6.4	8.4	11.0	8.9	10.0	7.0	12.3
Paid	(7.9)	(11.9)	(13.7)	(11.8)	(13.6)	(9.1)	(14.2)
Capital and financial account	(104.2)	(64.4)	(92.3)	(46.9)	(62.2)	(54.3)	(66.0)
Capital account	0.2	(10.2)	0.5	(11.9)	0.1	0.1	(0.1)
Capital transfers	0.2	(10.2)	0.7	(11.6)	0.1	0.1	(0.1)
Received	1.0	1.4	1.6	1.6	1.0	0.8	0.6
Paid	(0.8)	(11.6)	(0.9)	(13.3)	(1.0)	(0.7)	(0.7)
Acquisition/disposal of nonfinancial assets	0.0	0.0	(0.2)	(0.2)	0.0	0.0	0.0
Financial account	(104.4)	(54.2)	(92.7)	(35.0)	(62.3)	(54.5)	(66.0)
Direct investment	6.6	9.2	19.4	(7.2)	(9.2)	(7.2)	(7.6)
Abroad	(23.2)	(45.9)	(55.6)	(43.7)	(52.5)	(34.3)	(45.8)
In Russia	29.7	55.1	75.0	36.5	43.3	27.1	38.1
Portfolio investment	15.7	5.6	(35.4)	(2.2)	(1.7)	9.3	(11.4)
Assets	6.2	(10.0)	(7.8)	(10.4)	(3.5)	3.4	(7.1)
Liabilities	9.5	15.5	(27.6)	8.2	1.8	5.9	(4.3)
Financial derivatives	(0.1)	0.3	(1.4)	(3.2)	(1.8)	(1.4)	(0.4)
Assets	1.2	2.8	9.1	9.9	8.8	6.5	10.8
Liabilities	(1.3)	(2.4)	(10.5)	(13.1)	(10.7)	(7.9)	(11.2)
Other investment	(19.1)	79.7	(114.3)	(19.0)	(12.8)	(9.8)	(25.4)
Assets	(49.4)	(60.1)	(177.5)	6.1	(22.8)	(14.5)	(49.8)
Cash foreign currency	9.5	15.5	(29.8)	6.3	15.3	14.2	3.5
Demand and time deposits	(12.7)	(12.5)	(39.5)	6.4	9.5	11.6	(6.0)
Trade credits and advances[(3)]	(0.6)	(0.8)	(8.1)	5.9	0.0	(1.2)	2.1
Loans extended (excl. arrears)	(28.0)	(35.3)	(54.3)	7.4	(16.3)	(16.2)	(22.3)
Arrears	3.1	8.8	(1.2)	10.0	0.5	0.5	(1.3)
Indebtedness on supplies under intergovernmental agreements	0.08	(0.3)	0.02	(1.8)	(0.9)	0.5	(0.9)
Non-repatriation of export proceeds and import advances not repaid in time[(4)]	(19.9)	(34.5)	(39.3)	(27.1)	(30.6)	(22.0)	(21.7)
Other assets	(0.8)	(1.0)	(5.3)	(0.9)	(0.4)	(1.9)	(3.2)
Liabilities	30.3	139.8	63.2	(25.2)	10.0	4.6	24.5
Cash domestic currency	0.3	0.9	1.4	0.7	0.0	0.0	(0.2)
Demand and time deposits	14.6	11.6	(4.2)	(2.3)	10.2	12.1	5.5
Trade credits and advances received[(3)]	—	—	—	0.6	0.1	0.2	0.2
Loans received (excl. arrears)	18.3	127.3	63.5	(32.0)	(0.8)	(11.0)	16.0
Arrears	(3.6)	(1.3)	0.9	(0.7)	(0.2)	0.4	0.6
Other liabilities	0.7	1.3	1.6	8.5	0.7	2.9	2.4
Reserve Assets[(5)]	(107.5)	(148.9)	38.9	(3.4)	(36.8)	(45.4)	(21.2)
Net errors and omissions	9.5	(13.3)	(11.3)	(1.7)	(8.0)	(3.2)	(5.4)

Notes:

(1) Figures in this table are current as of 11 January 2012. Certain data presented in this table differ from previously published data due to regular revisions by the Bank of Russia. For those transactions denominated in currencies other than the dollar, conversions into dollars are made at the exchange rate prevailing on the date of the relevant transaction.

(2) Precise information on the volume of Russia's foreign trade is difficult to obtain because of the importance of so-called "unregistered trade," consisting of commercial (in contrast to private) transactions that escape customs records or are undervalued by customs authorities. Value adjustments for unregistered trade are made in the official balance of payments accounts. These adjustments amounted to approximately U.S.$30 billion in 2006, U.S.$29 billion in 2007, U.S.$32 billion in 2008, U.S.$28 billion in 2009, U.S.$23 billion in 2010 and U.S.$16 billion in the first nine months of 2011 (on a non-annualised basis).

(3) Through 2008, received trade credits and advances in the export and import of services were reflected in the line item "trade credits and advances." For 2009, 2010 and the first nine months of 2010 and 2011, received trade credits and advances were reflected in the separate line item "trade credits and advances received."

(4) Includes the estimated value of the non-supply of goods and services under import contracts and the estimated value of fictitious transactions in securities and accounts of residents abroad.

(5) Changes in reserve assets that arise as a result of transactions with reserve assets, i.e., excluding monetisation of gold and valuation changes. This definition differs from that employed in the calculation of total official reserves. See "—Official Reserves."

Source: Bank of Russia.

Current Account

Since 2000, Russia has registered a current account surplus. In 2006, Russia recorded a current account surplus of U.S.$94.7 billion (approximately 9.6% of GDP), an 11.9% increase compared to 2005. The growth in the current account surplus was primarily caused by a higher trade surplus, which was, in turn, caused largely by a 24.5% increase in the value of exported goods in 2006 compared to 2005. The increase in exports, including oil and natural gas, was primarily driven by price, not volume. For example, in 2006 compared to 2005, the volume of oil exports decreased by 1.6%, whereas the value of oil exports increased by 22.6%. Similarly, in 2006 compared to 2005, the volume of natural gas exports decreased by 3.1%, while the value of gas exports increased by 38.3%. In 2006 compared to 2005, the average export price for Urals oil and for natural gas grew by 24.6% and 42.7%, respectively. Growth in the average export prices of certain other key commodities, including copper (76.3%), nickel (78.9%) and aluminium (26.8%), underpinned export growth over the same period. The value of imported goods increased by 31% in 2006 compared to 2005, largely as a result of the real appreciation of the rouble against the euro and dollar and growth in the overall economy. Despite the growth in the value of Russia's imported goods, Russia's trade surplus for goods was U.S.$139.3 billion, a 17.7% increase compared to 2005. The deficit in investment income increased by 42.1% from U.S.$17.8 billion in 2005 to U.S.$25.3 billion in 2006. The negative balance in employee compensation increased by 3.8 times from U.S.$1.1 billion to U.S.$4.2 billion.

In 2007, Russia recorded a current account surplus of U.S.$77.8 billion (approximately 6% of GDP), a 17.8% decrease compared to 2006. This decrease was primarily the result of a lower trade surplus, combined with a weakening balance of trade in services and an increase in outflows of current transfers. In 2007, imports of goods increased by 36% compared to 2006. This growth was caused by the real appreciation of the rouble (by 12.8% against the dollar and 4.2% against the euro) and by the expansion of domestic demand, as reflected by the 8.5% real GDP growth rate. The rise in the value of imported goods was partially offset by a 17% increase in the value of exported goods, which was primarily price- and not volume-driven. For example, Russia recorded growth in the average export price for Urals oil (14.1%), iron ore and concentrates (29.8%), coal (15.2%), nickel (40.8%) and aluminum (16.3%) in 2007 compared to 2006. At the same time, as measured in volumes, there was a deceleration in the growth of oil and iron ore exports and a contraction in exports of natural gas and ferrous metals. The resulting trade balance for goods was U.S.$130.9 billion in 2007 compared to U.S.$139.3 billion in 2006. Also contributing to the decline in the current account surplus was an increase in both the negative balance of services (from U.S.$13.6 billion in 2006 to U.S.$18.9 billion in 2007), which was attributable mainly to a rise in imports, and the net outflow of current transfers (from U.S.$1.5 billion in 2006 to U.S.$3.5 billion in 2007). The investment income deficit decreased by 7.5% (from U.S.$25.3 billion in 2006 to U.S.$23.4 billion in 2007); however, it was offset by a 73.8% rise in the net outflow of employee compensation (from U.S.$4.2 billion in 2006 to U.S.$7.3 billion in 2007).

In 2008, Russia recorded a current account surplus of U.S.$103.5 billion (approximately 6.3% of GDP), a 33% increase compared to 2007. This increase was caused predominantly by a higher trade surplus, due, in turn, to exports increasing at a faster rate than imports. The value of exported goods increased by 33.1% in 2008 compared to 2007, primarily as a result of an increase in export prices, in particular, the price of oil and petroleum products. For example, in 2008 compared to 2007, the volume of crude oil exports dropped by 5.8%, whereas the value of crude oil exports increased by 32.6%. The average export price for Urals oil grew by 41.2% in 2008 compared to 2007. Similarly, over the same period, increases in the value of natural gas exports (51.3%) outpaced increases in the volume of gas exports (1.8%). An increase in the average export price of coal (45.5%), iron ore and concentrates (74.9%), petroleum products (45.6%) and mixed fertilisers (258.2%) underpinned export growth in 2008 compared to 2007. Concurrently, the value of imported goods increased by 30.6%, primarily as a result of strong real appreciation of the rouble (13.4% against the dollar and 6.4% against the euro) and rising GDP in the first three quarters of 2008. Despite the growth in the value of Russia's imported goods, the trade surplus for goods increased by 37.3% compared to 2007 to U.S.$179.7 billion. The increase in the trade surplus was partially offset by a rise in the services deficit and the investment income deficit, as well as in the net outflows of employee compensation. The negative balance of services increased by U.S.$5.4 billion in 2008 compared to 2007, amounting to U.S.$24.3 billion. This increase was due to imports of services rising at a faster rate than exports. The sharp increase in the investment income deficit (U.S.$23.4 billion in 2007 compared to U.S.$34.8 billion in 2008) was caused largely by a sharp rise in investment income payable. Net outflows in employee compensation increased by 97.3% to U.S.$14.4 billion in 2008, compared to U.S.$7.3 billion in 2007.

In 2009, Russia recorded a current account surplus of U.S.$48.6 billion (approximately 4% of GDP), a 53% decrease compared to 2008. This sharp decline in the current account balance was primarily attributable to a 37.9% drop in the trade balance for goods from U.S.$179.7 billion in 2008 to U.S.$111.6 billion in 2009. In 2009, despite both nominal and real depreciation of the rouble, the value of exported goods fell significantly to U.S.$303.4 billion from U.S.$471.6 billion in 2008. This 35.7% decline in exports was primarily caused by a drop in both the price and volume of commodity exports as well as by the overall contraction of the economy due to the global financial crisis. The average export price for Urals oil, for example, declined by 38.8% in 2009 compared to 2008. Although the current account balance deteriorated during this period, the value of imported goods fell by 34.3% from U.S.$291.9 billion in 2008 to U.S.$191.8 billion in 2009, and the value of imported services fell by 18.7% from U.S.$75.5 billion in 2008 to U.S.$61.4 billion in 2009 due to contracting domestic demand associated with the global financial crisis. In 2009, Russia also experienced a 38.2% decrease in net employee compensation outflows from U.S.$14.4 billion in 2008 to U.S.$8.9 billion in 2009 and an 9.8% rise in net investment income from a deficit of U.S.$34.8 billion in 2008 to a deficit of U.S.$31.4 billion in 2009.

In 2010, Russia recorded a current account surplus of U.S.$70.3 billion (approximately 4.7% of GDP), which was 44.7% higher than the current account surplus in 2009. This increase in the current account balance was primarily attributable to an increase in the trade surplus for goods from U.S.$111.6 billion in 2009 to U.S.$151.7 billion in 2010, which, in turn, was caused by export prices and volumes increasing at a faster rate than import prices and volumes. For example, the average export price for Urals oil increased by 28.9% in 2010 compared to 2009. The export prices of Russian aluminum, copper and nickel were also higher in 2010 compared to 2009. Although the current account balance improved in 2010 compared to 2009, the value of imported goods and services increased by 27.6% from U.S.$253.2 billion in 2009 to U.S.$323.1 billion in 2010. This increase was due primarily to an expansion in import volumes, which, in turn, was driven by the improvement in domestic demand in 2010 compared to 2009, as well as to a rise in import prices. In 2010, Russia also experienced a 27.7% increase in the net investment income deficit (from U.S.$31.4 billion in 2009 to U.S.$40.1 billion in 2010), which was due to an increase in investment income payable and partially offset by a rise in investment income received, and a 24.1% increase in the net current transfers deficit (from U.S.$2.9 billion in 2009 to U.S.$3.6 billion in 2010).

In the first nine months of 2011, Russia recorded a current account surplus of U.S.$71.5 billion (approximately 5.6% of GDP), which was 24.1% higher than the current account surplus in the first nine months of 2010. This increase in the current account balance was primarily attributable to an increase in the trade surplus for goods from U.S.$115.3 billion in the first nine months of 2010 to U.S.$144.8 billion in the first nine months of 2011, which, in turn, was caused by export prices and volumes increasing at a faster rate than import prices and volumes. For example, the average world prices for Urals oil increased by 44.7% in the first nine months of 2011 compared to the analogous period in 2010. Despite general deceleration of the growth of world prices for aluminium, copper and nickel, the export prices of Russian aluminum, copper and nickel were also higher in the first nine months of 2011 compared to the first nine months of 2010. Although the current account balance improved in the first nine months of 2011 relative to the first nine months of 2010, the value of imported goods and services increased by 32.5% from U.S.$225.8 billion in the first nine months of 2010 to U.S.$299.2 billion in the first nine months of 2011. This increase was due primarily to an expansion in import volumes, which, in turn, was driven by continued improvement in domestic demand, and to a rise in import prices in the first nine months of 2011 compared to the analogous period in 2010. The trade balance for goods and services was partially offset by a 33.3% rise in investment income outflows from U.S.$28.5 billion in the first nine months of 2010 to U.S.$38 billion in the first nine months of 2011.

Capital and Financial Account

In 2006, Russia recorded a capital and financial account deficit of U.S.$104.2 billion, a 35.9% increase compared to 2005. This increase largely reflected a growth in official foreign currency reserves and a reversal of the other investments balance from surplus to deficit. The rise in foreign reserves (U.S.$107.5 billion in 2006 compared to U.S.$61.5 billion in 2005) was mainly due to the Bank of Russia's policy of preventing excessive real appreciation of the rouble as well as to the Government's expansion of the Stabilisation Fund (the Fund's proceeds at the end of 2006 increased by approximately 1.2 trillion roubles compared to year-end 2005). See "Public Finance—Deficit Financing" for more information regarding the Stabilisation Fund. The other investments balance worsened from a U.S.$9 billion surplus in 2005 to a U.S.$19.1 billion deficit in 2006. The deficit was primarily driven by the following factors: (i) an increase in Russian capital outflows in the form of loans extended to foreign residents; (ii) a decrease of arrears of Russian companies owed to nonresidents; (iii) an increased interest of Russian residents in foreign currency demand and time deposits as a form of short-term savings; (iv) a reduction compared to 2005 in the value of foreign loans to Russian businesses; (v) Russia's prepayment of approximately U.S.$21.6 billion in debt to the Paris Club; and (vi) an exchange of Russian Federation Eurobonds for a portion of the uninsured Soviet-era trade indebtedness for which Russia has agreed to be responsible ("FTO Debt"), which led to an approximate U.S.$1.4 billion decline in foreign liabilities. Net foreign direct investment improved from U.S.$0.1 billion in 2005 to U.S.$6.6 billion in 2006 because the volume of foreign investment in Russia exceeded the volume of Russian investment abroad. The portfolio investment deficit of U.S.$11.4 billion in 2005 improved to a net surplus of U.S.$15.7 billion in 2006 due to increased purchases of Russian corporate securities by non-residents and at the same time a reduction in Russian investments in foreign securities, as well as the exchange of newly issued Russian Federation Eurobonds for a portion of Russia's FTO Debt. As a result of net inflows of foreign investment to both the banking and corporate sectors, net capital inflows to the private sector equalled U.S.$41.4 billion in 2006, a significant increase from the U.S.$0.1 billion of net outflows in 2005.

In 2007, Russia recorded a capital and financial account deficit of U.S.$64.4 billion, a 38.2% decrease compared with 2006. This improvement was mainly the result of increased foreign lending to Russian businesses. Loans received by Russian residents amounted to U.S.$127.3 billion in 2007 compared to U.S.$18.3 billion in 2006. The foreign direct investment balance also contributed to the decrease in the capital and financial account deficit, having increased by U.S.$2.6 billion in 2007 compared to 2006. This 39% increase was the result of foreign investments in Russia exceeding Russian investments abroad. The net portfolio investment surplus declined from U.S.$15.7 billion in 2006 to U.S.$5.6 billion in 2007. This decline was due to a sharp increase of Russian investments in foreign securities from a surplus of U.S.$6.2 billion in 2006 to a deficit of U.S.$10 billion in 2007 and was partially offset by a 63.2% increase in foreign holdings of Russian securities. The overall improvement in the financial account was partially offset by the continued increase in foreign currency reserves, as reflected in part by the approximate 1.2 trillion rouble increase in the Stabilisation Fund, and a sharp rise in net capital transfers from a surplus of U.S.$0.2 billion in 2006 to a deficit of U.S.$10.2 billion, which was caused by debt relief granted by Russia to certain of its debtors. See "Public Debt and Related Matters—External Financial Assets." As a result of net inflows to both the banking and corporate sectors, net capital inflows to the private sector equalled U.S.$81.7 billion in 2007, a 97% increase compared to 2006.

In 2008, Russia recorded a capital and financial account deficit of U.S.$92.3 billion, a 43.3% increase compared to 2007. This increase reflected a reversal from surplus to deficit in both the portfolio investment balance and the other investments balance. The portfolio investment balance reversed from a U.S.$5.6 billion surplus in 2007 to a U.S.$35.4 billion deficit in 2008 as Russian residents repaid or bought back their foreign debt. The other investments balance moved from a U.S.$79.7 billion surplus in 2007 to a U.S.$114.3 billion deficit in 2008, as the global financial crisis prompted investors to reduce their exposure to Russian assets. Russian investors increased their holdings of hard currency and foreign-currency demand and time deposits, leading to combined outflows of U.S.$69.3 billion in 2008 as compared with combined inflows of U.S.$3 billion in 2007. Similarly, foreign loans to Russian businesses declined from U.S.$127.3 billion in 2007 to U.S.$63.5 billion in 2008. At the same time, Russian residents increased the value of loans extended to foreign residents, in part, to foreign subsidiaries of Russian companies. As a result, net private sector capital outflows (including outflows from both the banking and corporate sectors) in 2008 reached U.S.$133.9 billion. A U.S.$38.9 billion decrease in foreign currency reserves in 2008, compared to an increase of U.S.$148.9 billion in 2007, and an increase in the direct investment balance from U.S.$9.2 billion in 2007 to U.S.$19.4 billion in 2008 partially offset the deterioration in the portfolio investment balance and other investments balance.

In 2009, Russia recorded a capital and financial account deficit of U.S.$46.9 billion, a 49.2% decrease compared to 2008. This improvement was mainly attributable to a reduction in the portfolio investment balance deficit and the other investments deficit. The portfolio investment balance improved from a deficit of U.S.$35.4 billion in 2008 to a deficit of U.S.$2.2 billion in 2009 primarily because of an increase of foreign purchases of Russian securities as the rouble stabilised and the overall Russian economy began to recover in the second quarter of 2009. The deficit in other investments improved significantly, from a deficit of U.S.$114.3 billion in 2008 to a deficit of U.S.$19 billion in 2009, despite a sharp decline in foreign loans to Russian residents. The other investments deficit fell for several reasons. Russian investments in foreign currency cash, demand and time deposits decreased, as did the value of Russian loans to foreign residents. Foreign currency cash holdings reversed from a U.S.$29.8 billion deficit in 2008 to a U.S.$6.3 billion surplus in 2009, and foreign currency deposits decreased from a deficit of U.S.$39.5 billion in 2008 to a surplus of U.S.$6.4 billion in 2009. The volume of Russian loans to foreign residents declined from a deficit of U.S.$54.3 billion in 2008 to a surplus of U.S.$7.4 billion in 2009. Concurrently, an increase in arrears was recorded, reflecting debt relief granted by Russia to certain of its debtors. The drop in the other investments deficit was also supported by a deceleration in the non-repatriation of export proceeds and import advances not repaid in time (from U.S.$39.3 billion in 2008 to U.S.$27.1 billion in 2009). In 2009, despite net inflows in the second and fourth quarters, Russia recorded overall net private sector capital outflows of U.S.$56.1 billion, which were mainly driven by the repayment of loans to Russian borrowers, mainly in the banking sector. The growth in foreign reserves in 2009 equalled U.S.$3.4 billion. The improvement in the portfolio investment deficit and other investment deficit as well as the expansion of foreign reserves was partially offset by a reversal of the net direct investment balance, from a net inflow of U.S.$19.4 billion in 2008 to a net outflow of U.S.$7.2 billion in 2009. This reversal was primarily caused by a sharp decline in foreign direct investment in Russia. The improvement in the financial account deficit was partially offset by net outflows of capital transfers amounting to U.S.$11.6 billion, which was the result of debt relief granted by Russia to certain of its debtors.

In 2010, Russia recorded a capital and financial account deficit of U.S.$62.2 billion, a 32.6% increase compared to 2009. This increase reflected primarily an acceleration in the growth of foreign reserves from U.S.$3.4 billion in 2009 to U.S.$36.8 billion in 2010, which, in turn, was due mainly to a significant improvement in the current account surplus from U.S.$48.6 billion in 2009 to U.S.$70.3 billion in 2010 and to a reduction in capital flight, i.e., the aggregate change in the other investments balance, portfolio investment balance, financial derivatives balance and direct investment balance. In 2010, the other investments deficit decreased to U.S.$12.8 billion from U.S.$19 billion in 2009, the portfolio investment deficit decreased to U.S.$1.7 billion from U.S.$2.2 billion in 2009 and the financial derivatives deficit decreased to U.S.$1.8 billion from U.S.$3.2 billion in 2009. The decrease in the other investments deficit, in turn, was primarily attributable to an increase in foreign investment in Russian demand and time deposits (from an outflow of U.S.$2.3 billion in 2009 to an inflow of U.S.$10.2 billion in 2010), a reduction in foreign currency holdings (from a decrease of U.S.$6.3 billion in 2009 to a decrease of U.S.$15.3 billion in 2010), a decline in investments in foreign currency demand and time deposits (from a withdrawal of U.S.$6.4 billion in 2009 to a withdrawal of U.S.$9.5 billion in 2010) and a decrease in payments made by Russian entities on loans received from foreign investors (from an outflow of U.S.$32 billion in 2009 to an outflow of U.S.$0.8 billion in 2010). Partially offsetting the decrease in the other investment deficit was an increase in the volume of Russian loans to foreign residents (from a surplus of U.S.$7.4 billion in 2009 to a deficit of U.S.$16.3 billion in 2010). The increase in the capital and financial account deficit was partially offset by an improvement in the country's capital account from a deficit of U.S.$11.9 billion in 2009 to a surplus of U.S.$0.1 billion in 2010. In 2010, Russia had net private sector outflows of U.S.$33.6 billion.

In the first nine months of 2011, Russia recorded a capital and financial account deficit of U.S.$66 billion, a 21.5% increase compared to the first nine months of 2010. This increase reflected primarily a reversal from surplus to deficit in the portfolio investment balance and an increase in the other investments deficit. The portfolio investment balance moved from a U.S.$9.3 billion surplus in the first nine months of 2010 to a U.S.$11.4 billion deficit in the first nine months of 2011 mainly due to the repayment of foreign debt by Russian corporates and banks. The deficit in the other investments balance increased from U.S.$9.8 billion in the first nine months of 2010 to U.S.$25.4 billion in the first nine months of 2011 mainly because Russian investors increased their holdings of foreign-currency demand and time deposits and increased the value of loans extended to foreign residents. The growth of foreign currency reserves decelerated from an increase of U.S.$45.4 billion in the first nine months of 2010 to an increase of U.S.$21.2 billion in the first nine months of 2011. At the same time, net private sector capital outflows reached U.S.$46.4 billion in the first nine months of 2011, compared to U.S.$14.3 billion in the first nine months of 2010.

Exchange rate fluctuations and periods of economic uncertainty have often caused Russian banks, enterprises and households to convert their current holdings and savings into foreign currency (particularly dollar-denominated) assets. Though the impact of these factors has declined in recent years, capital flight has historically been significant in Russia, caused largely by illegal outflows through non-repatriation of export proceeds and unrefunded import advances. Non-repatriation of export proceeds and unrefunded import advances fluctuated between 2006 and 2010 (U.S.$19.9 billion in 2006, U.S.$34.5 billion in 2007, U.S.$39.3 billion in 2008, U.S.$27.1 billion in 2009 and U.S.$30.6 billion in 2010). In the first nine months of 2011, they equalled U.S.$21.7 billion, compared to U.S.$22 billion in the first nine months of 2010. Russia's balance of payments accounts include a high level of unaccounted transactions, which likewise have historically fluctuated, including inflows of U.S.$9.5 billion in 2006 and outflows of U.S.$13.3 billion, U.S.$11.3 billion, U.S.$1.7 billion and U.S.$8 billion in 2007, 2008, 2009 and 2010, respectively. Outflows due to unaccounted transactions in the first nine months of 2010 and 2011 equalled U.S.$3.2 billion and U.S.$5.4 billion, respectively.

The nominal depreciation of the dollar during 2006 and 2007 encouraged Russian individuals and small businesses to convert dollar cash into roubles and resulted in a U.S.$9.5 billion and U.S.$15.5 billion decline in the stock of foreign currency cash in 2006 and 2007, respectively. The sharp depreciation of the rouble in 2008 (19.7% against the dollar and 15.3% against the euro, in nominal terms) as well as instability in global markets encouraged Russian residents to convert rouble holdings into foreign currency and resulted in a U.S.$29.8 billion increase in foreign currency holdings. In 2009, the rouble continued to depreciate (by 2.9% against the dollar and 4.7% against the euro, in nominal terms), but at a slower rate than in the previous year. Deceleration in the nominal depreciation of the rouble, together with the relative improvement of the economy in the second half of 2009 compared to the first half of 2009, led to a U.S.$6.3 billion decline in the stock of foreign currency holdings among Russian households and businesses in 2009. In 2010, the stock of foreign currency holdings declined by U.S.$15.3 billion. This sharp decline in foreign currency holdings was, in part, due to the relatively stronger value of the rouble (the average rouble/dollar exchange rate appreciated from 31.93 roubles/dollar in 2009 to 30.34 roubles/dollar in 2010) and to relatively greater stability on the global markets in 2010 compared to 2009. The decline in foreign currency holdings equalled U.S.$3.5 billion in the first nine months of 2011, compared to U.S.$14.2 billion in the first nine months of 2010. This slowdown in the decline of foreign currency holdings took place despite rouble depreciation in the third quarter of 2011 (by 15.2% against the dollar and 7.4% against the euro).

Foreign Trade

Foreign Trade Regime

Following the dissolution of the Soviet Union, Russia introduced import tariffs for a broad range of goods. In an effort to bring its external trade regime more closely in line with WTO standards, Russia has introduced a maximum import tariff rate and has worked to unify rates within commodity groups. Currently, the maximum rate of import tariffs is 30%, with the exception of certain commodity groups, which are levied at various rates, reaching 100% for spirits. In January 2009, Russia substantially raised its import tariffs on used cars in an effort to support the country's domestic automotive industry. The tariffs, which are calculated in accordance with a formula that is based on the age and engine type of the vehicle, have remained substantially the same since this increase. In January 2010, Russia imposed a ban on the import of poultry containing chlorine levels in excess of a certain threshold. This new regulation led to significant reductions in poultry imports from the United States, one of Russia's primary suppliers. The ban on most U.S. poultry imports was rescinded in August 2010. In December 2011, Russia concluded all accession agreements required for membership in the WTO. Formal membership in the WTO is subject to ratification by the State Duma. See "Russian Federation—International Relations—Russia's Position in the International Community."

Exports are an important source of foreign exchange earnings for Russia. Currently, Russia has various export restrictions in place, although these restrictions are subject to elimination in accordance with the requirements of Russia's admission to the WTO. The Government has also introduced duties on the export of oil and natural gas. Duties on oil exports are based on world oil prices, and the duty on natural gas is 30%. See "Public Finance—Russian Tax System" for a discussion of these customs duties. Effective 1 July 2010, a new Customs Code went into effect, which seeks to facilitate customs clearance procedures. See "The Russian Economy—Civil and Commercial Law" for a discussion of the Customs Code.

Composition of Trade

The following table illustrates the composition of Russia's exports and imports on a customs basis (excluding unregistered trade adjustments) for the periods indicated:

Structure of Trade[(1)(2)(3)]
(excluding unregistered trade)

	For the year ended 31 December									
	2007		2008		2009		2010[(4)]		2011[(4)]	
	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%
Exports										
Machinery, equipment and transport	19.7	5.6	22.8	4.9	17.9	5.9	21.4	5.4	23.2	4.5
Metals and their products	49.1	14.0	54.6	11.7	33.5	11.1	41.7	10.5	46.3	9.0
Mineral products[(5)]	228.4	64.9	326.3	69.8	203.4	67.4	271.9	68.5	362.7	70.3
Chemical products and rubber	20.8	5.9	30.2	6.4	18.7	6.2	24.5	6.2	31.0	6.0
Timber, woodpulp and paper products	12.3	3.5	11.6	2.5	8.4	2.8	9.6	2.4	10.7	2.1
Textiles and textile products	1.0	0.3	0.9	0.2	0.7	0.2	0.8	0.2	0.8	0.1
Leather and fur products	0.3	0.1	0.4	0.1	0.2	0.1	0.3	0.1	0.4	0.1
Foodstuffs and agricultural products (excluding textiles)	9.1	2.6	9.3	2.0	10.0	3.3	8.8	2.2	12.0	2.3
Precious stones, precious metals and their products	6.8	1.9	7.2	1.5	5.0	1.7	8.6	2.2	11.1	2.2
Other	4.4	1.2	4.5	0.9	3.8	1.3	9.5	2.4	17.9	3.5
Total trade	351.9	100.0	467.6	100.0	301.7	100.0	397.1	100.0	516.0	100.0
Imports										
Machinery, equipment and transport	101.7	50.9	140.8	52.7	72.7	43.4	101.7	44.4	146.6	48.0
Metals and their products	15.8	7.9	18.6	7.0	10.9	6.5	16.4	7.2	21.1	6.9
Mineral products[(5)]	4.7	2.3	8.3	3.1	4.1	2.4	5.2	2.3	6.3	2.0
Chemical products and rubber	27.5	13.8	35.2	13.2	27.9	16.7	37.0	16.1	45.4	14.9
Timber, woodpulp and paper products	5.3	2.7	6.5	2.4	5.1	3.0	5.9	2.6	6.7	2.2
Textiles and textile products	8.6	4.3	11.7	4.4	9.5	5.7	14.1	6.2	16.6	5.4
Leather and fur products	0.7	0.4	1.0	0.4	0.8	0.5	1.2	0.5	1.5	0.5
Foodstuffs and agricultural products (excluding textiles)	27.6	13.8	35.2	13.2	30.0	17.9	36.4	15.9	42.5	13.9
Precious stones, precious metals and their products	0.5	0.3	0.7	0.3	0.4	0.3	0.5	0.2	0.6	0.2
Other	7.2	3.6	9.1	3.4	6.0	3.6	10.4	4.6	17.9	5.9
Total trade	199.7	100.0	267.1	100.0	167.4	100.0	228.9	100.0	305.3	100.0

	For the year ended 31 December									
	2007		2008		2009		2010[4]		2011[4]	
	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%
Balance										
Machinery, equipment and transport	(82.0)	—	(118.0)	—	(54.8)	—	(80.3)	—	(123.4)	—
Metals and their products	33.3	—	36.0	—	22.7	—	25.5	—	25.2	—
Mineral products[5]	223.7	—	318.0	—	199.3	—	266.7	—	356.5	—
Chemical products and rubber	(6.7)	—	(5.0)	—	(9.2)	—	(12.4)	—	(14.5)	—
Timber, woodpulp and paper products	7.0	—	5.1	—	3.3	—	3.7	—	4.0	—
Textiles and textile products	(7.6)	—	(10.8)	—	(8.8)	—	(13.4)	—	(15.9)	—
Leather and fur products	(0.4)	—	(0.6)	—	(0.5)	—	(0.9)	—	(1.1)	—
Foodstuffs and agricultural products (excluding textiles)	(18.5)	—	(25.9)	—	(20.0)	—	(27.6)	—	(30.5)	—
Precious stones, precious metals and their products	6.3	—	6.5	—	4.6	—	8.1	—	10.5	—
Other	(2.8)	—	(4.6)	—	(2.2)	—	(1.1)		(0.1)	—
Total trade	152.2	—	200.5	—	134.3	—	168.2	—	210.7	—

Notes:

(1) Figures differ from the presentation in "—Balance of Payments" due to classification, coverage and other adjustments. Figures in this table are current as of 25 February 2012.

(2) Reflects Customs Service statistics and includes trade with Belarus.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made at the exchange rate prevailing on the date of the relevant transaction.

(4) From 1 July 2010, when the Customs Code of the Customs Union among Russia, Belarus and Kazahkstan took effect, all trade between Russia and Kazahkstan is included in the row "other" and no longer itemised by product or service type.

(5) Includes oil, gas and coal.

Sources: Rosstat, Customs Service.

Exports of mineral products (including oil, gas and coal), metals and precious stones and metals account for the vast majority of Russia's total exports, representing 80.8% of exports in 2007, 83% in 2008, 80.2% in 2009, 81.1% in 2010 and 81.5% in 2011.

In 2008, the share of mineral products, metals and precious stones and metals as a percentage of total exports rose to 83% from 80.8% in 2007. This increase was due to a sharp increase in oil prices (in 2008, compared to 2007, the value of oil and gas exports increased by 32.6% and 54.1%, respectively, whereas the volume of oil exports decreased by 6% and the volume of gas exports increased by 1.8%), which, in turn, led to an increase in the share of mineral products as a share of total exports from 64.9% in 2007 to 69.8% in 2008. Partially offsetting this increase was an approximate 17% decrease in the contribution of metals and precious stones and metals to overall exports in 2008 compared to 2007. In 2009, the overall share of mineral products, metals and precious stones and metals as a percentage of total exports declined to 80.2% from 83% in 2008. This decrease was primarily due to the global financial crisis, which contributed to a contraction both in the volume and value of mineral products and metals. In 2010 and 2011, the overall share of mineral products, metals and precious stones and metals as a percentage of total exports increased to 81.2% and 81.5%, respectively, compared to 80.2% in 2009 due in large part to higher prices for oil and oil products.

Other significant exports include machinery, equipment and transport (5.6%, 4.9%, 5.9%, 5.4% and 4.5% of total exports in 2007, 2008, 2009, 2010 and 2011, respectively) and chemical products and rubber (5.9%, 6.4%, 6.2%, 6.2% and 6% of total exports in 2007, 2008, 2009, 2010 and 2011, respectively).

Imports of machinery, equipment and transport accounted for 50.9% of total imports in 2007, 52.7% in 2008, 43.4% in 2009, 44.4% in 2010 and 48% in 2011. Russia also imports significant amounts of foodstuffs and agricultural products, chemical products and rubber. In the aggregate, foodstuffs and agricultural products accounted for 13.8% of imports in 2007, 13.2% in 2008, 17.9% in 2009, 15.9% in 2010 and 13.9% in 2011. Chemical products and rubber constituted 13.8%, 13.2%, 16.7%, 16.1% and 14.9% of total imports in 2007, 2008, 2009, 2010 and 2011, respectively.

Direction of Trade

The following tables illustrate the geographic distribution of Russia's trade on a customs basis (excluding unregistered trade adjustments) for the periods indicated:

Exports[1][2][3]
(excluding unregistered trade)

	For the year ended 31 December									
	2007		2008		2009		2010		2011	
	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change
Exports to non-CIS countries	299,267	15.6	397,920	33.0	254,856	(36.0)	337,467	32.4	437,780	29.7
OECD countries	230,558	15.0	312,343	35.5	193,625	(38.0)	262,313	35.5	329,473	25.6
Germany	26,346	7.5	33,164	25.9	18,710	(43.6)	25,662	37.2	34,174	33.2
United Kingdom	11,030	6.1	14,884	34.9	9,074	(39.0)	11,309	24.6	13,997	23.8
Netherlands	42,879	19.5	56,973	32.9	36,407	(36.1)	53,974	48.3	62,567	15.9
Switzerland	13,523	11.1	9,557	(29.3)	6,213	(35.0)	8,716	40.3	11,627	33.4
Japan	7,665	72.0	10,327	34.7	7,251	(29.8)	12,829	76.9	14,701	14.6
USA	8,335	(3.5)	13,357	60.3	9,132	(31.6)	12,320	34.9	16,604	34.8
Italy	27,530	9.7	41,999	52.6	25,100	(40.2)	27,476	9.5	32,582	18.6
Finland	10,751	17.0	15,741	46.4	9,162	(41.8)	12,170	32.8	13,190	8.4
France	8,684	13.1	12,201	40.5	8,726	(28.5)	12,420	42.3	14,857	19.6
Turkey	18,534	29.7	27,655	49.2	16,377	(40.8)	20,317	24.1	25,429	25.2
Other OECD	55,281	14.5	76,484	38.4	47,475	(37.9)	65,120	37.2	89,744	37.8
Transition economies[4]	24,448	5.5	32,160	31.5	22,285	(30.7)	28,342	27.2	43,637	54.0
China	15,895	0.9	21,142	33.0	16,687	(21.1)	20,326	21.8	35,241	73.4
Other non-CIS countries	44,260	25.7	22,852	(48.4)	38,946	27.1	46,811	20.2	64,670	38.2
Egypt	1,952	57.2	1,856	(4.9)	1,824	(1.7)	1,920	5.2	2,337	21.7
India	4,012	37.1	5,230	30.4	5,936	13.5	6,392	7.7	6,094	(4.7)
Iran	2,965	55.7	3,289	10.9	2,841	(13.6)	3,380	19.0	3,401	0.6
Latvia	2,644	55.7	7,897	199.0	4,129	(47.7)	5,895	42.7	7,350	24.7
Lithuania	4,057	(3.6)	4,581	12.9	3,402	(25.7)	3,549	4.3	7,229	103.7
Exports to CIS countries	52,661	24.5	69,656	32.3	46,811	(32.8)	59,601	27.3	78,260	31.3
Ukraine	16,425	9.6	23,567	43.5	13,836	(41.3)	23,148	67.3	30,510	31.8
Belarus	17,205	31.3	23,507	36.6	16,726	(28.8)	18,081	8.1	24,923	37.8
Kazakhstan	11,920	32.9	13,299	11.6	9,147	(31.2)	10,690	16.9	12,907	20.7
Uzbekistan.	1,729	59.0	2,038	17.9	1,694	(16.9)	1,889	11.5	2,107	11.5
Other CIS	5,383	28.9	7,245	34.6	5,407	(25.4)	5,792	7.1	7,815	34.9
Total exports	351,928	16.8	467,576	32.9	301,667	(35.5)	397,068	31.6	516,040	30.0

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by the Customs Service. Figures in this table are current as of 25 February 2012.

(2) Figures differ from the presentation in "—Balance of Payments" due to classification, coverage and other adjustments.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made at the exchange rate prevailing on the date of the relevant transaction.

(4) Includes Bulgaria, Romania, Vietnam, North Korea, Mongolia and Cuba, in addition to China.

Sources: Customs Service; Rosstat.

Imports(1)(2)(3)
(excluding unregistered trade)

	For the year ended 31 December									
	2007		2008		2009		2010		2011	
	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change	U.S.$ million	% change
Imports from non-CIS countries	169,883	47.2	230,494	35.7	145,530	(36.9)	197,184	35.5	261,013	32.4
OECD countries	123,726	43.4	167,429	35.3	101,095	(39.6)	133,066	31.6	180,873	35.9
Germany	26,534	43.7	34,115	28.6	21,229	(37.8)	26,699	25.8	37,676	41.1
USA	9,471	47.9	13,790	45.6	9,170	(33.5)	11,097	21.0	14,601	31.6
Japan	12,717	63.3	18,586	46.2	7,252	(61.0)	10,260	41.5	15,004	46.2
Italy	8,537	49.1	11,002	28.9	7,891	(28.3)	10,043	27.2	13,401	33.4
Republic of Korea	8,838	30.3	10,594	19.9	4,866	(54.1)	7,287	49.8	11,593	59.1
Finland	5,026	25.6	6,639	32.1	3,955	(40.4)	4,584	15.9	5,671	23.7
France	7,766	32.5	10,015	29.0	8,431	(15.8)	10,043	19.1	13,276	32.2
Poland	4,631	35.8	7,060	52.4	4,214	(40.3)	5,826	38.3	6,651	14.2
United Kingdom	5,645	53.6	7,616	34.9	3,544	(53.5)	4,576	29.1	7,179	56.9
Netherlands	3,857	43.7	4,817	24.9	3,589	(25.5)	4,442	23.8	5,924	33.4
Other OECD	30,703	43.0	43,194	40.7	26,954	(37.6)	38,209	41.8	49,896	30.6
Transition economies(4)	26,242	84.3	37,458	42.7	24,927	(33.5)	42,110	68.9	52,556	24.8
China	24,424	89.2	34,780	42.4	22,795	34.5	38,964	70.9	48,264	23.9
Other non-CIS countries	19,915	33.4	25,607	28.6	19,508	(23.8)	22,007	12.8	27,584	25.3
Argentina	1,125	17.4	1,236	9.9	1,146	(7.3)	914	(20.2)	1,067	16.6
Brazil	4,109	37.6	4,672	13.7	3,478	(25.6)	4,081	17.3	4,389	7.6
India	1,310	35.4	1,707	30.3	1,525	(10.6)	2,143	40.5	2,799	30.6
Malaysia	1,477	65.1	1,971	33.5	1,138	(42.3)	1,344	18.1	1,518	12.9
Thailand	1,006	79.7	1,497	48.8	934	(37.6)	1,368	46.5	1,981	44.8
Imports from CIS countries	29,871	33.5	36,607	22.6	21,818	(40.4)	31,728	45.4	44,300	39.6
Ukraine	13,330	44.3	16,254	21.9	9,129	(43.8)	14,047	53.9	20,121	43.2
Belarus	8,879	29.7	10,552	18.8	6,718	(36.3)	9,954	48.2	13,685	37.5
Kazakhstan	4,623	20.4	6,379	38.0	3,693	(42.1)	4,449	20.5	6,859	54.2
Uzbekistan	1,471	13.9	1,300	(11.6)	846	(34.9)	1,557	84.0	1,860	19.5
Other CIS	1,568	35.3	2,121	35.3	1,432	(27.7)	7,185	401.8	10,059	40.0
Total imports	199,754	45.0	267,101	33.7	167,348	(37.3)	228,912	36.8	305,313	33.4

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by the Customs Service. Figures in this table are current as of 25 February 2012.

(2) Figures differ from the presentation in "—Balance of Payments" due to classification, coverage and other adjustments.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made at the exchange rate prevailing on the date of the relevant transaction.

(4) Includes Bulgaria, Romania, Vietnam, North Korea, Mongolia and Cuba, in addition to China.

Sources: Customs Service; Rosstat.

Between 2007 and 2011, Russia's exports to OECD countries grew by approximately 64.4% compared to 71.3% growth in total Russian exports. As a percentage of total exports, exports to OECD countries remained stable, accounting for 64-67% of Russia's total exports (as measured by value) in each year from 2007 through 2011. In 2009, Russian exports to OECD countries declined by 38% compared to 2008 as a result of the contraction in worldwide demand resulting from the global financial crisis. Overall total exports in 2009 fell by 35.5%. Due to the economic recovery following the global financial crisis, Russia's exports to OECD countries grew by 35.5% in 2010 and 25.6% in 2011, compared to overall growth in Russian exports of 31.6% in 2010 and 30% in 2011. Exports to OECD countries accounted for 65% of total exports in 2010.

In 2007, Russian exports to CIS countries grew at a faster rate than exports to non-CIS countries (an increase of 24.5% to CIS countries compared to an increase of 15.6% to non-CIS countries.) This rise in exports was primarily due to growth of overall economic activity in the CIS countries. At a growth rate of 32.3%, exports to CIS countries grew in 2008 in parallel with exports to non-CIS countries. In 2009, Russia's exports to CIS countries fell by 32.8%, which was slightly less than the rate at which total Russian exports declined (35.5%). In 2010 and 2011, Russia's exports to CIS countries increased by 27.3% and

31.3%, respectively, which was primarily due to an improvement in the economy following the global financial crisis. From 2007 through 2011, Russian exports to CIS countries recorded an overall growth rate of 77.6%. Exports to CIS countries accounted for 15% and 15.2% of Russia's total exports in 2010 and 2011, respectively.

Growth in exports to transition economies, i.e., Bulgaria, Romania, Vietnam, China, North Korea, Mongolia and Cuba, generally followed trends in Russia's total exports, accounting for approximately 7-8% of total exports between 2007 and 2011. Exports to transition economies grew by 5.5% in 2007 and 31.5% in 2008, before falling by 30.7% in 2009 due to the global financial crisis. Due to the subsequent economic recovery, exports to transition economies grew by 27.2% in 2010 and, due to a sharp rise in trade with China, by 54% in 2011.

Supported by a high rate of GDP growth, Russia's imports from OECD countries grew by 43.4% in 2007 and 35.3% in 2008, in line with overall import growth during the same period. Russian imports from OECD countries equalled 61.9% and 62.7% of total Russian imports (as measured by value) in 2007 and 2008, respectively. In 2009, because of the contraction in domestic demand and consumer income resulting from the global financial crisis, Russian imports from OECD countries dropped by 39.6%, while overall imports declined by 37.3% compared to 2008. Due to the economic recovery following the global financial crisis, Russia's imports from OECD countries grew by 31.6% in 2010 and 35.9% in 2011, compared to overall growth in Russian imports of 36.8% in 2010 and 33.4% in 2011. Imports from OECD countries accounted for 58.1% and 59.2% of total imports in 2010 and 2011, respectively.

Between 2007 and 2011, the share of total imports from transition economies followed an upward trend, primarily due to a rise in imports from China. In 2007, imports from transition economies accounted for 13.1% of total imports, compared with 14%, 14.9%, 18.4% and 17.2% in 2007, 2008, 2009, 2010 and 2011, respectively. In 2009, imports from transition economies declined by 33.5% compared to 2008 due to weaker domestic demand, resulting from the global financial crisis. Due to the subsequent economic recovery—and significantly driven by a rise in imports from China—imports from transition economies grew by 68.9% in 2010 and 24.8% in 2011.

Russia's overall economic growth exhibited over the past decade led to a decline in the share of imports from CIS countries, as imports from other countries became more attractive to Russian consumers. In 2007, Russian imports from CIS countries accounted for 15% of total Russian imports, compared with 13.7%, 13%, 13.9% and 14.5% in 2008, 2009, 2010 and 2011, respectively. Imports from CIS countries declined by 40.4% in 2009 compared to 2008 due to the effects of the global financial crisis. As a result of the subsequent economic recovery, imports from CIS countries increased by 45.4% in 2010 and 39.6% in 2011.

Of the non-CIS countries, Germany, the Netherlands, China, Italy, Turkey, United States, Poland and Japan are Russia's leading trading partners, as measured by value. Belarus, Ukraine and increasingly Kazakhstan are Russia's leading trading partners as measured by value within the CIS.

Russia's largest export markets in 2009, 2010 and 2011 were the Netherlands (12.1%, 13.6% and 12.1%, respectively, of Russian exports), Italy (8.3%, 6.9% and 6.3%, respectively), Germany (6.2%, 6.3% and 6.6%, respectively), Turkey (5.4%, 5.1% and 4.9%, respectively), Belarus (5.4%, 4.6% and 4.8%, respectively), China (5.5%, 5.1% and 6.8%, respectively) and Ukraine (4.6%, 5.8% and 5.9%, respectively). In 2009, 2010 and 2011, the most important exporters to Russia were China (13.6%, 17% and 15.8%, respectively, of Russian imports), Germany (12.7%, 11.7% and 12.3%, respectively), Japan (4.3%, 4.5% and 4.9%, respectively), Ukraine (5.5%, 6.1% and 6.6%, respectively), the United States (5.5%, 4.8% and 4.8%, respectively), Italy (4.7%, 4.4% and 6.6%, respectively), Belarus (4%, 4.3% and 4.5%, respectively), France (5%, 4.4% and 4.3%, respectively) and the Republic of Korea (2.9%, 3.2% and 3.8%, respectively). In 2009, 2010 and 2011, Ukraine and Belarus together accounted for 67.6%, 71.5% and 72.8%, respectively, of Russia's foreign trade with CIS countries.

Official Reserves

The following table sets forth information with respect to the official reserves of the Russian Federation as of the indicated dates:

Official Reserves[(1)]

	As at 31 December					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
	(millions of dollars, except as indicated)					
Official reserves (excluding gold)	295,567	466,750	411,748	416,653	443,591	453,952
Special Drawing Rights	7	1	1	8,901	8,749	8,729
Reserve position in IMF	283	374	1,052	1,927	1,893	4,061
Foreign exchange	295,277	466,376	410,695	405,825	432,948	441,162
Official gold reserves (fine troy ounces, million)	12.9	14.5	16.7	20.9	25.4	28.4
U.S.$ million[(2)]	8,164	12,012	14,533	22,798	35,788	44,697
Total official reserves (including gold)	303,732	478,762	426,281	439,450	479,379	498,649

Notes:

(1) Based on the official rouble/dollar exchange rates and reference price for gold, as established by the Bank of Russia on the relevant reporting date.

(2) At official Bank of Russia reference prices.

Source: Bank of Russia.

As at 31 December 2006, total official reserves (including gold) stood at approximately U.S.$303.7 billion, which represents 17.4 months of import coverage and an increase of approximately U.S.$121.5 billion compared to year-end 2005. This improvement was due primarily to an increase in foreign currency reserves (backed by high commodity prices and the country's large trade surplus). As at 31 December 2006, foreign currency reserves amounted to approximately U.S.$295.3 billion, and gold reserves stood at approximately U.S.$8.2 billion. The growth in reserves was also supported by net private sector foreign capital inflows of U.S.$41.8 billion, a significant expansion over net inflows in 2005.

The growth of official reserves continued in 2007 due to favourable world commodity prices and high inflows of foreign capital, including net private capital inflows of U.S.$83.1 billion. At 31 December 2007, total official reserves (including gold) stood at approximately U.S.$478.8 billion, representing approximately 20 months of import coverage. As of the same date, foreign currency reserves amounted to approximately U.S.$466.4 billion, and gold reserves stood at approximately U.S.$12 billion.

As of 31 December 2008, total official reserves (including gold) were U.S.$426.3 billion, a decrease of approximately U.S.$52.5 billion compared with year-end 2007. These reserves represented approximately 13.9 months of import coverage. As of the same date, gold reserves equalled approximately U.S.$14.5 billion. The decrease in total reserves was due to an 11.9% drop in foreign currency reserves to U.S.$410.7 billion. The decline in foreign currency reserves, in turn, was primarily attributable to the onset of the global financial crisis in the second half of 2008 and its negative impact on world commodity prices and aggregate demand. As a result of the financial crisis, Russia experienced a significant outflow of private capital, amounting to U.S.$132.8 billion.

As of 31 December 2009, total official reserves (including gold) stood at approximately U.S.$439.5 billion, an increase of approximately U.S.$13.2 billion compared to year-end 2008. These reserves represented nearly 21 months of import coverage. The increase in reserves was primarily attributable to a significant rise in Russia's balance of special drawing rights, i.e., international reserve assets created by the IMF, from U.S.$1 million in 2008 to U.S.$8.9 billion in 2009 and in the country's gold reserves from approximately U.S.$14.5 billion in 2008 to U.S.$22.8 billion in 2009. The increase in special drawing rights was due to an improvement in Russia's reserve position with the IMF. The increase in gold reserves was the result of Russian purchases of gold as a means to diversify and protect its reserves during the crisis. The overall rise in total reserves was partially offset by a reduction in foreign currency reserves from U.S.$410.7 billion in 2008 to U.S.$405.8 billion in 2009. This decrease was primarily due to the continued impact of the global financial crisis on the Russian economy, particularly in the first quarter of 2009 when foreign currency reserves dropped by U.S.$30.5 billion and net private capital outflows amounted to U.S.$35 billion.

As of 31 December 2010, total official reserves (including gold) equalled U.S.$479.4 billion, an increase of approximately U.S.$13.9 billion compared to year-end 2009. Reserves as of 31 December 2010 represented approximately 24 months of import coverage. The increase in reserves was primarily attributable to a 6.7% rise in foreign exchange reserves from U.S.$405.8 billion at year-end 2009 to U.S.$432.9 billion at 31 December 2010 and a 57% rise in official gold reserves from U.S.$22.8 billion at year-end 2009 to U.S.$35.8 billion at 31 December 2010. The increase in foreign exchange reserves was, in part, due to higher oil prices, and the increase in gold reserves reflected the Government's continuing policy of diversifying its reserves portfolio.

As of 31 December 2011, total official reserves (including gold) equalled U.S.$499 billion, an increase of approximately U.S.$19.2 billion compared to year-end 2010. The increase in reserves was primarily attributable to a 1.9% rise in foreign exchange reserves from U.S.$432.9 billion at 31 December 2010 to U.S.$441.2 billion at 31 December 2011, a 24.9% rise in the value of gold reserves from U.S.$35.8 billion at 31 December 2010 to U.S.$44.7 billion at 31 December 2011 and a 114.5% rise in Russia's reserve position with the IMF from U.S.$1.9 billion at 31 December 2010 to U.S.$4.1 billion at 31 December 2011. Reserves as of 31 December 2011 provided approximately 18.5 months of import coverage.

As of 31 December 2011, Russia's total external debt (public and private) equalled approximately U.S.$538.9 billion, or 29% of GDP, with Russia's official reserves providing approximately 93% coverage. As of 31 December 2011, Russia's reserves were the third highest among the G8 countries and the fourth highest in the world.

The Government strictly regulates Russia's output, sale and export of precious stones and metals, including gold, platinum and diamonds. As part of this regulatory regime, the Government licenses and has a right of first refusal to purchase Russia's precious metals output. The Government may add to its reserves any purchased output or any proceeds from the sale and export of precious metals.

Both the Bank of Russia and the Ministry of Finance currently have official foreign exchange and gold reserves. Reserves of the Ministry of Finance are allocated to either the National Wealth Fund or Reserve Fund. See "Public Finance—Deficit Financing" for more information on the National Wealth Fund and Reserve Fund. The percentage of Russia's total official reserves that are controlled by the Ministry of Finance varies year to year and depends on the reserve operations undertaken by the Bank of Russia and Ministry of Finance during the year. In 2007, for example, the Ministry of Finance held approximately one-third of the country's total official reserves, whereas, in 2008, it held nearly one-half. This change was generally due to the Bank of Russia's decision to defend the rouble at the end of 2008 and to the decision to accumulate reserves in the Funds controlled by the Ministry of Finance. At year-end 2009, the share of foreign reserves held by the Ministry of Finance declined to approximately one-third due to the depletion of the Reserve Fund, the proceeds of which were used to cover the budget deficit, and to the accumulation of reserves at the Bank of Russia. The Bank of Russia was able to increase its reserves because there was less need to support the rouble in 2009 than in 2008. As of 31 December 2010 and 2011, the Ministry of Finance held approximately 21% and 19%, respectively, of the country's total official reserves, with the remainder held by the Bank of Russia.

PUBLIC FINANCE

The information presented herein with respect to the federal budget has been prepared substantially in accordance with the guidelines and definitions set forth in the IMF's publication "Government Finance Statistics" (GFS-1986).

Overview

Russia maintained a strong fiscal position through 2008, running surpluses of 6% and 4.9% of GDP in 2007 and 2008, respectively. In 2009, Russia recorded a budget deficit of 6.3% of GDP. The federal budget has followed a similar trend, producing primary surpluses of 5.8% and 4.5% of GDP in 2007 and 2008, respectively, and a primary deficit of 5.5% in 2009. Russia's positive fiscal position through 2008 was attributable largely to favourable conditions in world energy markets, resulting in higher revenues from related production, export duties, excise and other taxes as well as higher profit tax revenues, combined with improvements in the federal budgetary process, allowing for greater control over expenditure, and more efficient tax policy. The reduction in the budget surplus in 2007 was caused primarily by an increase in spending on the national economy and state administration as well as growth in the volumes of federal transfers to sub-federal budgets. The surplus continued to decrease in 2008 primarily because of a contraction in tax revenues (as a share of GDP), particularly domestic VAT proceeds, and a slight rise in expenditures mainly in the form of transfers to state extra-budgetary funds. The federal budget deficit in 2009 was mainly due to the effects of the global financial crisis, which reduced revenues (particularly as a result of the decline in worldwide demand for Russia's commodity exports) and caused expenditures to rise as a consequence of the Government's fiscal stimulus package. In 2010, Russia ran an enlarged budget deficit of 3.5% of GDP and a federal budget primary deficit of 3.6% of GDP. As the economy continued to recover in 2011, Russia recorded an enlarged budget surplus of 1.6% of GDP and a federal budget primary surplus of 1.3% of GDP, the first time such surpluses were recorded since 2008.

The following table sets forth certain summary information regarding Russia's public finances for the periods indicated:

Enlarged Budget(1)

	For the year ended 31 December				
	2007	2008	2009	2010	2011
	(millions of roubles)				
Enlarged budget					
Revenue	13,368,262	16,169,099	13,599,718	15,715,918	20,853,681
Expenditure	11,378,578	14,157,027	16,048,336	17,301,004	20,004,848
Surplus (deficit)	1,989,684	2,012,072	(2,448,618)	(1,585,086)	848,833
Consolidated budget					
Revenue	11,753,408	14,380,026	11,784,091	13,462,467	18,358,640
Expenditure	9,920,871	12,729,347	14,435,496	15,374,234	17,963,277
Surplus (deficit)	1,832,537	1,650,679	(2,651,405)	(1,911,767)	395,363
Primary surplus (deficit)(2)	2,007,662	1,838,894	(2,415,065)	(1,650,814)	724,432
Federal budget					
Revenue	7,781,119	9,275,931	7,337,751	8,303,835	11,365,994
Expenditure	5,986,562	7,570,879	9,660,061	10,115,627	10,935,223
Surplus (deficit)	1,794,557	1,705,052	(2,322,310)	(1,811,792)	430,771
Primary surplus (deficit)(3)	1,937,642	1,858,391	(2,146,155)	(1,616,765)	693,515
Consolidated sub-federal budgets					
Revenue	4,828,460	6,198,775	5,926,622	6,536,969	7,643,902
Transfers from federal budget(4)	856,172	1,094,680	1,480,282	1,378,337	651,256
Expenditure	4,790,481	6,253,148	6,255,717	6,636,944	7,679,310
Surplus (deficit)	37,979	(54,373)	(329,095)	(99,975)	(35,408)
State extra-budgetary funds					
Revenue	2,844,370	3,789,971	4,340,777	5,436,173	6,724,250
Transfers to state extra-budgetary funds(5)	1,043,932	1,579,954	2,113,162	2,757,649	—
Expenditure	2,687,291	3,428,679	4,138,009	5,109,304	6,270,747
Surplus (deficit)	157,079	361,292	202,768	326,869	453,503

	For the year ended 31 December				
	2007	2008	2009	2010	2011
			(% of GDP)		
Enlarged budget					
Revenue	40.2	39.2	35.0	34.8	38.4
Expenditure	34.2	34.3	41.4	38.3	36.8
Surplus (deficit)	6.0	4.9	(6.3)	(3.5)	1.6
Consolidated budget					
Revenue	35.4	34.8	30.4	29.8	33.8
Expenditure	29.8	30.8	37.2	34.0	33.0
Surplus (deficit)	5.5	4.0	(6.8)	(4.2)	0.7
Primary surplus (deficit)(2)	6.0	4.5	(6.2)	(3.7)	1.3
Federal budget					
Revenue	23.4	22.5	18.9	18.4	20.9
Expenditure	18.0	18.3	24.9	22.5	20.1
Surplus (deficit)	5.4	4.1	(6.0)	(4.0)	0.8
Primary surplus (deficit)(3)	5.8	4.5	(5.5)	(3.6)	1.3
Consolidated sub-federal budgets					
Revenue	14.5	15.0	15.3	14.5	14.1
Transfers from federal budget(4)	2.6	2.7	3.8	3.1	1.2
Expenditure	14.4	15.1	16.1	14.7	14.1
Surplus (deficit)	0.1	(0.1)	(0.8)	(0.2)	(0.1)
State extra-budgetary funds					
Revenue	8.6	9.2	11.2	12.0	12.4
Transfers to state extra-budgetary funds(5)	3.1	3.8	5.4	6.1	—
Expenditure	8.1	8.3	10.7	11.3	11.5
Surplus (deficit)	0.5	0.9	0.5	0.7	0.8
Memo:					
Nominal GDP (billions of roubles)	33,248	41,277	38,809	45,166	54,369

Notes:

(1) Calculated on the basis of cash or other items of value actually collected or spent. Certain data presented in this table differ from data made public previously due to regular revisions made by the Ministry of Finance. Figures in this table are current as of 15 February 2012.

(2) Consolidated budget revenues less non-interest expenditure.

(3) Federal budget revenues less non-interest expenditure.

(4) Includes financial aid to regions and other extra-budgetary transfers.

(5) Beginning in 2011, transfers to state extra-budgetary funds are no longer indicated as a separate line item and instead are included in the expenditure line item "social and cultural sphere." Transfers to state extra-budgetary funds amounted to 2,547.1 billion roubles in 2011, including 2,380.1 billion roubles to the Pension Fund, 145.9 billion roubles to the Social Insurance Fund and 21.1 billion roubles to the Federal Medical Insurance Fund.

Source: Ministry of Finance.

Federal Budgetary Process

The Ministry of Finance is centrally involved in each stage of the federal budgetary process, including establishing fiscal policy objectives, preparation of the budget, adoption of the budget by the Federal Assembly, executing the budget (including later amendments) and auditing the budget's execution. The Audit Chamber also monitors and audits the execution of the budget.

Budget Preparation and Adoption

Under the Budget Code, the draft budget is prepared by the Ministry of Finance and presented, first, to the Government, and then, not later than 1 October of the current financial year, to the State Duma, where it proceeds through three readings. In the first reading, the budget's overall macroeconomic framework and the budgeted revenue, deficit (surplus) and expenditure are established. The State Duma cannot increase revenues or the deficit ceiling without the approval of the Government. The second reading is devoted to allocating total authorised expenditure (other than reserve expenses) to specific purposes according to functional classifications within limits defined after the first reading as well as allocating the expenditure among government institutions, lending and borrowing programmes and other items. Budgeted reserve expenses for the first budget year amount to no less than 2.5% of total budgeted expenses for that year and, for the second budget year, to no less than 5% of total budgeted expenses for that year. In the third reading, the budget as a whole is adopted, and no further amendments are permitted. After the State Duma's third reading, the Federation Council votes on the bill. Once passed by the Federation Council, the bill is sent to the President for consideration. The draft budget becomes law following its signature by the President and publication in the authorised print media. The federal law becomes effective on 1 January of the relevant year. During the course of the fiscal year, the Government may submit to the State Duma amendments to the budget law for consideration in accordance with an expedited legislative procedure. Pursuant to this procedure, the State Duma is required to consider amendments to the budget in three readings, all of which must take place within 25 days after the amendments have been submitted. Such amendments must then be reviewed by the Federation Council within 14 days after their receipt from the State Duma.

In accordance with amendments introduced in 2007, beginning in 2008, the budget includes figures on a three-year, rather than annual, basis. Therefore, the 2012 Budget Law includes figures for 2012 as well as forecasted figures for 2013 and 2014.

Budget Execution

The Ministry of Finance is responsible for the execution of the budget law.

The budget law sets overall nominal levels for revenue, expenditure and deficit (surplus), as well as caps for domestic and foreign borrowing and other sources of deficit financing. Subject to the five percent threshold discussed below, approval of the State Duma is required if the budget plan exceeds the nominal level of expenditure or borrowing. In each year since 2005, the Ministry of Finance has executed the budget using only revenue actually collected and without violating the deficit ceiling established in the budget law.

The expenditure levels established in the budget law are annual spending limits with a breakdown for each line item. Upon adoption of the budget law, the Ministry of Finance promulgates annual allocation targets for each line item. The Ministry of Finance may also establish binding quarterly or monthly allocation targets for each line item in order to enhance operational control over budgetary performance. The Budget Code sets forth an exhaustive list of circumstances when the spending limits for a particular line item can be modified without legislative amendment. For example, the Ministry of Finance may increase expenditure for a certain line item by no more than five percent if the amount initially allocated proves to be insufficient. Increases of over five percent and other modifications to spending limits beyond those stipulated in the Budget Code can be made only after corresponding amendments are made to the budget law.

The budget law adopted in 2007 provided for a fiscal surplus of 1,501.8 billion roubles, or 4.8% of GDP, and a primary surplus of 1,658.7 billion roubles, or 5.3% of GDP. Supported by higher than projected oil prices, federal budget revenues in 2007 amounted to 23.4% of GDP, as compared to the budgeted estimate of 22.3% of GDP, while total expenditure of 18% of GDP was slightly higher in relative terms than the budgeted estimate of 17.5% of GDP. The year ended with an actual surplus of 5.4% of GDP, higher than what was originally budgeted. Federal budget revenues transferred to the Stabilisation Fund amounted to 1,602.8 billion roubles, or 4.8% of GDP, in 2007. In 2007, the budgeted oil price assumption was U.S.$61 per barrel, and the breakeven oil price, i.e., the price of oil required to balance the federal budget, was U.S.$29 per barrel.

The 2008 budget law provided for a fiscal surplus of 1,435.7 billion roubles or 3.4% of GDP, and a primary surplus of 1,614.7 billion roubles, or 3.8% of GDP. Federal budget revenues in 2008 amounted to 22.5% of GDP, as compared to the budgeted estimate of 21.2% of GDP, while total expenditure of 18.3% of GDP was slightly higher in relative terms than the budgeted estimate of 17.8% of GDP. The year ended with an actual surplus of 4.1% of GDP, higher than what was originally budgeted. In 2008, the Stabilisation Fund was replaced by the Reserve Fund and National Wealth Fund, and its outstanding balance was transferred to the two new funds. See "—Deficit Financing" for more information on the Reserve Fund and National Wealth Fund. Federal budget revenues transferred to the Reserve Fund and National Wealth Fund in 2008 (excluding transfers from the Stabilisation Fund) equalled 420.6 billion roubles (1% of GDP) and 1,590.2 billion roubles (3.9% of GDP), respectively. At the end of 2008, the balance of the Reserve Fund was 4,027.6 billion roubles, or 9.8% of GDP, and the balance of the National Wealth Fund was 2,584.5 billion roubles, or 6.3% of GDP. In 2008, the budgeted oil price assumption was U.S.$53 per barrel, and the breakeven oil price was U.S.$57 per barrel.

The 2009 budget law envisaged a fiscal deficit of 2,978.4 billion roubles, or 7.4% of GDP, and a primary deficit of 2,749.3 billion roubles, or 6.8% of GDP. Federal budget revenues in 2009 amounted to

18.9% of GDP, as compared to the budgeted estimate of 16.6% of GDP, while total expenditure of 24.9% of GDP was slightly higher in relative terms than the budgeted estimate of 24% of GDP. The year ended with an actual federal deficit of 6% of GDP, lower than what was originally budgeted. Federal budget revenues transferred to the Reserve Fund in 2009 equalled 489 billion roubles (1.3% of GDP). No federal budget revenues were transferred to the National Wealth Fund in 2009. Proceeds from the Reserve Fund were used to finance the budget deficit in 2009, which led to a 54.5% decline in the Reserve Fund balance during 2009 to 1,831 billion roubles (4.7% of GDP). In 2009, the budgeted oil price assumption was U.S.$61 per barrel, and the breakeven oil price was U.S.$97 per barrel.

The 2010 budget law was amended twice during 2010. The original 2010 budget law (the "Original 2010 Budget Law") envisaged a fiscal deficit of 2,937 billion roubles, or 6.8% of GDP, and a primary deficit of 2,633 billion roubles, or 6.1% of GDP. The 2010 budget law, as amended in November 2010 (the "Amended 2010 Budget Law"), envisaged a fiscal deficit of 2,381 billion roubles, or 5.3% of GDP, and a primary deficit of 2,161 billion roubles, or 4.8% of GDP. Federal budget revenues in 2010 amounted to 18.4% of GDP, as compared to the budgeted estimate of 16.1% of GDP according to the Original 2010 Budget Law and 17.4% according to the Amended 2010 Budget Law. Total expenditure in 2010 was 22.5% of GDP, lower in relative terms than the budgeted estimate of 22.9% of GDP according to the Original 2010 Budget Law and 22.7% of GDP according to the Amended 2010 Budget Law. The year ended with an actual federal deficit of 4% of GDP, lower than what was estimated in either the Original 2010 Budget Law or the Amended 2010 Budget Law. No federal budget revenues were transferred to either the Reserve Fund or the National Wealth Fund in 2010. Proceeds from the Reserve Fund were used to finance the budget deficit, while proceeds from the National Wealth Fund were allocated to the co-financing of pensions. In 2010, the budgeted oil price assumption was U.S.$58 per barrel, and the breakeven oil price was U.S.$106 per barrel.

The 2011 budget law was amended three times in 2011. The original 2011 budget law (the "Original 2011 Budget Law") envisaged a fiscal deficit of 1,814 billion roubles, or 3.6% of GDP, and a primary deficit of 1,424 billion roubles, or 2.8% of GDP. The 2011 budget law, as amended for the final time in November 2011 (the "Amended 2011 Budget Law") envisaged no fiscal deficit and a primary surplus of 267 billion roubles, or 0.5% of GDP. Federal budget revenues in 2011 amounted to 20.9% of GDP, lower in relative terms than the budgeted estimate of 17.6% of GDP according to the Original 2011 Budget Law and 20.9% of GDP according to the Amended 2011 Budget Law. Total expenditure in 2011 was 20.1% of GDP, lower in relative terms than the budgeted estimate of 21.2% of GDP under the Original 2011 Budget Law and 20.9% of GDP under the Amended 2011 Budget Law. The year ended with an actual federal surplus of 0.8% of GDP. The outperformance of the fiscal balance in 2011 relative to projections was in large part due to higher than expected oil and gas prices. As in 2010, no federal budget revenues were transferred to either the Reserve Fund or the National Wealth Fund in 2011. No proceeds from the Reserve Fund were used in 2011, while proceeds from the National Wealth Fund were allocated to the co-financing of pensions. In 2011, the budgeted oil price assumption was U.S.$75 per barrel, and the breakeven oil price was U.S.$108 per barrel.

2012 Federal Budget Law[1]

	2012		2013		2014	
	(billions of roubles, unless otherwise noted)	(% of GDP)	(billions of roubles, unless otherwise noted)	(% of GDP)	(billions of roubles, unless otherwise noted)	(% of GDP)
Total revenue	**11,780**	**20.1**	**12,706**	**19.6**	**14,092**	**19.4**
Tax revenue	6,676	11.4	7,496	11.6	8,485	11.7
Profit tax	372	0.6	392	0.6	416	0.6
Taxes on domestically produced goods and services	2,218	3.8	2,629	4.1	3,052	4.2
VAT	1,870	3.2	2,106	3.3	2,362	3.2
Excises	348	0.6	523	0.8	690	1.0
Taxes on imported goods and services	1,874	3.2	2,146	3.3	2,466	3.4
VAT	1,819	3.1	2,078	3.2	2,383	3.3
Excises	56	0.1	69	0.1	82	0.1
Natural resource taxes[2]	2,113	3.6	2,229	3.4	2,451	3.4
Other taxes	98	0.2	99	0.2	100	0.1
Non-tax revenue	5,093	8.7	5,200	8.0	5,598	7.7
Customs duties	3,569	6.1	3,533	5.5	3,812	5.3
Other non-tax revenue	1,535	2.6	1,676	2.6	1,795	2.5
Total expenditure[3]	**12,656**	**21.6**	**13,731**	**21.2**	**14,583**	**20.1**
Debt service	388	0.7	482	0.7	579	0.8
Interest on domestic debt	314	0.5	396	0.6	479	0.7
Interest on external debt	74	0.1	86	0.1	100	0.1
Non-interest expenditure	12,268	20.9	13,248	20.4	14,004	19.3
General public services (state administration)[4]	826	1.4	827	1.3	810	1.1
Defense[4]	1,844	3.1	2,324	3.6	2,733	3.8
Public order and safety[4]	1,819	3.1	1,976	3.0	2,067	2.9
Economic affairs, including housing[4]	3,856	6.6	3,648	5.6	3,453	4.8
Environmental protection[4]	21	0.0	22	0.0	22	0.0
Social sphere[5][6]	1,695	2.9	1,698	2.6	1,693	2.4
Interbudgetary transfers from federal budget[7]	1,274	2.2	1,089	1.7	1,021	1.4
Transfers to state extra-budgetary funds	3,123	5.3	3,369	5.2	3,303	4.5
Transfers to the Social Insurance Fund	178	0.3	173	0.3	162	0.2
Transfers to the Pension Fund	2,893	4.9	3,146	4.8	3,122	4.3
Transfers to the Federal Medical Insurance Fund	52	0.1	50	0.1	19	0.0
Fiscal surplus (deficit)[8]	**(877)**	**(1.5)**	**(1,025)**	**(1.6)**	**(491)**	**(0.7)**
External financing (including IMF)[9]	210	0.4	213	0.3	219	0.3
Domestic financing[10]	1,209	2.1	1,186	1.8	1,094	1.5
Primary surplus (deficit)	**(488)**	**(0.8)**	**(542)**	**(0.8)**	**88**	**0.1**
Memo:						
GDP	58,683	—	64,803	—	72,493	—
CPI (December on December, %)	5.5	—	5.0	—	4.5	—
Average exchange rate (U.S.$/rouble)	28.7	—	29.4	—	30.5	—
Average oil price, Urals (U.S.$/barrel)	100	—	97	—	101	—

Notes:

(1) Includes estimates for 2013 and 2014. All numbers within this table are forward-looking and subject to change in the future based on numerous factors, including the price of Urals oil, inflation and the overall condition of the Russian economy. The data in this table are current as of 15 February 2012.

(2) Natural resource taxes include resource extraction taxes, royalties, water taxes and taxes charged for the use of fauna products and aquatic biological resources.

(3) Total expenditures include Government forecasts for reserve expenses of 343.3 billion roubles for 2013 and 833.6 billion roubles for 2014. Excluding such reserve expenses, total expenditures would equal 13,388 billion roubles (20.7% of GDP) for 2013 and 13,749 billion roubles (19.0% of GDP) for 2014. No reserve expenses were forecasted for 2012.

(4) Excludes interbudgetary transfers.

(5) Includes expenditures on social policy, education, culture and mass media and health care and sports.

(6) Excludes interbudgetary transfers. Social sphere expenditures, taking into account interbudgetary transfers, except for transfers to state extra-budgetary funds, are estimated to equal the following amounts: 2,139 billion roubles (3.6% of GDP) for 2012; 2,045.1 billion roubles (3.2% of GDP) for 2013; and 1,999.4 billion roubles (2.8% of GDP) for 2014.

(7) Excludes interbudgetary transfers to state extra-budgetary funds.

(8) Excluding reserve expenses of 343.3 billion roubles for 2013 and 833.6 billion roubles for 2014, the fiscal deficit in 2013 would equal 681 billion roubles (1.1% of GDP) and the fiscal surplus in 2014 would equal 343 billion roubles (0.5% of GDP).

(9) The figures for external financing reflect the rouble equivalent of the dollar amounts for gross external financing contained in the 2012 Budget Law, based on the expected average exchange rate for the respective year. Net external financing, which takes into account redemption amounts, is expected to equal 137.4 billion roubles for 2012, 143.7 billion roubles for 2013 and 152.9 billion roubles for 2014.

(10) The 2012 Budget Law contains figures for net domestic financing. Gross domestic borrowing in 2012, 2013 and 2014 is expected to equal 1,809.3 billion roubles, 1,802.7 billion roubles and 1,880.9 billion roubles, respectively. The difference between net domestic financing and gross domestic financing consists of redemption amounts.

Source: Ministry of Finance.

The Government's initial macroeconomic assumptions for 2012 include an average price per barrel of Urals oil of U.S.$100, overall nominal GDP of 58,683 billion roubles and annual inflation of 5.4%. For 2013 and 2014, the current oil price assumption is U.S.$97 per barrel and U.S.$101 per barrel, respectively. The per barrel breakeven oil price for 2012, 2013 and 2014 is currently U.S.$117, U.S.$113 and U.S.$107, respectively. In the first two months of 2012, the average price of Urals oil was U.S.$97.60 per barrel.

The 2012 budget law envisages revenue in 2011 of 11,780 billion roubles, or 20.1% of GDP and total expenditure of 12,656 billion roubles, or 21.6% of GDP. Debt service costs account for 0.7% of GDP under the 2012 budget law.

The 2012 budget law provides for a fiscal deficit in 2012 of 877 billion roubles, or 1.5% of GDP, and a primary deficit in 2012 of 488 billion roubles, or 0.8% of GDP. According to the 2012 budget law, the Government intends to seek gross external borrowing in 2012 of 210 billion roubles, or 0.4% of GDP, and gross domestic financing of 1,809 billion roubles, or 3.1% of GDP.

In 2012, 2013 and 2014, the Government expects to finance the federal deficit mainly through domestic and external borrowing and privatisation sales. The Government also expects in 2012-2014 to make drawdowns on the National Wealth Fund for the purpose of co-financing pensions.

Federal Budget Revenue

The following table sets forth information regarding federal budget revenue for the periods indicated:

Federal Budget Revenue[(1)]

	For the year ended 31 December				
	2007	2008	2009	2010	2011
	(millions of roubles)				
Total revenue	7,781,119	9,275,931	7,337,751	8,303,835	11,365,994
Total revenue net of UST[(2)]	7,376,139	8,769,163	6,826,998	8,303,835	11,365,994
Tax revenue	4,633,704	5,232,654	3,896,499	4,401,934	5,985,160
Profit taxes	641,322	761,129	195,420	255,026	342,602
VAT	2,261,477	2,132,203	2,049,964	2,498,263	3,250,412
Domestic VAT	1,390,390	998,388	1,176,608	1,328,749	1,753,241
Import VAT	871,087	1,133,815	873,356	1,169,514	1,497,171
Excise taxes	135,035	160,491	101,542	143,952	278,361
Natural resource taxes	1,157,362	1,637,515	1,006,261	1,408,316	2,046,892
UST transfer to the federal budget[(2)]	404,980	506,768	509,775	0	0
Other tax revenue	33,529	34,547	33,537	96,377	66,532
Non-tax revenue	3,147,415	4,043,277	3,440,274	3,901,901	5,351,809
Customs duties	2,322,904	3,484,868	2,509,411	2,853,093	4,403,231
Import duties	488,046	625,574	467,207	587,502	692,928
Export duties	1,834,858	2,859,294	2,042,204	2,508,102	3,710,302
Other non-tax revenue	824,511	558,409	931,841	1,048,808	947,946
	(% of GDP)				
Total revenue	23.4	22.5	18.9	18.4	20.9
Total revenue net of UST[(2)]	22.2	21.2	17.6	18.4	20.9
Tax revenue	13.9	12.7	10.0	9.7	11.0
Profit taxes	1.9	1.8	0.5	0.6	0.6
VAT	6.8	5.2	5.3	5.5	6.0
Domestic VAT	4.2	2.4	3.0	2.9	3.2
Import VAT	2.6	2.7	2.3	2.6	2.8
Excise taxes	0.4	0.4	0.3	0.3	0.5
Natural resource taxes	3.5	4.0	2.6	3.1	3.8
UST transfer to the federal budget[(2)]	1.2	1.2	1.3	0.0	0.0
Other tax revenue	0.1	0.1	0.1	0.2	0.1
Non-tax revenue	9.5	9.8	8.9	8.6	9.8
Customs duties	7.0	8.4	6.5	6.3	8.1
Import duties	1.5	1.5	1.2	1.3	1.3
Export duties	5.5	6.9	5.3	5.6	6.8
Other non-tax revenue	2.5	1.3	2.4	2.3	1.7
	(% of total revenue net of UST)				
Tax revenue (excl. UST)	57.3	53.9	49.6	53.0	52.7
Profit taxes	8.7	8.7	2.9	3.1	3.0
VAT	30.7	24.3	30.0	30.1	28.6
Domestic VAT	18.8	11.4	17.2	16.0	15.4
Import VAT	11.8	12.9	12.8	14.1	13.2
Excise taxes	1.8	1.8	1.5	1.7	2.4
Natural resource taxes	15.7	18.7	14.7	17.0	18.0
Other tax revenue	0.5	0.4	0.5	1.2	0.6
Non-tax revenue	42.7	46.1	50.4	47.0	47.1
Customs duties	31.5	39.7	36.8	34.4	38.7
Import duties	6.6	7.1	6.8	7.1	6.1
Export duties	24.9	32.6	29.9	30.2	32.6
Other non-tax revenue	11.2	6.4	13.6	12.6	8.3
GDP (billions of roubles)	33,248	41,277	38,809	45,166	54,369

Notes:

(1) Figures in this table are current as of 15 February 2012.

(2) The UST was repealed as of 1 January 2010.

Source: Translated into international standards from the budget reports of the Ministry of Finance.

Sources of Federal Revenue

The main sources of Russia's federal budget revenue are taxes and customs duties.

The main elements of Russia's tax system are VAT, natural resource extraction taxes, a corporate profits tax, a system of excise taxes and a personal income tax. Sub-federal governments may impose only those taxes that are contemplated by the Tax Code of the Russian Federation (the "Tax Code").

Through 2009, the federal budget included a portion of the UST, the revenue from which was transferred to the Pension Fund after its collection by the Government. The UST's contribution to the federal budget equalled 5.2%, 5.5% and 6.9% of total federal budget revenue in 2007, 2008 and 2009, respectively. These amounts were budgeted as part of both the federal budget's revenues and expenditures, and therefore did not affect the budget balance. As of 1 January 2010, the UST was repealed and replaced with a system of direct payments to various extra-budgetary funds. See "—State Extra-Budgetary Funds." The UST is excluded from the following discussion and, unless otherwise noted, figures in this section are exclusive of UST. See "—Russian Tax System."

VAT is the largest source of tax-generated federal budget revenue, accounting for 30.7%, 24.3%, 30%, 30.1% and 28.6% of total cash revenue in 2007, 2008, 2009, 2010 and 2011, respectively. All VAT payments for domestically-produced and imported goods and services are transferred to the federal budget. The generally applicable rate of VAT is 18%, though certain items are charged at a reduced rate of 10% and even 0%, and certain limited items are exempt from VAT.

The natural resource extraction taxes are an important, but fluctuating, source of revenue, due to the volatility of global commodities prices for exported goods, particularly oil and gas. The extraction taxes are allocated between the federal budget and the sub-federal budgets. For example, 100% of the revenues from the diamond extraction tax are allocated to the regional budgets, whereas 100% of the revenues from the natural gas extraction tax and, beginning 1 January 2010, 100% of the revenues from the oil extraction tax are transferred to the federal budget. Prior to 2010, tax revenues from the oil extraction tax were apportioned between the federal Government and the regional governments on a 95%–5% basis. See "—Federal-Sub-Federal Fiscal Relations." Certain taxes on resource extraction are adjusted in accordance with the international prices of commodities. In the case of crude oil, it is calculated at a specific rate in roubles per tonne depending on the current international oil price. For natural gas, the tax is set at a specified rate in roubles per thousand cubic metres of gas produced, subject to certain reductions. See "—Russian Tax System" below. The natural resource extraction taxes accounted for 15.7%, 18.7%, 14.7%, 17% and 18% of total federal budget revenue in 2007, 2008, 2009, 2010 and 2011, respectively. The prominence of the natural resource extraction taxes, particularly from 2006 to 2008 and again in 2010 and 2011, was a result of the favourable global prices for oil and gas that prevailed at that time.

The corporate profit tax base rate was 24% between 2006 and 2008. The rate was lowered to 20% effective 1 January 2009. The federal portion of the profit tax was 6.5% from 2006 through 2008, with the sub-federal portion equalling 17.5%. From 1 January 2009, the federal and sub-federal allocation was set at 2% and 18%, respectively, with regional authorities entitled to lower their 18% share to 13.5%. Corporate profit tax accounted for 8.7%, 8.7%, 2.9%, 3.1% and 3% of total cash revenue in 2007, 2008, 2009, 2010 and 2011, respectively. The share of federal budget revenues attributable to the profit tax has diminished since 2009, due to the decline in the portion of profit tax allocated to the federal budget and, in 2009, the decline in Russian corporate earnings resulting from the global financial crisis.

Russia's tax system also includes excise duties and a number of other taxes, though they are relatively insignificant to the federal budget. These taxes combined constituted approximately 2.3%, 2.2%, 2%, 2.9% and 3% of federal budget revenues in 2007, 2008, 2009, 2010 and 2011, respectively.

Personal income tax is currently assessed at a flat rate of 13%. All personal income tax revenue is allocated to the sub-federal and local governments.

Customs duties on exports and imports make a sizable contribution to the federal budget. Export duties accounted for 24.9% of federal revenues in 2007, before rising in 2008 to 32.6% of federal budget revenues, on the back of record high oil prices and an increase in the volume of natural gas exports. In 2009, export duties declined to 29.9%, due to the decline in oil prices and to the relatively greater contribution made by other taxes to the federal budget. Export duties as a share of federal budget revenues increased to 30.2% in 2010 due, in part, to a 28.9% increase in the average price for Urals oil in 2010 relative to 2009, and to 38.7% in 2011 due mainly to a 39.8% increase in the average Urals oil price in 2011.

Import duties are also an important source of federal budget receipts and amounted to 6.6%, 7.1%, 6.8%, 7.1% and 6.1% of federal revenues in 2007, 2008, 2009, 2010 and 2011, respectively. The rise in import duties in 2008 relative to 2007 was primarily attributable to the increase in import receipts, which, in turn, was caused, in part, by an increase in the volume of imports and more generally by rising consumer demand and appreciation of the rouble. The 4.2% decline recorded in 2009, compared to 2008, corresponded with an overall decline in imports, which was due to weakening domestic demand resulting from the global financial crisis.

Federal budget revenues are further enhanced by other non-tax revenue, which includes revenues from foreign trade activities (excluding customs duties), proceeds from the granting of licences for the use of natural resources, revenues from the use of state property, including Bank of Russia profit transfers, payments for government services and various other administrative payments. Other non-tax revenues constituted 11.2%, 6.4%, 13.6%, 12.6% and 8.3% of federal budget revenues in 2007, 2008, 2009, 2010 and 2011, respectively. The large decrease in other non-tax revenues in 2008 was primarily due to a decline in revenues from the use of state property, foreign trade activities (excluding customs duties), administrative payments and transfers from regional budgets to the federal budget. The significant increase recorded in 2009 was mainly the result of an increase in revenues from foreign trade activities (excluding customs duties) and revenues from the use of state property. Other non-tax revenues as a share of federal budget revenues decreased to 12.6% in 2010 due to the relatively greater contribution of other taxes to the federal budget and to a decrease in revenues from foreign trade activities (excluding customs duties) and administrative payments. In 2011, other non-tax revenues equalled 8.3% of overall federal budget revenues.

Revenue Performance

In each of the years from 2007 through 2011, federal budget revenue (as a share of GDP) has been higher than originally budgeted.

In 2007, federal budget revenues as a share of GDP remained at 22.2% (or 23.4% of GDP, including UST, which was 4.9% higher than the budgeted amount). Compared with the preceding year, federal tax revenues grew by 28.9% in absolute terms, by 3.7% as a share of GDP and by 4.2% as a percentage of total revenue. This increase was driven mostly by a 49.7% increase in absolute terms in VAT proceeds, which, in turn, was caused by changes in the way domestic VAT is calculated. In 2007, non-tax revenues (including customs duties) also recorded an increase in absolute terms (17.3%); however, as a share of GDP and total revenues, they declined by 5% and 5.1%, respectively. The absolute increase in non-tax revenues was primarily driven by an increase in proceeds from import duties and by large growth in other non-tax revenues. The growth in import duty receipts was, in part, due to an increase in the volume of imports and, more generally, to growing domestic demand for foreign goods and to rouble appreciation. The increase in other non-tax revenues was attributable mainly to growth in revenues from the use of state property, from administrative payments and from transfers from regional budgets to the federal budget.

In 2008, federal budget revenues amounted to 21.2% of GDP (or 22.5% of GDP, including UST, which was 6.1% higher than the originally budgeted target). Federal tax revenues in 2008 grew by 12.9% in absolute terms, although as a share of GDP and total revenues, they fell by 9.4% and 5.9%, respectively. The absolute increase in federal tax revenues was due primarily to a 41.5% growth in absolute terms in proceeds from natural resource taxes and to a 25.1% rise in UST allocated to the Pension Fund. The substantial growth in the natural resource taxes was, in turn, caused primarily by rising international oil prices. In 2008, non-tax revenues recorded a significant increase of 28.5% in absolute terms, together with increases of 2.1% and 8% as a share of GDP and total revenues, respectively. Growth in non-tax revenues was driven by a 55.8% increase in export duties and a 28.2% rise in import duties in absolute terms. Export duties constituted 5.5% of GDP and 6.9% of GDP in 2007 and 2008, respectively, whereas the share of GDP attributable to import duties remained constant at 1.5% in both years. Export duties grew in 2008 primarily because of higher international oil prices, whereas import duties increased, in part, due to an increase in the volume of imports and, more generally, to growing domestic demand for foreign goods and to rouble appreciation.

In 2009, federal budget revenues equalled 17.6% of GDP (or 18.9% of GDP, including UST, which was 13.9% higher than the original budget target). Federal tax revenues in 2009 compared to 2008 declined by 25.5% in absolute terms, 20.6% as a share of GDP and 8% as a share of total revenues. The principal reasons for this decline were a 74.3% drop in absolute terms in profit tax due, in part, to a reduction of the profit tax rate from 24% to 20% in 2009 and a 38.5% contraction in absolute terms in proceeds from natural resource taxes. In 2009, in absolute terms and as a share of GDP, non-tax revenues also declined by 14.9% and 9.2%, respectively. However, as a share of total revenues, non-tax revenues grew by 9.3%. The nominal decrease in non-tax revenues was caused by a 28.6% decline in export duties and a 25.3% decline in import duties, both of which were a function of the weakening economy. Export duties contracted as worldwide demand for Russian commodity exports, especially oil, fell, and import duties declined in line with reduced domestic demand for foreign goods and services. A 66.9% nominal rise in other non-tax revenues (mainly the result of an increase in revenues from foreign trade activities (excluding customs duties) and revenues from the use of state property) partially offset the overall decline in non-tax revenues.

In 2010, federal budget revenues equalled 18.4% of GDP, which was 14.3% higher than the original budget target. In absolute terms, federal tax revenues increased by 13% in 2010 compared to 2009. Although federal tax revenues, as a share of GDP, declined slightly from 10% in 2009 to 9.7% in 2010, as a share of total revenues, they increased from 49.6% in 2009 to 53% in 2010. The absolute increase in federal tax revenues was primarily due to a 21.9% increase in VAT proceeds and a 30.5% increase in profit tax proceeds, both mainly driven by GDP growth, and a 40% increase in proceeds from natural resource taxes, mainly attributable to higher oil prices in 2010 compared to 2009. In 2010 compared to 2009, non-tax revenues increased in absolute terms by 13.4%. However, as a share of GDP and as a share of total revenues, non-tax revenues decreased by 3.4% and 6.7%, respectively. The nominal increase in non-tax revenues was primarily driven by a 13.7% rise in customs revenues, due, in turn, to a 22.8% increase in export duties, and a 12.6% rise in other non-tax revenues. The increase in export duties was primarily due to an increase in the prices for Russian commodity exports including oil.

In 2011, federal budget revenues equalled 20.9% of GDP, which was 18.8% higher than the original budget target. In absolute terms, federal tax revenues increased by 36.9% in 2011 compared to 2010. This increase, in turn, was due to nominal increases in revenues from profit tax (34.3%), VAT (30.1%), excise taxes (93.4%) and natural resource taxes (45.3%). In absolute terms, non-tax revenues rose by 37.2% in 2011 compared to 2010. This increase was due to an increase in revenues from customs duties. Revenues from customs duties rose by 54.3% in nominal terms, due mainly to an increase in export duties.

The Government adopted a resolution in 2000 that allowed enterprises to reschedule their tax arrears in exchange for the full and orderly payment of current tax payments. In 2007 and 2008, tax arrears amounted to 3% of GDP and 2.3% of GDP, respectively. Tax arrears as a share of GDP increased to 3% in 2009, in part due to the global financial crisis, before falling again to 2.4% in 2010 and 1.8% in 2011.

The Government's privatisation proceeds, which are treated as revenue, accounted for 0.1% of GDP in 2007, 0.02% of GDP in 2008 and 0.01% of GDP in each of 2009 and 2010. Privatisation proceeds equalled 0.2% of GDP in 2011.

Federal Budget Expenditure

The following table sets forth information regarding federal budget expenditure for the periods indicated:

Federal Budget Expenditure[1]

	For the year ended 31 December				
	2007	2008	2009	2010	2011
	(millions of roubles)				
Total expenditure	5,986,562	7,570,879	9,636,823	10,115,627	10,935,223
Total expenditure net of UST[2]	5,581,582	7,064,111	9,127,048	10,115,627	10,935,223
Debt service	143,085	153,339	176,155	195,027	262,744
Of which					
Domestic debt service	65,545	83,372	89,123	121,717	190,649
Foreign debt service	77,540	69,967	87,032	73,310	72,095
Non-interest expenditure	5,843,477	7,417,540	9,460,668	9,920,600	10,672,479
Non-interest expenditure net of UST[2]	5,438,497	6,910,772	8,950,893	9,920,600	10,672,118
State administration[3]	672,648	686,051	653,270	690,951	787,050
Law and order[4]	666,975	835,564	1,004,505	1,085,372	1,236,649
Defence[5]	831,875	1,040,855	1,188,174	1,276,481	1,513,732
National economy[6]	987,538	1,154,554	1,802,607	1,457,611	1,478,277
Of which					
Housing expenditures[7]	294,938	129,536	151,630	234,898	226,398
Social and cultural sphere[8]	776,137	1,015,709	1,205,525	1,260,726	1,398,511
Environmental protection[9]	8,200	10,173	13,041	13,472	16,743
Financial aid to regions and other extra-budgetary transfers	856,172	1,094,680	1,480,282	1,378,337	1,470,241
Transfers to state extra-budgetary funds[10]	1,043,932	1,579,954	2,113,162	2,757,649	2,546,877
	(% of GDP)				
Total expenditure	18.0	18.3	24.9	22.4	20.1
Total expenditure net of UST[2]	16.8	17.1	23.5	22.4	20.1
Debt Service	0.4	0.4	0.5	0.4	0.5
Of which					
Domestic debt service	0.2	0.2	0.2	0.3	0.4
Foreign debt service	0.2	0.2	0.2	0.2	0.1
Non-interest expenditure	17.6	18.0	24.4	22.0	19.6
Non-interest expenditure net of UST[2]	16.4	16.7	23.1	22.0	19.6
State administration[3]	2.0	1.7	1.7	1.5	1.4
Law and order[4]	2.0	2.0	2.6	2.4	2.3
Defence[5]	2.5	2.5	3.1	2.8	2.8
National economy[6]	3.0	2.8	4.6	3.2	2.7
Of which					
Housing expenditures[7]	0.9	0.3	0.4	0.5	0.4
Social and cultural sphere[8]	2.3	2.5	3.1	2.8	2.6
Environmental protection[9]	0.0	0.0	0.0	0.0	0.0
Financial aid to regions and other extra-budgetary transfers	2.6	2.7	3.8	3.1	2.7
Transfers to state extra-budgetary funds[10]	3.1	3.8	5.4	6.1	4.7

	For the year ended 31 December				
	2007	2008	2009	2010	2011
	(% of total expenditure net of UST)				
Debt service	2.6	2.2	1.9	1.9	2.4
Of which					
Domestic debt service	1.2	1.2	1.0	1.2	1.7
Foreign debt service	1.4	1.0	1.0	0.7	0.7
Non-interest expenditure net of UST(2)	97.4	97.8	98.1	98.1	97.6
State administration(3)	12.1	9.7	7.2	6.8	7.2
Law and order(4)	11.9	11.8	11.0	10.7	11.3
Defence(5)	14.9	14.7	13.0	12.6	13.8
National economy(6)	17.7	16.3	19.8	14.4	13.5
Of which					
Housing expenditures(7)	5.3	1.8	1.7	2.3	2.1
Social and cultural sphere(8)	13.9	14.4	13.2	12.6	12.8
Environmental protection(9)	0.1	0.1	0.1	0.1	0.2
Financial aid to regions and other extra-budgetary transfers	15.3	15.5	16.2	13.6	13.4
Transfers to state extra-budgetary funds(10)	18.7	22.4	23.2	27.3	23.3
GDP (billions of roubles)	33,248	41,277	38,809	45,166	54,369

Notes:

(1) Figures in this table are current as of 15 February 2012. Beginning in 2011, the Ministry of Finance allocates interbudgetary transfers to each of the line items below "non-interest expenditure net of UST." However, for comparison purposes, the numbers in this table for each of the line items below "non-interest expenditure net of UST" exclude interbudgetary transfers.

(2) The UST was repealed as of 1 January 2010.

(3) Including interbudgetary transfers, in 2011, expenditures on state administration would equal 787,351 million roubles (1.4% of GDP and 7.2% of total expenditures net of UST).

(4) Including interbudgetary transfers, in 2011, expenditures on law and order would equal 1,259,822 million roubles (2.3% of GDP and 11.5% of total expenditures net of UST).

(5) Including interbudgetary transfers, in 2011, expenditures on defence would equal 1,515,960 million roubles (2.8% of GDP and 13.9% of total expenditures net of UST).

(6) Including interbudgetary transfers, in 2011, expenditures on the national economy would equal 2,069,963 million roubles (3.8% of GDP and 18.9% of total expenditures net of UST).

(7) Including interbudgetary transfers, in 2011, expenditures on housing expenditures would equal 279,799 million roubles (0.5% of GDP and 2.6% of total expenditures net of UST).

(8) Including interbudgetary transfers (except for transfers to state extra-budgetary funds), in 2011, expenditures on the social and cultural sphere would equal 1,823,689 million roubles (3.4% of GDP and 16.7% of total expenditures net of UST).

(9) Including interbudgetary transfers, in 2011, expenditures on environmental protection would equal 17,561 million roubles (0.0% of GDP and 0.2% of total expenditures net of UST).

(10) Of the 2,547 billion roubles in transfers to state extra-budgetary funds in 2011, 2,380.1 billion roubles were allocated to the Pension Fund, 145.9 billion roubles were allocated to the Social Insurance Fund and 21.1 billion roubles were allocated to the Federal Medical Insurance Fund.

Source: Ministry of Finance.

Total federal budget expenditure amounted to 16.8% of GDP in 2007 primarily as a result of absolute spending growth in each of the principal non-interest expenditure categories, in particular, national economy (148.3%), state administration (86.6%), financial aid to regions and other extra-budgetary transfers (46.5%), social and cultural sphere (25.9%), defence (22%) and law and order (21.2%).

In 2008, total federal budget expenditure amounted to 17.1% of GDP, an increase in absolute terms of 26.6% compared to 2007, primarily due to spending increases in each of the principal non-interest expenditure categories, in particular, the national economy, social and cultural sphere, financial aid to regions and other extra-budgetary transfers and transfers to state extra-budgetary funds.

Total federal budget expenditure increased significantly in 2009, by 37.4% as a share of GDP to 23.5% of GDP, and by 29.2% in absolute terms. The principal reasons for this growth were increases in spending on the national economy (72% growth as a share of GDP), financial aid to regions and other extra-budgetary transfers (40.7% growth as a share of GDP) and transfers to state extra-budgetary funds (42.1% growth as a share of GDP). Fiscal spending as a percentage of GDP increased substantially in 2009 due to the implementation of the Government's anti-crisis programme.

In 2010, total federal budget expenditure decreased by 4.7% as a share of GDP, despite increasing by 10.8% in absolute terms. The principal reason for this nominal growth was an increase in transfers to state extra-budgetary funds from 5.4% of GDP in 2009 to 6.1% of GDP in 2010. Expenditures on state administration, law and order, defence, the national economy, the social and cultural sphere and financial aid to the regions and other extra-budgetary transfers decreased as a share of GDP in 2010. Spending on the national economy experienced a particularly large decrease, falling by 19.1% in absolute terms and by 37.2% as a share of GDP.

In 2011, total federal budget expenditure decreased by 10.3% as a share of GDP, despite increasing by 8.1% in absolute terms. The principal reason for this nominal growth was a 13.9% increase in nominal terms in state administration and law and order expenditures (excluding interbudgetary transfers), an 18.6% increase in nominal terms in defence expenditures (excluding interbudgetary transfers) and a 10.9% increase in nominal terms in social and cultural expenditures.

Debt service (which includes only payments in respect of discount and interest on Government debt) as a share of GDP remained roughly constant during the period under review (0.4%, 0.4%, 0.5%, 0.4% and 0.5% in 2007, 2008, 2009, 2010 and 2011, respectively). As a share of total expenditure, debt service contracted from 2.6% in 2007 to 1.9% in each of 2009 and 2010 and to 2.4% in 2011. The decline in debt service through 2010 was attributable in part to the Government's conservative debt policies during this period and conservative fiscal policies in 2007 and 2008.

Between 2007 and 2011, the share of non-interest spending in federal expenditures increased by 96.2% in absolute terms and by 19.5% as a share of GDP. Spending in each of the principal non-interest expenditure categories contributed to this growth. In particular, nominal spending (excluding interbudgetary transfers) on law and order, defence and the national economy grew by 85.4%, 82% and 50%, respectively, between 2007 and 2011. Nominal spending on social and cultural programmes also grew during this period.

Deficit Financing

In 2007 and 2008, the enlarged budget (comprising the federal, consolidated sub-federal and local budgets and state extra-budgetary funds) registered a surplus. The enlarged budget's surplus was 6% of GDP in 2007 and 4.9% of GDP in 2008. In 2009 and 2010, Russia recorded enlarged budget deficits of 6.3% of GDP and 3.5% of GDP, respectively. In 2011, Russia's enlarged budget returned to surplus, recording a surplus of 1.6% of GDP.

The federal budget registered annual surpluses of 5.4% of GDP in 2007 and 4.1% of GDP in 2008 and an annual deficit of 6% of GDP in 2009 and 4% of GDP in 2010. In 2011, the federal budget recorded a surplus of 0.8%. The federal budget recorded primary surpluses of 5.8% in 2007 and 4.5% in 2008, primary deficits of 5.5% of GDP in 2009 and 3.6% of GDP in 2010 and a primary surplus of 1.3% in 2011. The surplus decreased in 2008 because of a contraction in tax revenues as a share of GDP, particularly domestic VAT proceeds, and a slight rise in expenditures mainly in the form of transfers to state extra-budgetary funds. In 2009, the federal budget went into deficit due to a decline in tax and non-tax revenues, in particular, revenues collected from profit tax, the natural resource taxes and export duties, and to an increase in government spending, including spending on the national economy, defence, law and order and social programmes and financial aid to regions and other extra-budgetary transfers and state extra-budgetary funds. The decline in revenues was mainly due to the negative effects of the global financial crisis, including lower worldwide demand for Russia's commodities exports. The increase in expenditures, in particular, spending on the national economy and transfers to regional budgets, was, in part, the result of the Government's fiscal stimulus package designed to mitigate the effects of the global financial crisis on the Russian economy. Despite a 10.2% nominal rise in expenditures in 2010 compared to 2009 (see "—Federal Budget Expenditure," above), the federal budget deficit improved to 4% of GDP in 2010 from 6% of GDP in 2009 due to nominal increases in both tax and non-tax revenues. See "—Federal Budget Revenue—Revenue Performance." The federal budget recorded a surplus in 2011 due to both an increase in tax and non-tax revenues. As a share of GDP, tax revenues increased from 9.7% in 2010 to 11% in 2011, which, in turn, was due to an increase in revenues from VAT, excise taxes and natural resource taxes as a share of GDP. As a share of GDP, non-tax revenues increased from 8.6% of GDP in 2010 to 9.9% of GDP in 2011, due mainly to growth in revenues from export duties. Total expenditures, as a share of GDP, dropped from 22.4% in 2010 to 20.1% in 2011, despite increasing in absolute terms by 8.1%. This nominal increase was due to a 34.7% rise in debt servicing expenditures and a 7.6% rise in non-interest expenditures, particularly in expenditures on state administration, law and order, defence and in the social and cultural sphere.

The Government established the Stabilisation Fund in 2004, initially contributing to it approximately 106 billion roubles from the financial reserve. The Stabilisation Fund, the rules for which were set out in the Budget Code, was created to reduce the effects of oil price fluctuations on the Russian budgetary process. Revenue derived from export duties on crude oil and the oil extraction tax, attributable to oil prices in excess of the budget's oil price assumption (U.S.$20 per barrel in 2004 and 2005 and U.S.$27 per barrel in 2006 and 2007), were contributed to the Stabilisation Fund. The base amount of the Stabilisation Fund was fixed at 500 billion roubles. If oil prices fell below the budget's assumed price and, as a consequence, the Stabilisation Fund's assets fell below the base amount of 500 billion roubles, the Stabilisation Fund could only be used for deficit financing.

The federal surplus accounted for 5.4% of GDP for 2007. Net foreign financing in 2007 equalled negative 0.5% of GDP, including the redemption of foreign debt amounting to 0.6% of GDP. Net domestic borrowing amounted to 0.5% of GDP. In 2007, an additional 1,602.8 billion roubles of excess revenue was transferred to the Stabilisation Fund, raising its balance at the end of the year to 3,849.1 billion roubles.

In 2008, the federal surplus totalled 4.1% of GDP. Net foreign financing equalled negative 0.3% of GDP, including the redemption of foreign debt equalling 0.4% of GDP and gross foreign borrowing of 0.1% of GDP. Net domestic borrowing was 0.3% of GDP.

In 2008, the Stabilisation Fund was replaced by the Reserve Fund and National Wealth Fund, and its remaining balance was transferred to the two new funds.

The Reserve Fund was created to ensure the availability of sufficient budgetary funding in the event of a shortfall in the federal budget due to a decline in oil and gas revenues and to alleviate inflationary pressures resulting from the export of natural resources. The Reserve Fund consists of proceeds generated from export customs duties on oil, oil products and gas as well as from taxes levied on the extraction of hydrocarbons. Proceeds in the Reserve Fund must not exceed 10% of Russia's GDP forecast for the particular year. At year-end 2008, the Reserve Fund had a balance of 4,027.6 billion roubles.

The National Wealth Fund was created to support Russia's pension system. Pursuant to a January 2008 Government resolution, as amended, proceeds from the National Wealth Fund may be invested, subject to certain conditions, in a range of assets, including foreign currencies, rouble-denominated assets, debt and equity securities of both Russian and foreign entities and deposits with banks, such as Vnesheconombank. No more than 655 billion roubles may be deposited in Vnesheconombank, and no more than 40% of the National Wealth Fund's overall proceeds may be invested in rouble assets. At year-end 2008, the National Wealth Fund had a balance of 2,584.5 billion roubles.

In 2009, the federal budget recorded a deficit of 6% of GDP. Net foreign financing in 2009 amounted to negative 0.3% of GDP and included the redemption of foreign debt of 0.4% of GDP and gross foreign borrowing of 0.08% of GDP. Net domestic borrowing was 1% of GDP. In 2009, the Ministry of Finance began to use proceeds from the Reserve Fund to finance the federal budget deficit, spending 2,964.8 billion roubles by year-end 2009 for this purpose. In 2009, the Ministry also began to invest Reserve Fund money in IMF instruments, including special drawing rights. As a result of these transactions, at the end of 2009, Russia had acquired U.S.$8.9 billion of special drawing rights. See "Balance of Payments and Foreign Trade—Official Reserves." As of 1 January 2010, the balance of proceeds in the Reserve Fund was 1,831 billion roubles. As of 1 January 2010, the balance of the National Wealth Fund, including the amount on deposit with Vnesheconombank, equalled approximately 2,769 billion roubles.

In 2010, the federal budget recorded a deficit of 4% of GDP. Net foreign financing equalled 0.3% of GDP, including the redemption of foreign debt equalling 0.2% of GDP and gross foreign borrowing of 0.5% of GDP. Net domestic borrowing was 1.4% of GDP. In 2010, the Ministry of Finance continued to use proceeds from the Reserve Fund to finance the federal budget deficit, spending approximately 3,830.6 billion roubles for this purpose. As of 1 January 2011, the balance of proceeds in the Reserve Fund was 775.2 billion roubles. During 2010, the balance of the National Wealth Fund decreased by 2.5 billion roubles to 2,695.5 billion roubles. The reduction in proceeds of the National Wealth Fund during this period was primarily attributable to the co-financing of pensions.

In 2011, the federal budget recorded a surplus of 0.8% of GDP. Redemption of foreign debt equalled 0.2% of GDP and gross foreign borrowing equalled 0.1% of GDP. Net domestic borrowing was 0.6% of GDP. In 2011, no money was spent from the Reserve Fund and 3.4 billion roubles were spent from the National Wealth Fund. The balance of the Reserve Fund and the National Wealth Fund, at 1 January 2012, was 811.5 billion roubles and 2,794.4 billion roubles, respectively. As of 1 February 2012, the balance of the Reserve Fund increased to 1,863 billion roubles. According to the 2012 Budget Law, the balance of the

Reserve Fund is expected to amount to 2,379 billion roubles at year-end 2012, 2,971 billion roubles at year-end 2013 and 4,118 billion roubles at year-end 2014, and the balance of the National Wealth Fund is expected to be 2,662 billion roubles at year-end 2012, 2,671 billion roubles at year-end 2013 and 2,801 billion roubles at year-end 2014.

Federal-Sub-Federal Fiscal Relations

The three sources of funding for the Federation subjects are tax revenues (both federal and regional), non-tax revenues and transfers from the federal budget.

Sub-federal and local governments are directly assigned a specified portion of the revenue from certain federal taxes. From 2009, sub-federal and local governments have been allocated proceeds from the following federal taxes: 100% of personal income tax, 18% of the profit tax (see discussion below), 100% of excise taxes on alcohol production and beer, 50% of excise taxes on ethyl alcohol from foodstuffs and on certain other products containing alcohol, 100% of widespread mineral deposits and diamond extraction taxes, (in 2009 only) 5% of the hydrocarbon tax (excluding the natural gas extraction tax) and 60% of certain other mineral extraction taxes. Taxes imposed directly by the sub-federal subjects since 2009 include the property tax on organisations, the transport tax and the gambling business tax. Taxes imposed directly by local governments include the land tax and the property tax on individuals. The share of domestic VAT transferable to the regions is zero.

In 2007 and 2008, Russia imposed a profit tax at the unified rate of 24%. Of the 24% profit tax, 6.5% was allocated to the federal budget and 17.5% was allocated to the regional budgets. The unified profit tax rate was lowered to 20% effective 1 January 2009, of which 2% is allocated to the federal budget and 18% to the regional budgets, which regional authorities, at their discretion, may lower to 13.5%. 100% of the revenues from the natural gas extraction tax and, effective 1 January 2010, 100% of the revenues from the hydrocarbon extraction tax are transferred to the federal budget. Between 2007 and 2009, 95% of the hydrocarbon extraction tax was transferred to the federal budget, with the remaining 5% allocated to regional budgets. The federal authorities may change the distribution of taxes in a given year only through legislative amendment.

In 2009, revenues of the consolidated sub-federal budgets stood at 5.9 trillion roubles, an approximate 4.4% decrease compared to 2008. In 2008 and 2009, tax and non-tax revenues comprised 82.3% and 75%, respectively, of the overall revenues of the consolidated sub-federal budgets. In 2010, revenues of the consolidated sub-federal budgets stood at 6.5 trillion roubles, an approximate 10.3% increase compared to 2009. Federal financial aid accounted for 21.1% of the overall revenues of the consolidated sub-federal budgets in 2010, compared to 25% in 2009. In 2011, revenues of the consolidated sub-federal budgets stood at 7.6 trillion roubles, an approximate 16.9% increase compared to 2010. Federal financial aid accounted for 8.5% of overall revenues of the consolidated sub-federal budgets in 2011, a significant decrease from 2010 when federal financial aid comprised 21.1% of overall consolidated sub-federal budget revenues.

Due to significant differences in the level of social-economic development among the Federation subjects, the Government has established various regional support funds, i.e., expenditure line items in the federal budget, through which it allocates by means of subsidies and transfers a portion of federal tax revenues to those regions most in need of assistance.

Since its establishment in 1994, the Fund for Regional Support has been a primary source of federal financial support to regional governments. Through this fund, 260.4 billion roubles, 328.6 billion roubles, 374 billion roubles and 397 billion roubles in 2007, 2008, 2009 and 2010, respectively, were transferred to the regions. In 2011, federal subsidies channelled through this fund amounted also to 397 billion roubles. As a result of these subsidies, the gap in financial means between the wealthiest Federation subjects and the poorest has narrowed.

The Compensation Fund was established in 2001, initially to provide financial support to regional budgets to help finance obligations, including under various social laws, such as the Law On Social Protection of the Handicapped and the Law On Childhood Benefits. In 2008, the purpose of the Compensation Fund was broadened to include the financing of any regional expenses incurred in connection with the performance of obligations delegated to the Federation subjects by the federal Government. In 2007, 2008, 2009 and 2010, federal subsidies channelled through the Compensation Fund amounted to 141.2 billion roubles, 153.2 billion roubles, 285 billion roubles and 379 billion roubles, respectively. In 2011, federal subsidies transferred through the Compensation Fund amounted to 338.3 billion roubles.

The Fund for Co-Financing Social Expenditure was established in 2002 (and renamed the Fund for Co-Financing Expenditure in 2008) to co-finance expenditures on health care, culture, education and salaries of public sector employees, as well as subsidies for housing and public utilities. Federal subsidies provided through this fund amounted to 356.8 billion roubles, 435.9 billion roubles, 531 billion roubles and 414.5 billion roubles in 2007, 2008, 2009 and 2010, respectively. In 2011, federal subsidies provided through this fund equalled 514.7 billion roubles.

Consolidated sub-federal budget expenditures (including expenditures financed by federal transfers and federal budget loans) were 14.4% of GDP in 2007, 15.1% of GDP in 2008, 16.1% of GDP in 2009. 14.7% of GDP in 2010 and 14.1% of GDP in 2011. Social expenditures by regional and local authorities are substantial (approximately 7.8% of GDP in 2007 and 7.4%, 8.4%, 8.1% and 8.3% in 2008, 2009, 2010 and 2011, respectively). Between 2007 and 2011, sub-federal governments financed approximately 76-79% of education expenditure. From 2007 through 2009, sub-federal government expenditure accounted for a decreasing proportion of health care expenditure (79.4%, 73.8% and 68.3% of total health care expenditure in 2007, 2008 and 2009, respectively). In 2010 and 2011, consolidated sub-federal government expenditure accounted for 69.6% and 70.5% of health care expenditure, respectively. Sub-federal spending on the national economy, a portion of which is allocated to housing programmes, is also substantial, amounting to 5.1%, 5.4%, 5.1%, 4.3% and 4.2% of GDP in 2007, 2008, 2009, 2010 and 2011, respectively.

Significant progress has been made in Russia in the area of federal/sub-federal fiscal relations. All extraordinary fiscal arrangements between the regions and the federal Government have been eliminated. The transfer of federal funds to the regions has become more transparent and efficient through the creation of new funds, the reconfiguration of existing funds and the introduction of new methods to calculate transfer volumes. In 2003, the Law on General Principles of Regional Government Organisation was amended, and a new law on local self-governance was adopted. These two laws established a clear division of spending powers among the various levels of the budgetary system. They also introduced a mechanism for transferring authority from one budgetary level to another, intended to prevent non-financed mandates and to impose temporary restrictions on the budgetary powers of insolvent regional and local authorities. Amendments to the Budget Code and Tax Code that came into effect in 2005 provide a framework for the implementation of the division of fiscal powers.

State Extra-Budgetary Funds

At present, the largest state extra-budgetary funds are the Pension Fund (expenditures of 1,786.5 billion roubles, 2,357.8 billion roubles, 3,008.7 billion roubles and 4,249.2 billion roubles in 2007, 2008, 2009 and 2010, respectively), the Social Insurance Fund of the Russian Federation (the "Social Insurance Fund") (expenditures of 303.1 billion roubles, 379.4 billion roubles, 448.5 billion roubles and 491.2 billion roubles in 2007, 2008, 2009 and 2010, respectively) and the Federal Medical Insurance Fund (expenditures of 158.2 billion roubles, 168.7 billion roubles, 130 billion roubles and 109.1 billion roubles in 2007, 2008, 2009 and 2010, respectively). According to preliminary data, in 2011, expenditures from the Pension Fund, Social Insurance Fund and Federal Medical Insurance Fund equalled 4,822.4 billion roubles, 456.9 billion roubles and 336 billion roubles, respectively. The substantial increase in the Federal Medical Insurance Fund in 2011 was mainly due to expenditure as part of the 2011 healthcare modernisation programme. The large rise in Pension Fund expenditure in 2009 and 2010 was due to a Government decision to increase the size of pensions to subsistence levels. Between 25% and 30% of the Russian population receives pensions.

In 2001, nearly all social contributions were consolidated into the UST, a single 35.6% payroll tax, paid by employers. In 2005, the UST was reformed, and a regressive scale of payroll for higher wages was introduced. The top rate was reduced to 26%, with 20% transferred to the federal budget, 3.1% transferred to federal and regional medical insurance funds and 2.9% transferred to the Social Insurance Fund. Before the UST was abolished, the employer was entitled to offset a portion of its 20% UST transfer to the federal budget against its mandatory contributions to the Pension Fund. Since 2005, the Pension Fund also receives transfers from the federal budget to finance social benefits and, until the repeal of the UST at the end of 2009, to cover the difference between UST proceeds and pension commitments. Regional medical insurance funds receive transfers from regional budgets and the Federal Medical Insurance Fund. See "The Russian Economy—Pension Reform" above and "—Russian Tax System" below.

Effective 1 January 2010, the UST was repealed and replaced with a system of direct payments to state extra-budgetary funds. In 2010, the employer made direct payments equal to 26% of the first 415,000 roubles of each employee's annual salary, which amount was increased in 2011 to 34% of the first 463,000 roubles of each employee's annual salary. Contributions to these social funds do not affect the basis for determining the employer's profit tax.

The current state extra-budgetary funds have generally remained balanced since their creation in 1992, reflecting their stable revenue base. State extra-budgetary funds recorded an overall surplus of 0.5% of GDP in 2007, 0.9% of GDP in 2008, 0.5% of GDP in 2009, 0.7% of GDP in 2010 and 0.8% in 2011. The Pension Fund ran overall surpluses of 0.5% of GDP in 2007, 0.9% of GDP in 2008, 0.6% of GDP in 2009, 0.8% of GDP in 2010 and 0.6% of GDP in 2011. However, these surpluses in the Pension Fund take into account a growing proportion of contributions to the Pension Fund from the federal budget. For example contributions from the federal budget to the Pension Fund amounted to 197.1 billion roubles (0.5% of GDP) in 2008, 399.3 billion roubles (1% of GDP) in 2009, 1,316.3 billion roubles (2.9% of GDP) in 2010 and 924.4 billion roubles (1.7% of GDP) in 2011. In 2012, contributions to the Pension Fund from the federal budget are anticipated to amount to 1,075.1 billion roubles (1.9% of GDP). In 2009, 2010 and 2011, the federal budget also allocated 70.7 billion roubles (0.2% of GDP), 45.1 billion roubles (0.1% of GDP) and 65.4 billion roubles (0.1% of GDP), respectively, to cover the deficit in the Social Insurance Fund.

In 2012, the Pension Fund's budget law envisages revenue of 5,696.9 billion roubles, or 9.7% of GDP, and expenditure of 5,407.3 billion roubles, or 9.2% of GDP. Pension Fund expenditures are expected to increase in the future as a result of demographic and other factors.

Russian Tax System

Beginning in 1999, Russia initiated a tax reform programme, which has reduced the total number of taxes, improved the stability, transparency and fairness of the system through the elimination of certain tax exemptions, reduced the overall tax burden and improved tax collection. As a result of these reforms, the following taxation measures have been put into place.

Russia imposes a flat personal income tax rate (13%), which replaced the previous progressive scale of between 12% and 30%. Certain types of income, such as interest income from bank deposits in excess of certain limits, however, remain subject to tax at 35%. The tax rate for income in the form of dividends is 9%, and the personal income tax rate for non-residents is now 30%, except for income in the form of dividends, which is taxed at 15%, and income from certain types of labour activities, which is taxed at 13%. Certain types of income earned by an individual from a donation or inheritance is subject to the 13% personal income tax instead of the previous donation and inheritance taxes.

Prior to 2010, Russia also imposed the UST, which, through 2009, was assessed pursuant to the following regressive scale: a rate of 26% on annual wages up to 280,000 roubles; a rate of 10% on the portion of annual wages between 280,001 roubles and 600,000 roubles; and a rate of 2% for the portion of annual wages in excess of 600,000 roubles. The UST was abolished as of 1 January 2010. See "—Federal Budget Revenue—Sources of Federal Revenue" and "—State Extra-Budgetary Funds" above.

Prior to 2009, Russia imposed a profit tax at a unified rate of 24%. In 2007 and 2008, of the 24% profit tax, 6.5% was allocated to the federal budget and 17.5% was allocated to the regional budgets. The unified profit tax rate was lowered to 20% effective 1 January 2009, of which 2% is allocated to the federal budget and 18% to the regional budgets, which regional authorities, at their discretion, may lower to 13.5%. During recent years, the number of permitted profit-related tax deductions was expanded, for example, the ability to deduct research and development expenses was introduced. In addition, a deductible amortisation premium of 10% or 30% on new capital assets (depending on the asset) was introduced. Profit tax is calculated using an accrual, as opposed to cash, method.

Russia imposes a modified royalty tax on natural resource extraction, which replaced three taxes on natural resources, including the royalty and excise taxes on crude oil and mineral restoration payments. The natural resource extraction tax on oil is calculated according to a formula that takes international oil prices and the rouble exchange rate into account. Since 1 January 2012, the natural resource extraction tax rate for oil has equalled 446 roubles per tonne. The natural resource extraction tax charged on natural gas is currently 509 roubles per thousand cubic metres, although for certain taxpayers this amount may be reduced.

Small businesses pay a single tax under a simplified tax system, pursuant to which such firms elect to pay either 6% of revenues or 15% of profits.

In 2004 and 2005, sales tax and a number of local taxes and fees were either reduced or eliminated. The general VAT rate was reduced from 20% to 18% (though some goods retained their preferential 0% and 10% rates), and the 0.8% tax on securities operations was abolished. A stamp duty applicable to the issuance of securities was introduced and is assessed at a rate of 0.2% of the aggregate amount of the securities being issued up to 200,000 roubles. Excise duties were indexed or, in the case of natural gas, abolished.

Beginning in 2006, general VAT is calculated using an accrual method, as opposed to the previous choice between cash or accrual methods. Additionally, input VAT may now be offset or refunded as soon as an invoice is received, instead of after payment has been made for the purchased asset. As of 1 January 2007, VAT refunds on transactions levied at a 0% rate may be claimed through a VAT declaration, eliminating the need for a separate VAT return.

A property tax is imposed on legal entities and organisations at a maximum rate of 2.2% of the tax base. Property tax revenue is allocated to sub-federal budgets, and regional authorities may set lower rates in their jurisdictions. A preferred tax regime for agricultural producers is also in place, under which a unified agricultural tax (including a preferred regime for payments to social funds) has replaced corporate income tax, VAT and property tax. Regional land taxes are determined region-by-region and are calculated on a cadastral-value base, with a maximum general rate of 1.5%.

Export duties on oil are determined on a monthly basis by the Government based on the average market price of Urals oil and are currently assessed in the following manner. For average market oil prices of up to U.S.$109.50 per tonne, export duty is 0%; for average market prices between U.S.$109.50 and U.S.$146 per tonne, the export duty is assessed at up to 35% of the difference between the average market price and U.S.$109.50; for average market prices between U.S.$146 and U.S.$182.50 per tonne, the export duty is assessed at up to 45% of the difference between the average market price and U.S.$146 plus U.S.$12.78; and when the average market price exceeds U.S.$182.50 per tonne, the export duty is assessed at up to 65% of the difference between the market price and U.S.$182.50 plus U.S.$29.20. For March 2012, the export duty on oil is U.S.$411.20 per tonne. The export duty on natural gas is 30% of its customs value.

Fiscal Reforms

In 2005, the Government adopted reforms for its social benefit programme and reforms resulting in the redistribution of tax revenue and obligations between budgets of different levels.

Social benefit reform is focused on eliminating unfunded benefit entitlements and replacing social privileges with targeted social benefits, generally in the form of monthly cash payments. See "The Russian Economy—Social Benefits and Expenditure." These changes are intended to improve the efficiency of the social protection programmes and to balance the responsible government's social obligations and financial resources.

Certain obligations have also been redistributed between governments. Civil defence and internal security outlays, military commissariats and care for the disabled have been transferred to the federal budget. Expenditures for the maintenance of kindergartens, vocational-technical schools and general-education schools and certain other social expenses have been transferred to regional budgets.

Since 2005, federal and all regional and local budgets have been prepared in accordance with international standards of budget accounting. These new classifications relate to budget revenues, expenditures and sources of deficit financing.

The Government adopted a plan for the reform of the 2004-2006 budgetary process, which was intended to focus on results-oriented budgeting, in an attempt to shift the focus from managing financial resources to managing results. The reform measures included increased autonomy and responsibility for the departments, agencies and individuals managing expenditures and explicit medium-term benchmarks. As a part of these reforms, the Government envisaged the shift to multi-year budgeting and developed rules regulating deviations from the volume and structure of budget appropriations. Government liabilities were also subdivided into separate recurring and non-recurring amounts. These reforms continued to be implemented in 2007 and 2008.

In June 2010, the Government approved a programme through 2012 that is designed to enhance the effectiveness of budgetary expenditures. In particular, the programme envisages the development of measures for ensuring the long-term stability of the country's budgetary system and for continuing the shift towards results-oriented budgeting.

MONETARY AND FINANCIAL SYSTEM

The Bank of Russia

The Bank of Russia is Russia's central bank, established by the Constitution and federal law as an independent entity with specific powers and responsibilities. Pursuant to the Law on the Bank of Russia, as amended (the "Law on the Bank of Russia"), the Bank of Russia is charged with responsibility for protecting and ensuring the stability of the rouble, developing and strengthening Russia's banking system and ensuring the efficient and uninterrupted functioning of the settlement system. The Law on the Bank of Russia prohibits any government authority from interfering with activities undertaken by the Bank of Russia in furtherance of its constitutionally and legislatively determined responsibilities, permits the Bank of Russia to issue resolutions within its area of competence and subjects all federal laws and federal executive actions that would affect the activities of the Bank of Russia to review by the Bank of Russia. The Bank of Russia is accountable to the State Duma in that it is required to present an annual report of its activities to the State Duma and to solicit the State Duma's views on the Bank of Russia's monetary policy.

The Bank of Russia has monopoly authority over the printing of money and is also responsible for acting as lender of last resort to Russian credit institutions, holding a substantial part of Russia's official reserves, registering credit organisations (together with the Federal Tax Service), issuing banking licences and overseeing the bankruptcy and liquidation proceedings of credit institutions.

The Bank of Russia's governor, who is also the chair of the Bank of Russia's 12-member board of directors, is nominated by the President and confirmed by the State Duma. The governor is appointed for a four-year term, and under the Law on the Bank of Russia may not be dismissed except pursuant to grounds provided in the Law on the Bank of Russia, including violation of a federal law relating to the activities of the Bank of Russia or the commission of a crime. Sergei Ignatiev, who began his term on 20 March 2002, is the current governor of the Bank of Russia. Members of the board of directors of the Bank of Russia are nominated by the Bank of Russia's governor and confirmed by the State Duma. Board members serve four-year terms, may be dismissed only with the governor's approval and may not be officers of the Government or members of the Federal Assembly.

The Bank of Russia registers (together with the Federal Tax Service) and licenses all credit institutions, regulates their banking activities and establishes accounting and record-keeping standards. The Bank of Russia also sets standards for banks with respect to capital adequacy, loan loss provisions and exposure to individual creditors and shareholders. The Bank of Russia monitors compliance by commercial banks with its regulations through a reporting system, periodic inspections and requests for information, and enforces its regulations through a variety of sanctions, including the power to issue warnings, impose temporary restrictions on a bank's activities, appoint a temporary administrator, impose fines and revoke banking licences.

The Bank of Russia also supervises acquisitions in the banking sector. Any acquisition of more than 1% of the charter capital of a credit institution requires notice to the Bank of Russia, and any acquisition of more than 20% requires prior Bank of Russia approval. Prior Bank of Russia consent is also required for any direct or indirect acquisition of shares in a credit institution crossing certain ownership thresholds (including, for example, 25%, 50% and 75% thresholds) and for any purchase of a 100% stake in such credit institution.

Amendments to the Law on the Bank of Russia enacted in 2002 expanded the Bank of Russia's functions and adjusted the composition of the National Banking Committee, the government-controlled supervisory board of the Bank of Russia. The Committee consists of representatives of the Government, the Federation Council, the State Duma, the Presidential Administration and the Bank of Russia's governor. The Bank of Russia's accounting rules and staff salaries are subject to the Committee's approval. According to the Law on the Bank of Russia, as of 1 January 2012, the statutory capital of the Bank of Russia was three billion roubles.

Monetary Policy

Money Supply

The following table sets forth information concerning Russia's money supply as of the dates indicated:

Monetary Survey[(1)]

	As of 1 January				
	2008	**2009**	**2010**	**2011**	**2012**
	(millions of roubles, except ratio)				
Net foreign assets	9,912,850	12,190,758	13,904,688	15,041,198	17,267,819
Claims on nonresidents	14,050,190	17,210,975	18,215,742	19,774,767	22,883,065
Liabilities to nonresidents	4,137,339	5,020,216	4,311,055	4,733,568	5,615,246
Domestic claims	7,951,912	10,078,161	13,241,822	17,468,220	22,195,882
Net claims on general government	(5,126,530)	(7,867,138)	(5,174,038)	(3,318,681)	(4,403,929)
Claims on general government	1,223,299	1,242,601	1,738,827	2,306,883	3,021,865
Liabilities to general government	6,349,829	9,109,738	6,912,865	5,625,565	7,425,794
Claims on other sectors	13,078,442	17,945,299	18,415,861	20,786,901	26,599,812
Other financial institutions	227,007	498,341	564,379	648,990	1,177,496
Public nonfinancial organisations	289,320	294,811	287,027	299,299	376,649
Other nonfinancial organisations	9,317,091	12,771,892	13,631,849	15,312,772	18,990,226
Households	3,245,024	4,380,254	3,932,605	4,525,840	6,055,441
Broad money	14,236,123	16,276,697	19,095,800	23,791,156	28,814,904
Currency in circulation[(2)]	3,702,237	3,794,829	4,038,051	5,062,746	5,938,555
Transferable deposits[(3)]	3,829,440	3,787,544	4,247,619	5,762,583	6,882,366
Other financial institutions	212,261	235,662	194,504	282,514	357,096
Public nonfinancial organisations	292,353	403,267	461,535	526,191	573,497
Other nonfinancial organisations	2,400,672	2,242,256	2,457,783	3,311,434	3,782,057
Households	924,154	906,359	1,133,796	1,642,443	2,169,715
Other deposits	6,704,446	8,694,323	10,810,129	12,965,827	15,993,982
Other financial institutions	263,979	578,014	621,403	603,337	986,421
Public nonfinancial organisations	85,352	94,552	180,182	202,931	203,604
Other nonfinancial organisations	2,065,195	2,968,660	3,600,220	3,893,533	5,013,125
Households	4,289,921	5,053,098	6,408,324	8,266,026	9,790,833
Deposits not included in broad money	40,518	307,041	336,399	289,021	533,344
Securities not included in broad money	701,375	657,165	617,860	643,084	792,411
Shares and other equity	3,201,948	5,151,066	6,181,436	6,968,692	7,593,488
Other items (net)	(315,202)	(123,049)	915,016	817,465	1,729,554
Other liabilities	1,306,187	2,197,940	3,616,755	3,767,406	5,054,781
Other assets	1,438,613	2,079,655	2,351,613	2,591,521	2,915,715
Memo:					
Monetary base (broad definition)[(4)]	5,513,332	5,578,717	6,467,318	8,190,329	8,644,100
Money supply (M2) (national definition)[(5)]	12,868,978	12,975,865	15,267,572	20,011,894	24,543,400
Velocity of M2[(6)]	3.16	3.11	3.05	2.67	2.64

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by the Bank of Russia. Data are presented in accordance with the IMF's "Monetary and Financial Statistics Manual" (IMF, 2000). Data in this table are current as of 9 February 2012.

(2) Comprises cash issued by the Bank of Russia into circulation less currency holdings of the Bank of Russia and credit institutions.

(3) Comprises domestic currency current and other demand deposits within the banking system.

(4) Comprises cash outside the Bank of Russia, correspondent account balances, deposit account balances and required reserves of credit institutions maintained at the Bank of Russia and Bank of Russia bonds held by banks.

(5) M2 is defined as total cash in circulation (outside banks) and balances in the domestic currency on accounts of resident non-financial organisations, financial organisations (excluding credit organisations) and individuals.

(6) Average velocity based on monthly series of M2 and nominal GDP for the period

Source: Bank of Russia.

The Bank of Russia's monetary policy is focused on creating conditions for lower inflation and on maintaining exchange-rate stability. In response to the global financial crisis, beginning in the second half of 2008, the Bank of Russia implemented a set of additional measures designed to maintain financial sector stability, and, in particular, expanded the volume of liquidity available to the banking and corporate sectors. As the Russian economy continues to recover from the crisis, the Bank of Russia intends to gradually reduce its use of anti-crisis measures, while at the same time maintaining a stimulative, growth-oriented monetary policy with relatively low interest rates. Going forward, the Bank of Russia intends to switch to an inflation-targeting and free floating exchange rate regime and at the same time continue the transition from an exchange rate based policy to an interest rate based policy.

In 2006 and 2007, large purchases of dollars by the Bank of Russia resulted in the rapid growth of Russia's international reserves and monetary aggregates. M2 increased by 48.7% in 2006 compared to 2005 and by 43.5% in 2007 compared to 2006. In 2006, positive trends in foreign trade continued and Russia experienced additional growth in its current account surplus. Although the current account surplus and trade balance deteriorated in 2007, each remained higher than its 2004 level (the current account surplus and trade balance in 2007 exceeded their 2004 levels by approximately 31% and 53%, respectively). Concurrently, positive changes in the Russian economy, an improved investment climate, sustained economic growth and political stability led to increases in foreign investment. The general decline of the dollar against other major currencies also contributed to this exchange inflow, as did the high prices for commodity exports, particularly oil, and the low interest rates available in the international capital markets, which facilitated high levels of foreign borrowing by the Russian corporate sector. Since 2004, Russia has been assigned an investment grade rating from all three major credit rating agencies (Moody's upgraded Russia's rating in 2003, and Fitch and Standard & Poors followed suit in 2004), which supported international investment in Russia and helped underpin a sustained appreciation of the rouble through the first three quarters of 2008.

The large inflow of foreign currency in 2006 and 2007 caused a persistent excess of foreign currency supply over demand. To prevent excessive rouble appreciation, the Bank of Russia purchased foreign exchange in large amounts. Total official reserves increased by U.S.$121.49 billion in 2006 and U.S.$175 billion in 2007. The Bank of Russia was supported in this effort by the Stabilisation Fund, which absorbed a substantial amount of Russia's export revenues and thereby allowed the Bank of Russia to sterilise a significant volume of its foreign exchange interventions during this period.

During the first half of 2008, foreign currency inflows continued due to high energy prices, and the Bank of Russia continued to undertake sterilisation operations to slow appreciation of the rouble. As a result, official reserves increased by approximately U.S.$90.2 billion in the first half of 2008. During the same period, the Bank of Russia tightened its monetary policy in order to control inflation. Between February and July 2008, the refinancing rate was raised in four separate increments from 10% to 11% per annum.

Beginning in the third quarter of 2008, the global financial crisis had a substantial negative effect on the Russian financial and currency markets. The prices of Russia's key exports, including oil, declined, and investors began to withdraw funds from rouble-denominated assets in line with an acceleration of capital outflows from emerging markets in general. Consequently, foreign currency inflows decreased considerably in the second half of 2008, and demand for foreign currency outpaced supply. The amount of hard currency generated through direct repo deals in 2008, most of which was provided in the fourth quarter of the year, totalled 21.51 trillion roubles, nearly triple the amount disbursed in 2007. In the fourth quarter of 2008, the Bank of Russia also adopted measures to stabilise the banking sector. To address the shortage of rouble liquidity and prevent corporate bankruptcies, the Bank of Russia initiated a plan whereby banks, depending on their credit rating, were entitled to receive unsecured loans worth up to 150% of their equity capital. By the end of 2008, more than 140 banks qualified for this programme, and, by February 2009, debt on unsecured loans rose to 1.92 trillion roubles. See "—Banking—Anti-Crisis Measures" for a more complete discussion of the policies undertaken to support the banking sector. As a consequence of its interventions, the Bank of Russia's total official reserves decreased by approximately U.S.$142.7 billion in the second half of 2008. During the latter part of 2008, the Bank of Russia raised its refinancing rate on three occasions (from 10.75% to 11% on 14 July, 12% on 12 November and 13% on 1 December). Due, in part, to a relatively tight monetary policy as well as to substantial capital outflows, the overall growth of M2 in 2008 slowed considerably, increasing by 0.8% compared to the preceding year.

The global financial crisis continued to negatively impact the Russian economy in 2009. In early 2009, in an effort to constrain inflationary pressures, the Bank of Russia raised rates on its open market operations; however, it left its refinancing rate unchanged. Concurrently, the demand for foreign currency continued to outpace supply (net sales of foreign currency to households and foreign currency deposits increased substantially in January) and private capital outflows continued to rise, both of which, in turn, contributed to an outflow of international reserves and a contraction in M2 in January. The reduction in M2 exacerbated the shortage of credit in the domestic banking sector and caused short-term rates on interbank loans to rise, which prompted the Bank of Russia to use its refinancing operations to provide more liquidity to credit institutions. In January, the Bank of Russia provided an average of approximately 820 billion roubles in credit per day to the banking sector.

Beginning in February 2009, the Russian markets exhibited certain signs of recovery. By the second quarter, the Government's anti-crisis measures began to take effect, inflationary pressures partially subsided, the exchange rate began to stabilise and the price of oil experienced a slight recovery. As conditions on the domestic foreign exchange market improved, the banking sector's demand for additional liquidity began to fall (the average daily volume of liquidity injection operations carried out by the Bank of Russia declined through the remainder of 2009 from its January peak and the volume of unsecured Bank of Russia loans to banks began to contract from its peak in February).

As a result of the relatively more favourable economic environment, the Bank of Russia was able to ease the tight monetary policy it had kept in place since the second half of 2008. In particular, the Bank of Russia implemented a series of interest rate reductions, which were, in part, designed to reduce the high cost of credit and alleviate the liquidity shortage. During the last three quarters of 2009, the Bank of Russia lowered its refinancing rate from 13% to 8.75% and reduced its minimum rates on direct one-day REPO transactions from 10% to 6%, causing rates on short-term interbank credit to fall as well. The interest rate reductions were limited in their ability to expand the credit base, however, by high borrower risk estimates (in part due to growth in overdue loans to non-financial organisations and households), general uncertainty over the economy and the need for banks to restructure their balance sheets and thus keep assets as liquid as possible. In all of 2009, M2 increased by 17.7% despite its initial contraction in January. The increase was largely due to the Bank of Russia's operations on the domestic foreign exchange market and the expansion of net credit to the federal Government, which was prompted, in turn, by the decision to use proceeds from the Reserve Fund to cover the budget deficit. The Bank of Russia's total official reserves increased overall in 2009 by U.S.$13.2 billion, supported by the strengthening of the rouble and the resumption of foreign currency inflows in the final three quarters of the year.

In the first half of 2010, the Bank of Russia continued to ease its monetary policy in an effort to stimulate credit activity and internal demand. In particular, it reduced its refinancing rate four times. From 1 June 2010 through the end of the year, the refinancing rate equalled 7.75%. The Bank of Russia also lowered the upper and lower limits of its interest rate band during the first half of 2010. It lowered its overnight credit rate, the upper limit, on four occasions, from 8.75% to 7.75%, and its "tom-next" deposit rate and standard overnight deposit rate, the lower limit, on three occasions, from 3.5% to 2.5%. Cuts in the Bank of Russia's interest rate band, in turn, led to a decline in interbank rates. During the second half of 2010, the Bank of Russia maintained its accommodative monetary policy. It left its key interest rates unchanged, except that it increased the stand-by deposit rate from 2.5% to 2.75% effective 27 December 2010 in order to reduce interest rate volatility and absorb surplus liquidity. M2 increased by 31.1% in 2010. The increase in M2 was the result of several factors: The Bank of Russia's interventions on the foreign exchange market, the partial financing of the federal budget from the Reserve Fund and, particularly in the second half of 2010, the expansion of bank lending to the real economy. Total official reserves increased by U.S.$39.9 billion in 2010.

To manage inflation risks, the Bank of Russia gradually tightened its monetary policy in the first half of 2011. In particular, the refinancing rate was increased to 8% in the first quarter of 2011 and then again to 8.25% in the second quarter of the year. At the same time, the overnight credit rate was increased twice (to 8% in February 2011 and then again to 8.25% in May), and the overnight deposit rate was increased four times (to 2.75% at the beginning of 2011, and then to 3% in February, 3.25% in the beginning of May and 3.5% at the end of May). During the summer months, the Bank of Russia kept its key monetary policy parameters unchanged due, in part, to slower inflation and continued uncertainty about the economic recovery. In September 2011, due in part to a contraction in banking sector liquidity, the Bank of Russia increased interest rates on certain of its liquidity absorption operations and lowered interest rates on liquidity provision operations, thereby narrowing its interest rate band. For example, the overnight deposit rate was increased to 3.75%, while rates on Lombard loans were lowered from 6.75% to 6.5%. In 2011, M2 increased by 22.6%. This slowdown in the rate of growth (compared to 31.1% in 2010) was reflected in a decrease in the rate of growth of household rouble deposits (22.4% in 2011, compared to 43.6% in 2010). Nevertheless, the growth in M2 was mainly due to an expansion of bank lending to the real economy, as in 2010. In December 2011, the Bank of Russia narrowed the interest band further, lowering the overnight credit rate to 8% and the rates on Lombard loans to 6.25%, while increasing the standard overnight deposit rate to 4%. In late December 2011, the refinancing rate was lowered to its current rate of 8%.

Inflation

At 9% and 11.9%, respectively, consumer price inflation remained relatively high in 2006 and 2007. Producer price inflation also remained high during this period, amounting to 10.4% in 2006 and 25.1% in 2007. The gradual adjustment of prices for communal services, electricity and transport continued to be one of the leading drivers of overall inflation during this period. High oil prices also continued to exert additional upward pressure on prices.

Despite a deceleration in the growth of M2 in 2008, consumer price inflation during this period increased to 13.3%, its highest annual level since 2002. This increase was primarily attributable to the global financial crisis. As the global crisis began to impact the Russian economy in the third quarter of 2008, confidence in the banking sector deteriorated. This, in turn, caused domestic savings to decrease and consumption to increase, thereby fuelling inflationary pressures. At the same time, the depreciation of the rouble, and, in particular, the November 2008 devaluation (see "—Exchange Rates" below), caused further upward pressure on consumer price levels, especially given the strong dependence of the country's consumer market on imports of finished products and raw materials. During 2008, industrial prices exhibited 7% deflation primarily because of a contraction in prices in the mining and quarrying and coke and refined petroleum manufacturing sectors.

In 2009, the increase in M2 was accompanied by a decline in consumer price inflation to 8.8%. The inflation rate decreased in 2009 primarily because of the Bank of Russia's tight monetary policy in the beginning of the year, the overall slowdown in economic growth, including lower consumer income and depressed demand, and the rouble appreciation that began at the end of the first quarter. The decline in consumer price inflation occurred despite the gradual easing of interest rates in the second, third and fourth quarters and the devaluation of the rouble in the beginning of the year. During 2009, industrial prices rose by 13.9% mainly due a surge in prices in the mining and quarrying and coke and refined petroleum manufacturing sectors, as well as in electricity, gas and water production and supply.

Consumer price inflation in 2010 remained at 8.8%, the same level as in 2009. Consumer prices decelerated to 6.2% in the first nine months of 2010 compared to 8.1% in the first nine months of 2009. However, consumer prices increased considerably from August 2010 on the back of accelerating food prices, which were due, in part, to the impact of adverse weather conditions on the agricultural sector in the second half of 2010. Overall, food prices rose by 12.9% in 2010 compared to 6.1% in 2009, while the growth in prices for non-food goods declined from 9.7% in 2009 to 5% in 2010 and the growth in prices for paid services to households, which include housing, transport and utility prices, decelerated from 11.6% in 2009 to 8.1% in 2010. Producer price inflation rose by 16.7% in 2010, compared to 13.9% in 2009. The acceleration in producer price growth was due primarily to a rise in the growth of prices in manufacturing industries (from 5.9% in 2009 to 16.9% in 2010), and, in particular, to significant price growth in the coke industry (from 7.3% in 2009 to 54.9% in 2010), metals (from 4.9% in 2009 to 24.1% in 2010) and chemicals (from deflation of 0.5% in 2009 to growth of 30.6% in 2010). Producer price growth in 2010 was also supported by the rise in producer prices of foodstuffs (from 7.5% in 2009 to 14.3% in 2010), textiles (7.7% in 2009 to 13.2% in 2010) and building materials (from 0.1% in 2009 to 9.1% in 2010). The acceleration of producer price inflation in 2010 compared to 2009 was partially offset by declines in both the growth of metals prices (from 61% in 2009 to 16.1% in 2010) and the growth of prices associated with the production and distribution of electricity, gas and water (from 18.3% in 2009 to 13.8% in 2010).

In 2011, both consumer price inflation and producer price inflation decreased, accompanied by a deceleration in the rate of growth in the M2 monetary aggregate. Consumer price inflation equaled 6.1% in 2011. Overall, food prices rose by 3.9% compared to 12.9% in 2010, while the decrease in consumer price inflation was due, primarily, to a 24.7% reduction in fruit and vegetable prices compared to 2010. Prices for other food goods, excluding fruit and vegetables, rose by 7.4% in 2011 (compared to 9.4% in 2010). Growth in prices for non-food goods and for paid services to households accelerated from 5.0% in 2010 to 6.7% in 2011 and from 81% in 2010 to 8.7% in 2011, respectively. Producer price inflation equaled 12.0% in 2011, compared to 16.7% in 2010. This decrease in the inflation rate was primarily due to a deceleration in the growth of prices in manufacturing industries (from 8.6% in 2010 to 8.3% in 2011) and a deceleration in the growth of prices associated with the production and distribution of electricity, gas and water (from 13.8% in 2010 to 5.1% in 2011). The decrease in producer prices of foodstuffs (from 14.3% in 2010 to 12.5% in 2011) also supported the deceleration of producer price inflation in 2011.

The following table illustrates the movement in consumer and industrial producer prices for the periods indicated:

Inflation: Consumer and Producer Prices

	Consumer Price Inflation	Industrial Producer Price Inflation(1)
	(% change, end of period)	
2006	9.0	10.4
2007	11.9	25.1
2008	13.3	(7.0)
2009	8.8	13.9
2010	8.8	16.7
2011	6.1	12.0

Note:

(1) The CPI basket is weighted as follows: 37%—food; 37%—non-food goods; and 26%—services.

Source: Rosstat.

Instruments of Monetary Policy and Interest Rates

The primary instruments of monetary policy employed by the Bank of Russia are open-market operations (including the purchase and sale of government securities in the secondary market), bank reserve requirements and standing facilities. The Bank of Russia has no single key policy rate, but rather an interest rate target range.

As the exchange rate becomes more flexible, the Bank of Russia expects to have greater control over market interest rates. The Bank of Russia influences short-term interest rates through its interest rate band, the upper limit being the overnight credit rate, i.e., the refinancing rate, and the lower limit the standby deposit rate. In 2011-2012, the key interest rates of the Bank of Russia have been, and are expected to continue to be, driven by liquidity movements within the banking sector. As a result of the banking sector returning to its status as a net debtor of the Bank of Russia in September 2011, the key short-term money market interest rate has been the minimum auction rate for refinancing operations.

From 2005 through 2007, the refinancing rate exhibited a downward trend, moving in graduated intervals from 13% in January 2005 to 10% in June 2007. During the same period, the stand-by deposit rate increased in graduated intervals from 0.5% in March 2006 to 2.75% in August 2007. The Bank of Russia repo rate did not exhibit sharp changes during this period, adjusting between 6% and 7.17% from 2005 through 2007. The interbank market overnight rate adjusted regularly between 2005 and 2007, without exceeding the refinancing rate and only briefly and slightly falling below the stand-by deposit rate on several occasions in 2006 and 2007. In the first half of 2008, both the refinancing rate and the stand-by deposit rate increased on several occasions. During the same period, the Bank of Russia repo rate continued to adjust within the 6-6.8% band and the overnight interbank rate generally remained within the corridor set by the refinancing rate and stand-by deposit rate, except for brief periods when it dipped slightly below the deposit rate floor. Adjustments in the refinancing rate and the rates on deposit operations were active tools in the Bank of Russia's response to the global financial crisis. The refinancing rate was increased three times in the second half of 2008 (to 11% on 14 July, 12% on 12 November and 13% on 1 December). In April 2009, the Bank of Russia began to lower the refinancing rate, which reached its pre-crisis level of 11% in July and was further reduced to 8.75% in late December. During the global financial crisis and through 2009, the Bank of Russia repo rate adjusted in line with the movements in the refinancing rate and stand-by deposit rate. However, during the peak of the crisis at the end of 2008 and beginning of 2009, the interbank overnight rate exceeded the ceiling set by the refinancing rate, at times quite sharply. For example, in January 2009, the interbank overnight rate exceeded 27%. Similarly, rates on Bank of Russia operations for regulating liquidity were raised in the second half of 2008 and first quarter of 2009 and were subsequently lowered after inflationary pressures had eased. Each of the refinancing, stand-by deposit, repo and interbank overnight rates exhibited a downward trend during the first half of 2010, before stabilising during the second half of the year. From 1 June 2010 to 27 February 2011, the refinancing rate equalled 7.75%. The stand-by deposit rate equalled 2.5% from 1 June 2010 to 26 December 2010 and 2.75% from 27 December 2010 to 27 February 2011. In 2010, the repo rate moved in line with the refinancing rate, and the interbank overnight rate generally remained below the repo rate and above the stand-by deposit rate, except for a brief period in the beginning of January 2010, when it briefly fell below the deposit rate. In 2011, the refinancing rate was increased to 8% in the first quarter and then to 8.25% in the second quarter, before being reduced to its current rate of 8% in late December 2011. See "—Money Supply" for further discussion of interest rate movements in 2011.

The Bank of Russia refinances credit organisations for periods ranging from one day to six months through auctions (direct repo transactions, Lombard auctions and, during the recent economic crisis, unsecured credits) and standing facilities (overnight loans, currency swaps, direct repo transactions, Lombard loans with fixed terms and collateralised non-market instruments). The Bank of Russia regulates banking liquidity through deposit operations (via both standing facilities and auctions), reserve requirements and the purchase and sale of Bank of Russia bonds and in the event of a liquidity deficit in the banking sector, through refinancing operations. Though less frequently used as a tool to regulate liquidity, the Bank of Russia also purchases and sells Russian Government bonds without the obligation to repurchase or resell. In April 2010, the Bank of Russia decided to no longer carry out six- and 12-month REPO auctions and auctions of 12-month Lombard loans as well as to no longer extend collateralised credit facilities for periods of 181 to 365 calendar days to credit organisations. In September 2010, the Bank of Russia decided that from 1 October 2010 auctions of 6-month Lombard loans would no longer be held. In August 2011, the Bank of Russia approved a new standing facility: the provision of loans secured by gold. The initial interest rate for facilities up to 90 days was set at 7% (subsequently lowered to 6.75%), and the initial interest rate for facilities between 91 and 180 days was set at 7.25%. In November 2011, the Bank of Russia discontinued its policy of extending 91 to 180-day credits secured by non-market assets as this instrument was more often used as an anti-crisis measure.

Exchange Rates

In accordance with Russia's unified monetary policy, the Bank of Russia has adopted a managed floating exchange rate regime, which is designed to limit excessive rouble volatility without imposing quantitative targets or fixed limits on the exchange rate. Currently, the rouble is moving in line with other major commodity currencies and the currencies of the other BRIC countries.

The following table sets forth information with respect to the rouble/dollar and rouble/euro exchange rates for the periods indicated:

	Official Exchange Rates			
	Rouble/Dollar		Rouble/Euro	
	Average(1)	End of Period(2)	Average(1)	End of Period(2)
2006	27.18	26.33	34.11	34.70
2007	25.57	24.55	35.01	35.93
2008	24.98	29.38	36.41	41.44
2009	31.93	30.24	44.13	43.39
2010	30.34	30.48	40.17	40.33
2011	29.38	32.20	41.03	41.41

Notes:

(1) The average rates are calculated as the average of the exchange rates on the last business day of each month for the period.

(2) The period end rates are quoted for the last business day of the relevant period.

Source: Bank of Russia.

In an effort to neutralise sharp exchange rate fluctuations in the domestic foreign currency market, the Bank of Russia adopted a managed floating exchange rate regime in September 1998, which it continues to follow. Until 2005, the Bank of Russia focused primarily on maintaining a stable dollar/rouble exchange rate. Beginning 1 February 2005, the Bank of Russia adopted a bi-currency basket, consisting of the dollar and euro, as an operating benchmark and began using movements in the rouble value of the bi-currency basket as a reference point for its exchange rate policy. The basket initially consisted of €0.1 and U.S.$0.9. Over time, the weighting of the euro has gradually increased, and the basket is currently set at €0.45 and U.S.$0.55. In February 2009, the Bank of Russia introduced a floating operational band of permissible movements in the rouble against the bi-currency basket. The borders of this operational band are designed to adjust automatically depending on the volume of Bank of Russia interventions. The floating operational band effectively replaced the Bank of Russia's fixed band and has become the Bank of

Russia's principal means to manage foreign exchange fluctuations. The fixed band since its inception underwent a gradual widening and, with a corridor of 26 roubles and 41 roubles, was at its widest in January 2009 and officially cancelled in October 2010. The dollar retains its leading position and continues to be the preferred currency for exports and domestic savings, although the euro has become an increasingly common savings instrument among Russian residents, particularly in 2006 and 2007 when the dollar weakened against both the rouble and the euro. Since 2005, exchange rate flexibility has increased substantially, and, starting from 2009, the scale of Bank of Russia's interventions on the domestic exchange market has begun to decrease.

In 2006 and 2007, Russia experienced large inflows of oil-related foreign capital. Growing international confidence in the Russian economy and the profitability of the oil sector supported the corporate sector's intensive borrowing and accumulation of large liabilities denominated in foreign currency, as well as real appreciation of the rouble. In 2006, the rouble appreciated against the dollar by 10.7% in real terms and against the euro by 11.5% in real terms. The real effective exchange rate, i.e., the trade-weighted exchange rate, of the rouble appreciated by 9.4% in 2006. In 2006, net foreign currency purchases on an average monthly basis totalled approximately U.S.$9.8 billion. The rouble continued to appreciate in real terms in 2007. In 2007, it appreciated by 12.8% against the dollar and 4.2% against the euro, and the real effective exchange rate of the rouble appreciated by 4.2%. Net foreign currency purchases on an average monthly basis totalled approximately U.S.$11.9 billion in 2007, which included U.S.$2 billion of foreign currency sales in August 2007.

During the first half of 2008, the rouble continued to rise as world oil and gas prices remained high and the country continued to experience net inflows of private capital. In order to manage the rouble appreciation, the Bank of Russia purchased foreign currency, as it historically has done when confronted with high oil and gas prices, and adjusted the corridor in which the rouble was allowed to move against the bi-currency basket. In the first half of 2008, the rouble appreciated against the dollar by 19% in real terms and against the euro by 4.5% in real terms. The real effective exchange rate of the rouble appreciated by 4.5% in the first half of 2008. Currency interventions on an average monthly basis totalled approximately U.S.$12.1 billion during the first six months of 2008. The bi-currency basket as at 30 June 2008 equalled 29.51 roubles.

In the second half of 2008, the global financial crisis, and, in particular, the drop in world oil prices and the deteriorating commodities and financial markets, prompted a sell-off of rouble-denominated assets. As a result, in the second half of 2008, the rouble depreciated in real terms by 13.4% against the dollar and 6.4% against the euro. The real effective exchange rate of the rouble depreciated by 5.1% in the second half of 2008. Concurrently, the high level of foreign-currency indebtedness of both the financial and non-financial sectors exacerbated the impact of the global crisis on the rouble. A large share of this debt came due in the fourth quarter of 2008, when equity markets—and thus the value of collateral offered by corporate debtors—were deteriorating. A large number of creditors began to demand additional collateral or early repayment, which had the effect of significantly increasing the demand for foreign currency. In order to meet this increased demand as well as manage the downward pressure on the rouble, the Bank of Russia sold foreign currency on the domestic market during the second half of 2008, resulting in net sales of dollars and euros of U.S.$69.2 billion in 2008, compared to net purchases of U.S.$142.3 billion in 2007. In July and August 2008, the Bank of Russia sold U.S.$26.5 billion and U.S.$0.9 billion, respectively, of roubles on the domestic market. In September, October, November and December 2008, the Bank of Russia sold U.S.$17.9 billion, U.S.$43.1 billion, U.S.$33.8 billion and U.S.$74.2 billion, respectively, of foreign currency on the domestic market. Net foreign currency sales on an average monthly basis were approximately U.S.$5.8 billion in 2008. In November 2008, the Bank of Russia announced it would gradually widen the corridor in which the rouble would be allowed to trade against the bi-currency basket. In all of 2008, the rouble depreciated in nominal terms by 19.7% against the dollar and by 15.3% against the euro. Nevertheless, in 2008, the rouble appreciated in real terms against both the dollar (by 13.4%) and the euro (by 6.4%). The bi-currency basket equalled 34.81 roubles as at 31 December 2008.

The exchange rate policy in 2009 was designed primarily to mitigate the impact of the global financial crisis on the Russian economy. In the first days of January 2009, the Bank of Russia accelerated its controlled devaluation of the rouble. Expectations that the rouble would continue to depreciate put additional downward pressure on the domestic currency, prompting further sales of rouble assets. At the same time, demand for foreign currency on the domestic money markets continued to outpace supply (net sales of foreign currency by the Bank of Russia reached U.S.$39.6 billion in January 2009). As a consequence, interest rates on rouble assets increased sharply, causing the rouble interbank loan market to tighten considerably. In mid-January, in an effort to slow depreciation of the rouble, the Bank of Russia limited its disbursement of unsecured loans. This measure had the effect of increasing the demand for roubles, thereby strengthening the rouble against the bi-currency basket, as liquidity tightened and tax payments came due. In a further effort to stabilise the rouble, the Bank of Russia on 23 January 2009 announced that it had completed its gradual adjustment of the exchange rate, setting the upper and lower limits of the exchange rate corridor at 41 roubles and 26 roubles, respectively, against the bi-currency basket. In January 2009, the Bank of Russia sold U.S.$39.6 billion of foreign currency on the domestic currency market in an effort to defend the rouble. Beginning in February 2009, the Bank of Russia began to use the floating operational band discussed above. At its inception, the width of the operational band was set at two roubles.

From February through June 2009, Russia experienced a rise in foreign capital inflows. This positive development was caused by the relative stabilisation of the global financial markets (due to large-scale anti-crisis measures adopted in developed and emerging economies), the increase in the price of oil (Urals oil reached U.S.$60 a barrel by June) and the prevalence of high domestic interest rates relative to foreign rates. Despite these developments in the market, during the first half of 2009, the rouble depreciated against the dollar by 17.6% in real terms and 5.7% in nominal terms and against the euro by 7% in real terms and 5.7% in nominal terms. From February through June 2009, the Bank of Russia was a net purchaser of foreign currency, with the volume of purchases of foreign currency on the domestic market reaching U.S.$34.2 billion. After a two-month period of exchange rate stability, during which the Bank of Russia sold U.S.$5.3 billion in foreign currency, capital inflows resumed in September 2009 mainly because of a further rise in the price of oil and the continued disparity between domestic and foreign interest rates. These factors caused the rouble to strengthen in the fourth quarter of 2009. From September through December 2009, the Bank of Russia was a net purchaser of foreign currency, selling U.S.$27.9 billion of roubles on the domestic market. In 2009, net foreign currency purchases on an average monthly basis totalled approximately U.S.$1.4 billion. In 2009, the rouble depreciated in nominal terms by 2.9% against the dollar and 4.7% against the euro. In real terms, the rouble depreciated by 12.2% against the dollar and 8.3% against the euro in 2009. The real effective exchange rate of the rouble depreciated by 5.6% in 2009. During 2009, the operational band adjusted more than twenty times, although it remained a two-rouble wide trading band until July 2009. During the first months of 2009, the bi-currency basket generally traded in the upper part of the operational band; however, from March 2009 through June 2009, the rouble appreciated, and the bi-currency basket moved to the lower boundary of the band. In July 2009, the Bank of Russia widened the trading band to three roubles, and, during the second half of 2009, the value of the bi-currency basket fluctuated within the operational band. The bi-currency basket as at 31 December 2009 equalled 36.16 roubles.

In the first quarter of 2010, Russia experienced net private sector capital outflows of U.S.$15 billion, compared to inflows of U.S.$8.8 billion in the fourth quarter of 2009, which put downward pressure on the rouble. Net private sector capital outflows were, in part, caused by concerns regarding the stability of the European debt markets and by the reduction in domestic interest rates. See "—Money Supply," above, for a discussion of the interest rate cuts in the first half of 2010. Lower domestic interest rates, in turn, led to the narrowing of the interest rate differential between relatively higher domestic rates and lower foreign rates. At the same time, the prices for many of Russia's dollar-denominated exports rose, generating upward pressure on the rouble. For example, in the first quarter of 2010 relative to the first quarter of 2009, the price of Urals oil increased by 73.8%, world coal prices grew by 32.3% and aluminum and nickel prices increased by 58.5% and 89.2%, respectively. During the first three months of 2010, in nominal terms, the rouble depreciated by 1.5% against the dollar and appreciated by 5.2% against the euro. In real terms, the rouble appreciated by 2.3% against the dollar and by 7.7% against the euro. The real effective exchange rate of the rouble appreciated by 4% in the first quarter of 2010. The bi-currency basket as at 31 March 2010 equalled 34.02 roubles.

In the second quarter of 2010, Russia experienced net private sector capital inflows of U.S.$3.5 billion, compared to outflows of U.S.$15 billion in the first quarter of 2010, putting upward pressure on the rouble. Notwithstanding these inflows, domestic interest rates continued to fall. See "—Money Supply," above. During the same period, the prices for certain Russian exports, such as natural gas, contracted, whereas the prices for other key exports, such as Urals oil and nickel, increased. For example, the price of Urals oil fluctuated during the second quarter of 2010, averaging U.S.$76.60 per barrel, a 2% increase relative to the first quarter of 2010. During the second quarter of 2010, in nominal terms, the rouble depreciated by 1.1% against the dollar and appreciated by 7.3% against the euro. In real terms, the rouble depreciated by 0.1% against the dollar and appreciated by 8% against the euro. The real effective exchange rate of the rouble appreciated by 4.4% in the second quarter of 2010. The bi-currency basket as at 30 June 2010 equalled

34.34 roubles. In both the first and second quarters of 2010, changes in the rouble/dollar real exchange rate were mainly due to the differential between domestic and U.S. inflation, whereas the real appreciation of the rouble against the euro was primarily driven by the strengthening of the nominal rouble/euro rate.

In the third quarter of 2010, Russia experienced estimated net private sector capital outflows of U.S.$2.8 billion, compared to inflows of U.S.$3.5 billion in the second quarter of 2010, putting downward pressure on the rouble. Though the Bank of Russia left its interest rates unchanged during the third quarter (see "—Money Supply"), key financial market interest rates, including rates on interbank loans and long-term loans to households, continued to decline. During the third quarter of 2010, in nominal terms, the rouble depreciated by 1.3% against the dollar and by 2.3% against the euro, in part due to stronger demand for foreign currency driven by corporate foreign debt payments. In real terms, the rouble appreciated by 0.1% against the dollar and depreciated by 0.9% against the euro. The real effective exchange rate of the rouble depreciated by 1.3% in the third quarter of 2010. Both Russian inflation and changes in nominal exchange rates played significant roles in the real rouble/dollar and rouble/euro exchange rate dynamics in the third quarter of 2010. The bi-currency basket as of 1 October 2010 equalled 35.43 roubles.

In the fourth quarter of 2010, Russia experienced net private sector capital outflows of U.S.$19.3 billion, which, together with foreign debt payments by Russian companies, put downward pressure on the rouble. The rise in energy prices during the fourth quarter, however, partially offset the downward pressure on the rouble. During the fourth quarter of 2010, the rouble depreciated by 0.3% against the dollar and 5.5% against the euro in nominal terms. In real terms, the rouble appreciated by 1.5% against the dollar and depreciated by 3.9% against the euro. The real effective rate of the rouble depreciated by 3.1%. The differential between Russian and U.S. inflation was the primary driver behind the appreciation of the real rouble/dollar exchange rate in the fourth quarter of 2010, whereas it was the rouble's nominal depreciation against the euro which was the main contributor to the depreciation of the real rouble/euro exchange rate.

Russia's overall net private sector capital outflows in 2010 totalled U.S.$33.6 billion. In 2010, the rouble depreciated by 0.8% against the dollar and appreciated by 7.1% against the euro in nominal terms. In real terms, the rouble appreciated by 4% against the dollar and by 14.5% against the euro. The real effective exchange rate of the rouble appreciated by 6.9% in 2010.

In 2010, the Bank of Russia carried out targeted currency interventions in order to limit rouble volatility and to correct imbalances in the supply of and demand for foreign currency on the domestic currency market. Net foreign currency purchases on an average monthly basis totalled approximately U.S.$2.8 billion in 2010.

During 2010, the operational band continued to adjust regularly. During the first eight months of 2010, the bi-currency basket traded in the lower part of the operational band, before moving to the upper part of the band in September 2010. In October 2010, in line with its implementation of a more flexible exchange rate policy, the Bank of Russia expanded the three-rouble wide band by 50 kopeks in both directions. As of 1 January 2011, the bi-currency basket was valued at 34.91 roubles, which was in the central part of the operational band.

Russia's overall net private sector capital outflows in 2011 totalled U.S.$84.2 billion. In 2011, the rouble appreciated by 3.4% against the dollar and depreciated by 1.5% against the euro in nominal terms. In real terms, the rouble appreciated by 8.8% against the dollar and by 4.1% against the euro. The real effective exchange rate of the rouble appreciated by 4.7% in 2011. During the first ten months of 2011, the value of the bi-currency basket decreased, to a great extent due to movements in the dollar rouble exchange rate. From November 2011, the value of the bi-currency basket stabilised and reached 36.46 roubles as of 1 January 2012. In recent months, the scale of Bank of Russia interventions on the domestic exchange market has decreased.

Monetary Policy for 2012 through 2014

In October 2011, the Bank of Russia published its monetary policy guidelines for 2012 through 2014.

The Bank of Russia's principal monetary policy objective for 2012 through 2014 is to complete the transition to an inflation-targeting regime and to continue its policy of reducing inflation. At the same time, according to its monetary policy guidelines, the Bank of Russia intends to continue implementing its managed floating exchange rate regime, eliminating exchange rate targets and limiting its direct currency interventions, mainly on the dollar/rouble market, to those circumstances where it is necessary to soften excessive rouble volatility. The Bank of Russia intends to continue using its floating operational band, which, it believes, will allow greater exchange rate flexibility, thereby improving control over market interest rates, while limiting exchange rate volatility.

The Bank of Russia also plans to increase the transparency of its monetary policy by conducting regular interviews and press conferences and issuing press releases and other reports (often in English) informing the public of its most important policy decisions and their consequences.

As part of its monetary policy guidelines for 2012 through 2014, the Bank of Russia has adopted three scenarios, each based on a different oil price assumption. The following discussion is based on what the Bank of Russia has deemed the "second" scenario, which assumes an oil price higher than in the first scenario, but lower than in the third scenario. For 2012, the average price per barrel of Urals is assumed to be U.S.$100. Based on this assumption, the Bank of Russia expects current account inflows of U.S.$36.5 billion, capital and financial account (excluding reserve assets) outflows of U.S.$10.5 billion, a decrease in reserve assets of U.S.$26 billion and a year-on-year increase in M2 of 16-18%. In 2012, the Bank of Russia forecasts year-on-year GDP growth of 3.7% and is targeting consumer price inflation at 5-6%. For 2013, the average price per barrel of Urals is assumed to be U.S.$97. Based on this assumption, the Bank of Russia expects current account inflows of U.S.$5.9 billion, capital and financial account (excluding reserve assets) inflows of U.S.$18 billion, a decrease in reserve assets of U.S.$23.8 billion and a year-on-year increase in M2 of 16-19%. In 2013, the Bank of Russia forecasts year-on-year GDP growth of 3.5-4.8% and is targeting consumer price inflation at 4.5-5.5%. For 2014, the average price per barrel of Urals is assumed to be U.S.$101. Based on this assumption, the Bank of Russia expects current account outflows of U.S.$6 billion, capital and financial account (excluding reserve assets) inflows of U.S.$33 billion, a decrease in reserve assets of U.S.$26.9 billion and a year-on-year increase in M2 of 17-20%. In 2014, the Bank of Russia forecasts year-on-year GDP growth of 3.5-4.8% and is targeting consumer price inflation at 4-5%. There can be no assurance that any of the Bank of Russia's projections on the future development of the Russian economy will prove to be accurate. These projections are based on assumptions as to the oil price and other important matters, which may not prove to be accurate and may significantly effect the Bank of Russia's projected outcomes. See "Forward-Looking Statements."

Banking

Structure of the Banking Industry

All credit institutions are required to be licensed by the Bank of Russia. A general banking licence is the most comprehensive licence available and allows a credit institution to engage in various banking operations. Under Russian law, commercial banks holding general licences are allowed to open branches (upon prior Bank of Russia consent) and representative offices in foreign countries (with post notification of the Bank of Russia). Banks without a general licence require a separate licence to conduct foreign exchange operations.

The total number of credit institutions licensed to conduct banking operations in Russia decreased from 1,012 at year-end 2010 to 978 at year-end 2011, due mainly to a decrease in the number of credit institutions with fewer than 150 million roubles in share capital. Of the 978 credit institutions with banking licences at year-end 2011, 922 were banks and 56 were non-bank credit institutions, 273 held general licences and 661 held foreign exchange licences. As of 1 January 2012, credit institutions licensed to conduct banking operations included 77 wholly foreign-owned organisations and 36 banks with majority foreign ownership. Licensed foreign banks are subject to the general banking laws and regulations and are entitled to participate in the same range of banking activities as their Russian counterparts. As of 1 January 2012, there were 2,807 branches of operating credit institutions in Russia, of which 155 belonged to 100% foreign-owned banks in Russia and 524 belonged to Sberbank, which is the successor of the former state savings bank in the Soviet Union and in which the Bank of Russia has greater than a 50% stake.

Between 2008 and 2011, total assets within the Russian banking system expanded by approximately 2.1 times. The five largest Russian banks held 42.3% and 49.6% of these assets as of 1 January 2008 and 30 November 2011, respectively. As of 1 January 2012, the five largest credit institutions in terms of assets accounted for approximately 50% of total banking assets. As of 1 January 2012, client accounts constituted approximately 62.7% of the liabilities of the banking sector, whereas loans, including loans to banks and overdue debt, constituted 69% of the sector's assets. As of 1 January 2012, revenues from foreign exchange operations constituted approximately 65.4% of the revenue structure of the country's operating credit institutions.

From 2006 until the fourth quarter of 2008, the banking sector was a net creditor of the Bank of Russia. As of 1 January 2006, 2007 and 2008, net credits of the banking sector to the Bank of Russia equalled 552.1 billion roubles, 810 billion roubles, and 1,124 billion roubles, respectively.

The global financial crisis had a severe negative impact on credit institutions, resulting in the banking sector becoming a net debtor of the Bank of Russia. As of 1 January 2009, net credits of the Bank of Russia to the banking sector equalled 2,514.9 billion roubles. At the same time, the crisis caused overall banking sector profits to drop by approximately 98% in the first half of 2009, compared to the first half of 2008. The quality of loans issued by Russian banks also deteriorated as a result of the crisis, with the percentage share of total credit under loans classified as problem loans or worse equalling 3.8% as of 1 January 2009 and 9.5% as of 1 January 2010, compared with 2.5% as of 1 January 2008. Overdue claims of the banking sector on loans, deposits and other placements increased from 184.1 billion roubles as of 1 January 2008 to 1,043.4 billion roubles as of 1 December 2009. This caused credit institutions to make substantial loss provisions, which increased from 3.6% of total loans as of 1 January 2008 to 9.1% of total loans as of 1 January 2010.

The banking sector experienced a recovery in 2010 and 2011. By the beginning of 2010, the banking sector returned to its pre-crisis position as a net creditor of the Bank of Russia. As of 1 January 2010, net credits of the banking sector to the Bank of Russia equalled 53.2 billion roubles, which increased further to 1.64 trillion roubles as of 1 January 2011. As of 1 January 2012, the banking sector became a net debtor of the Bank of Russia in the amount of 0.1 trillion roubles as a result of an increase in commercial bank borrowings from the Bank of Russia. In addition, overall banking sector profits increased from 205.1 billion roubles in 2009 to 573.4 billion roubles in 2010 and 848.2 billion roubles in 2011. The quality of loans issued by Russian banks improved slightly in 2010 and 2011, with the percentage share of total credit under loans classified as problem loans or worse equalling 8.2% of total loans as of 1 January 2011 and 6.6% as of 1 January 2012, compared to 9.5% as of 1 January 2010. Despite this improvement, overdue claims of the banking sector on loans, deposits and other placements increased from 1,014.7 billion roubles as of 1 January 2010 to 1,035.9 billion roubles as of 1 January 2011 and 1,133 billion roubles as of 1 January 2012. Loss provisions of credit institutions increased to 8.5% of total loans as of 1 January 2011, although they decreased to 6.9% as of 1 January 2012.

In light of the 8% minimum capital requirement set forth under Basel II, the Russian banking sector is adequately capitalised. The banking sector's capital adequacy ratio was 14.9% as of 1 January 2007. The capital adequacy ratio began to rise in the first half of 2007, before falling again in the second half of the year. Nevertheless, at 1 January 2008, it equalled 15.5%, slightly higher than the ratio at the beginning of the prior year. During the first nine months of 2008, the capital adequacy ratio declined, before rising in the last quarter of the year. At 1 January 2009, the capital adequacy ratio equalled 16.8%. After declining in January 2009, the capital adequacy ratio demonstrated an upward trend through the remainder of the year, resulting in a ratio of 20.9% as at 1 January 2010. As of 1 January 2011 and 2012, the capital adequancy ratio equalled 18.1% and 14.7%, respectively. Total capital in the Russian banking sector has increased in recent years: from 1,692.7 billion roubles as of 1 January 2007 to 5,242.1 billion roubles as of 1 January 2012. In November 2010, at a summit of G20 member-countries Russia committed to implement by year-end 2018 the liquidity and capital adequacy requirements set forth under Basel III.

The following table contains certain key indicators of the overall banking sector's financial soundness as of the dates indicated:

	As of 1 January					
	2007	2008	2009	2010	2011	2012
	(%)					
Capital Adequacy Risk						
Ratio of own funds (capital) to risk-weighted assets(1)	14.9	15.5	16.8	20.9	18.1	14.7
Credit Risk						
Share of problem loans and bad loans in total loans(2)	2.4	2.5	3.8	9.5	8.2	6.6
Loan loss provisions as a share of total loans	4.1	3.6	4.5	9.1	8.5	6.9
Ratio of insider loans to own funds(3)	4.0	3.4	2.2	1.5	1.8	1.4
Ratio of claims on insiders to own funds	1.1	1.1	0.9	0.7	0.6	0.7
Liquidity Risk						
Ratio of liquid assets to total assets(4)	26.8	24.8	25.9	28.0	26.8	23.9
Market Risk(5)	45.1	38.7	23.2	49.6	48.6	49.7
Of which						
Interest rate risk(6)	19.3	24.3	16.4	37.5	36.7	33.8
Equity position risk(7)	20.4	10.8	3.4	8.7	8.6	12.9
Foreign exchange risk(8)	5.3	3.6	3.4	3.5	3.2	3.0
Return on Assets(9)	3.3	3.0	1.8	0.7	1.9	2.4
Return on Equity(10)	26.3	22.7	13.3	4.9	12.5	17.6

Notes:

(1) Risk-weighted assets are calculated by totalling the credit risks on a credit institution's assets. A credit institution's assets are divided into five groups on the basis of risk, and risk coefficients are set for each group. Since 1 July 2010, the risk coefficients are set in accordance with the Simplified Standardised Approach to credit risk within the framework of Basel II.

(2) A problem loan is defined as a loan, 51-100% of which is written off by the creditor. A bad loan is a loan that is 100% written off by the creditor.

(3) Includes loans, bank guarantees and sureties granted by credit institutions to its owners (shareholders).

(4) Liquid assets are those financial assets that credit institutions can receive, claim or sell within 30 calendar days.

(5) Market risk is defined as the risk of financial loss resulting from changes in (i) current (fair) value of financial instruments, (ii) exchange rates and (iii) the price of precious metals. Financial instruments include (i) equity and debt instruments acquired by credit institutions and held for trading or otherwise available for sale, (ii) financial instruments denominated in foreign currencies or in roubles if their value is tied to movements in exchange rates and (iii) derivative instruments, such as interest rate and foreign exchange swaps.

(6) The market risk on financial instruments sensitive to changes in interest rates.

(7) The market risk on financial instruments sensitive to changes in the current (fair) value of equities.

(8) The market risk on positions in foreign currencies and precious metals.

(9) Calculated as the ratio of financial results (before tax) of credit institutions over the reporting period to the average amount of assets of credit institutions over the reporting period.

(10) Calculated as the ratio of financial results (before tax) of credit institutions over the reporting period to the average amount of own funds (capital) of credit institutions over the reporting period.

Source: Bank of Russia.

Pursuant to the federal deposit insurance law, subject to certain exceptions, banks are required to make quarterly contributions of up to 0.15% of their deposits (calculated as the average of a respective bank's daily balances during the relevant quarter) to a federal deposit insurance fund, which is managed and controlled by the Deposit Insurance Agency. At the discretion of the Deposit Insurance Agency, this rate may be increased to 0.3% in the event the deposit insurance fund requires additional funding. Currently, banks are required to make quarterly contributions of 0.1% of their deposits to the federal deposit insurance fund. The fund insures the full repayment of deposits up to 700,000 roubles per depositor per bank. Until 2007, Sberbank's contributions to the fund were kept on a separate account. The state guaranteed household deposits at Sberbank until 1 January 2007.

Banking Supervision and Regulation

Russian banks are subject to prudential regulations intended to move the Russian banking industry toward compliance with the capital adequacy standards established by the Basel Committee on Banking

Supervision. These regulations impose requirements with respect to minimum capital, capital adequacy, exposure to individual borrowers and shareholders, deposit taking and equity investments in other companies.

The Bank of Russia operates an early warning system under which it analyses the most significant prudential ratios for all banks on a monthly basis. Banks that fail to comply with their reporting obligations can be forced to close their correspondent accounts with other banks and make all settlements exclusively through the Bank of Russia. The ratios reviewed by the Bank of Russia include capital adequacy ratios, credit risk ratios, liquidity risk ratios and market risk ratios (see table above).

The Bank of Russia imposes a reserve requirement on all banks. The reserve ratio is currently 5.5% for liabilities to non-resident legal entities, denominated in either roubles or foreign currencies, and 4% for all other financial obligations in any currency. Credit institutions are required to meet their reserve requirements on average during each calendar month or reserve maintenance period. This provision provides for flexible liquidity management and decreases the day-to-day dependence on interbank funds.

The Law on Insolvency (Bankruptcy) of Credit Institutions provides the legislative framework for the restructuring of banks. This law sets out the standards to be used by the Bank of Russia in appointing temporary bank administrators, sets forth a liquidation procedure for banks and gives the Bank of Russia the power to license the receivers of bankrupt banks and to propose receivers to arbitration courts for their approval.

Anti-Crisis Measures

In response to the global financial crisis, Russia undertook a series of measures designed to protect the stability of the banking sector. These measures focused mainly on the following priority areas: bolstering financial sector liquidity; supporting the interbank market; facilitating bank loans to the real economy; and ensuring the recovery and survival of banks that are essential to the stability of the overall sector. Since October 2008, the following measures have been implemented:

- In October 2008, the Federal Assembly passed the Financial System Support Law, which authorised the Government to supply up to 910 billion roubles in long-term subordinated loans (with a maturity of up to 31 December 2019) to state-owned and private banks. Pursuant to this law, the Government provided Vnesheconombank with 410 billion roubles, using proceeds from the National Wealth Fund, and the Bank of Russia provided Sberbank with 500 billion roubles. Of the 410 billion roubles lent to Vnesheconombank, 200 billion roubles were disbursed to VTB, 25 billion roubles to the Russian Agricultural Bank and the remainder to various private banks.

- Pursuant to the Financial System Support Law, through 31 December 2009, Vnesheconombank was given the authority to grant foreign currency loans (of up to U.S.$50 billion in aggregate) to Russian companies, including financial institutions, for the refinancing of foreign currency loans obtained prior to 25 September 2008. Approximately U.S.$11.6 billion were disbursed under this programme before it was suspended.

- The Bank of Russia introduced a new facility for providing unsecured loans to certain private banks. Under this facility, from October 2008 through 2010, approximately 6.6 trillion roubles of unsecured loans were disbursed to banks.

- From 14 October 2008 until 31 December 2010, the Bank of Russia was given the authority to enter into agreements with credit organisations, pursuant to which the Bank of Russia was authorised to compensate such credit organisations for losses incurred on the interbank market as a result of loans made during the above-mentioned time period to credit organisations whose licences had been revoked. As of 31 December 2010, the Bank of Russia entered into such agreements with 15 banks as well as Vnesheconombank, which, through 31 December 2010, had concluded lending transactions with 346 credit organisations whose licences had been revoked. From 14 October 2008 through 31 December 2010, 41,081 transactions totalling approximately 9.4 billion roubles were eligible for compensation under this programme. During this period, there were only three instances when the Bank of Russia was required to compensate banks for overdue debt under eligible interbank lending transactions. All proceeds used for such compensation were subsequently repaid to the Bank of Russia.

- In October 2008, the Bank of Russia broadened the range of assets that banks can use as collateral in refinancing transactions and extended the terms of loans secured by non-market assets, such as promissory notes, guarantees and other receivables. As of 1 January 2010, indebtedness pursuant to transactions secured by this broader range of collateral equalled approximately 439.1 billion roubles.

- On 14 October 2008, the Bank of Russia reduced the reserve requirement to 0.5% for all types of financial obligations. The reserve requirement has since then been gradually increased: to 1% as of 1 May 2009, 1.5% as of 1 June 2009, 2% as of 1 July 2009 and 2.5% as of 1 August 2009. The reserve requirement currently is 5.5% for liabilities to non-resident legal entities, denominated in either roubles or foreign currencies, and 4% for all other financial obligations in any currency.
- On 27 October 2008, a federal law was passed to support the stability of the banking system and for the restructuring of credit organisations through 31 December 2011. Pursuant to this law, the Bank of Russia, together with the Deposit Insurance Agency, is permitted to undertake measures to support the financial condition of banks threatened by insolvency. Supporting measures include temporary receivership, mandatory capital decreases, the acquisition by the Deposit Insurance Agency of controlling interests in defaulting banks and the sale to private investors of assets or controlling interests in defaulting banks. This law also sets forth the sources of financing for the aforementioned measures.
- In November 2008, the Bank of Russia increased the refinancing rate from 11% to 13%. Since 24 April 2009, the Bank of Russia has implemented a series of reductions in the refinancing rate. On 28 February 2011, the Bank of Russia increased the refinancing rate from 7.75% to 8%, which was further increased on 3 May 2011 to 8.25%. In December 2011, the refinancing rate was lowered to its current rate of 8%.
- Insurance coverage provided by the Deposit Insurance Agency for retail deposits has been expanded to 700,000 roubles per depositor per bank.
- In 2008, additional funding was provided to the Deposit Insurance Agency (200 billion roubles) and the Agency for Home Mortgage Loans was recapitalised (60 billion roubles). As part of its Anti-Crisis Programme for 2009, the Government allocated an additional 60 billion roubles (20 billion roubles for recapitalisation and 40 billion roubles in the form of loans) to the Agency for Home Mortgage Loans.
- As of 30 December 2008, the procedure required for foreclosures has been simplified. Pursuant to the amended procedures, subject to limited exceptions, parties to a pledge agreement may agree on an out-of-court enforcement procedure.
- In an effort to bolster the liquidity of the financial markets, the Government broadened the types of assets in which balances from the National Wealth Fund may be invested. For this purpose, the Ministry of Finance transferred 175 billion roubles to Vnesheconombank in the fourth quarter of 2008 for its onward investment in various Russian securities. In December 2009, the 175 billion roubles were repaid to Vnesheconombank.
- To encourage consolidation in the banking sector, the procedures for bank mergers have been streamlined.
- In February 2009, a law requiring all banks to maintain at least 180 million roubles of own funds was adopted. However, pursuant to this law, a bank is permitted to continue operation with less than 180 million roubles of own funds, provided the following conditions are met: (i) the bank had own funds of less than 180 million roubles as of 1 January 2007, and its amount of own funds did not subsequently decrease in a material fashion; (ii) the bank maintains own funds of at least 90 million roubles, beginning 1 January 2010; and (iii) the bank increases its amount of own funds to 180 million roubles by 1 January 2012. Under a new law adopted in December 2011, the minimum amount of own funds that a bank is required to maintain has been increased to 300 million roubles. Banks with own funds of less than 300 million roubles are permitted to continue operations, provided that they meet the 300 million rouble requirement by 1 January 2015.
- Under federal law, effective 1 January 2009, certain entities, such as state corporations (*gosudarstvennie korporatsii*) and limited liability companies, that were previously prohibited from doing so, have been granted the right to issue exchange-traded debt securities.
- As part of its Anti-Crisis Programme for 2009, the Government earmarked 495 billion roubles for loans (and other forms of funding) to banks, a portion of which was provided by the Bank of Russia.

- In July 2009, a federal law was passed to improve the capitalisation of banks. Under this law, until 31 December 2010, banks were entitled to issue non-voting preferred shares with veto rights on certain matters in exchange for receiving federal bonds (OFZs). Ultimately, the preferred shares may either be converted into ordinary shares after a 10-year grace period or be purchased by the bank or its shareholders.
- To ensure control over the disbursement of state funds, the Bank of Russia may appoint its own representatives to each bank that has received state funding either under the Financial System Support Law or the Bank of Russia's uncollateralised lending programme. In particular, until full repayment of state funds, the Bank of Russia's representatives are entitled to participate without voting rights in meetings of all governing bodies of the bank and to receive information about management remuneration and the bank's credit and liability management policies.
- To support the real economy, the Government has simplified the process for granting state guarantees, and, in particular, has delegated to the Ministry of Finance the authority to provide state guarantees of up to 10 billion roubles per guarantee to certain corporate issuers.

Foreign Exchange Regulations

Russia has adopted Article 8 of the IMF's Articles of Agreement with respect to current account convertibility and has met all obligations imposed thereunder.

Prior to June 2004, the convertibility of the rouble was heavily regulated. In June 2004, a new currency law came into force that liberalised the exchange control regime. It envisaged full convertibility of the rouble, although a transition period remained in effect for certain provisions until 1 July 2006 and certain other provisions until 1 January 2007, during which time the Bank of Russia and the Government were authorised to impose currency control measures. The currency law distinguishes between two types of capital operations, those that are regulated by the Government (principally commercial credits granted by residents to non-residents) and those regulated by the Bank of Russia (loans, cash transfers and securities transactions). Under the new law, only enumerated currency operations are subject to regulation, and neither the Bank of Russia nor the Government may adopt currency regulations except in cases expressly prescribed by the new law. For example, under the new law, several restrictions may still be imposed to prevent a significant reduction in Russia's gold or foreign currency reserves or severe fluctuations in the currency and to support the stability of Russia's balance of payments. For instance, subject to certain exceptions, Russian residents are required to repatriate their export-related earnings, and currency operations with "external securities" or in currencies other than the rouble between Russian residents are generally prohibited.

The currency law allows residents and non-residents to open bank accounts in Russia and conduct currency operations between one another without limitation and provides that all contradictions and ambiguities in the currency law or in any currency regulation are to be resolved in favour of residents and non-residents conducting currency operations. Currently, Russian residents may open accounts in foreign banks in any country that is a member of the Organization for Economic Cooperation and Development and a party to the Financial Action Task Force on Money Laundering, subject only to post-notification of the Russian tax authorities. Exporters are not required to convert any portion of their foreign currency revenues into roubles.

Foreign Exchange Market

The largest share of Russia's foreign exchange trading has historically occurred on the over-the-counter interbank currency market, with other trading conducted on the Moscow Interbank Currency Exchange ("MICEX"). The Bank of Russia buys and sells currencies through the MICEX exchange when it acts to influence exchange rates. MICEX was established in 1991 as a department of the Bank of Russia's Soviet predecessor, and was transformed in January 1992 into a closed joint-stock company. In December 2011, MICEX merged with the Russian Trading System ("RTS") to create MICEX-RTS. The largest shareholder of MICEX-RTS is the Bank of Russia. Commercial banks and the Association of Russian Banks are also shareholders. Only members of the MICEX exchange, which include commercial banks, financial institutions and certain other investment institutions, may participate in currency exchange trading on the MICEX exchange.

The major currency traded on the MICEX exchange is the dollar, accounting for over 90% of total turnover (excluding currency swap operations). The other major currency traded on the MICEX exchange is the euro.

The Bank of Russia and MICEX (now MICEX-RTS) have supported the establishment of a system of regional currency exchanges within Russia. There are currently seven regional exchanges. The largest regional currency exchanges are the St. Petersburg Currency Exchange ("SPCEX") and the Siberian Interbank Currency Exchange.

Capital Markets

Government Securities

The market for rouble-denominated government securities comprises federal Government rouble-denominated bonds and rouble-denominated bonds of sub-federal entities. The Government's rouble-denominated securities include principally medium-term bonds (OFZs) and state savings bonds (GSOs). OFZs are initially issued through the MICEX exchange or via closed subscription. See "—Foreign Exchange Market" above. Secondary trading of OFZs takes place on the MICEX exchange and its representative regional exchanges. OFZs are held in book-entry form, which minimises transaction risks. As of 1 January 2012, the par value of federal Government rouble-denominated bonds was approximately 3.55 trillion roubles (U.S.$110.14 billion, based on the 1 January 2012 exchange rate), of which 2.9 trillion roubles (U.S.$90.17 billion) were OFZs and 0.55 trillion roubles (U.S.$17.18 billion) were GSOs. For a detailed description of the various Government domestic debt instruments, see "Public Debt and Related Matters—Domestic Debt—Government Domestic Debt."

The market for rouble-denominated bonds of sub-federal entities prior to 2002 consisted mainly of City of Moscow bonds placed and traded on MICEX and City of St. Petersburg bonds placed and traded on SPCEX. Bond issuances by sub-federal entities have since increased. As of 1 January 2012, there were 90 outstanding rouble-denominated bond issuances by 35 sub-federal entities, with an aggregate principal amount of approximately 351.05 billion roubles (U.S.$10.9 billion, based on the 1 January 2012 exchange rate). Of this aggregate principal amount, approximately 343.88 billion roubles (U.S.$10.7 billion) were issued by Federation subjects, including 175.01 billion roubles (U.S.$5.44 billion) by the city of Moscow, and 7.18 billion roubles (U.S.$223 million) were issued by municipal entities.

Corporate Securities

The trading of privatisation vouchers issued in connection with Russia's mass privatisation programme, implemented between 1992 and 1994, played an important role in the development of the equity securities market in Russia. A certificateless securities system was subsequently adopted, largely in response to fraud encountered in vouchers trading. As a result, all common and preferred stock in Russia is held in book-entry form, with ownership recorded in the issuer's share register.

The Russian stock market was originally based on RTS, an electronic over-the-counter trading system, which was introduced in 1995 and managed by the National Association of Stock Market Participants, a self-regulatory body responsible for the development of rules for trading on the RTS. There are currently four licensed stock exchanges in Russia, including MICEX-RTS, which completed their merger in December 2011. Historically, MICEX was the largest Russian exchange for equity and debt trading and RTS traded predominantly futures and other derivative products. In 2007, when the Russian equity markets experienced significant growth, the average daily stock turnover on MICEX reached approximately U.S.$4.9 billion. In 2009, 2010 and 2011, the average daily stock turnover on MICEX was approximately U.S.$3.4 billion, U.S.$4 billion and U.S.$2.2, respectively.

The market capitalisation of companies listed on Russian stock markets increased significantly in the period before the global financial crisis, and then, as a result of the crisis, decreased in 2008. In 2009, both RTS and MICEX recovered a portion of their value lost in 2008. The total market capitalisation of the RTS was approximately U.S.$1,328.8 billion at the end of 2007, U.S.$375 billion at the end of 2008, U.S.$763.5 billion at the end of 2009 and U.S.$990.55 at the end of 2010. The total market capitalisation of MICEX was U.S.$1,221.2 billion, U.S.$337.4 billion, U.S.$738 billion and U.S.$950.7 at the end of 2007, 2008, 2009 and 2010, respectively. The total market capitalisation of the combined MICEX-RTS Group as of 1 January 2012 equalled U.S.$767 billion.

The Russian corporate bond market has been a fast-growing segment of the Russian financial markets. The number of bond issues and their tenor increased significantly between 2002 and the first half of 2008, and the outstanding volume of corporate bonds continued to increase through 2009, 2010 and 2011. The outstanding volume of corporate bonds amounted to 905.6 billion roubles (U.S.$34.3 billion, based on the exchange rate then prevailing), 1,272 billion roubles (U.S.$51.8 billion), 1,815 billion roubles (U.S.$61.8 billion), 2,568.7 billion roubles (U.S.$84.9 billion), 2,965.4 billion roubles (U.S.$97.3 billion) and 3,437 billion roubles (U.S.$107.3 billion) at year-end 2006, 2007, 2008, 2009, 2010 and 2011, respectively. The average daily turnover of Russian corporate bonds on MICEX was approximately U.S.$0.4 billion in 2007 and 2008 and, as a result of the global financial crisis, decreased to U.S.$0.3 billion in 2009. The average daily turnover of Russian corporate bonds on MICEX improved to approximately U.S.$0.6 billion in 2010 and U.S.$0.7 billion in 2011.

Regulation of the Capital Markets

The FSFM has primary responsibility for regulating the Russian securities market. The FSFM is a federal executive authority subordinated to the Government. Its functions include registration of securities issues, ensuring the disclosure of information on securities markets and control and supervision of securities issuers and professional securities market participants. Pursuant to its regulatory authority, as an anti-crisis measure, the FSFM prohibited the short-selling of stocks between 30 September 2008 and 9 April 2009 amid concerns that such sales during a period of global financial crisis would lead to a collapse in Russian stock prices and to the bankruptcy of Russian companies. Short-selling continues to be subject to strict regulation by the FSFM. The Bank of Russia oversees government securities transactions (as an instrument of monetary policy), foreign investment (as a matter of currency exchange control) and securities offerings by banks (as the primary regulator of banks).

In 2009, the Government adopted a Concept for Creating an International Financial Centre in Russia. This Concept sets forth the following set of measures designed to prepare Moscow to become an international financial centre: (i) establishing a transparent and flexible regulatory system for the financial markets; (ii) developing an effective financial system, including attracting long-term institutional investors, offering a more diverse array of financial products and fostering a competitive financial-sector labour market; (iii) integrating Russia into the global financial markets; (iv) improving financial and business infrastructure as well as living conditions in Moscow; and (v) improving Russia's image as a reliable partner.

PUBLIC DEBT AND RELATED MATTERS

Overview

Russia's Government debt was 9.3% of GDP in 2010 and 9.8% of GDP in 2011 and is expected to reach approximately 13.2%, 14.9% and 15.7% of GDP in 2012, 2013 and 2014, respectively. At year-end 2010, Russia's total public sector external debt (Government and state-owned enterprises) represented 41% of total external debt (13% of GDP), and at year-end 2011 total external debt (public and private) amounted to 29% of GDP. In 2011, Russia's domestic and external debt equalled 7.7% of GDP and 2.1% of GDP, respectively. As of 31 December 2011, total external and domestic Government debt equalled U.S.$166 billion. Based on current estimates, through 2014, the Government expects that domestic debt will assume a greater share of the Government's overall debt. In 2012, 2013 and 2014, external debt as a share of GDP is expected to equal 2.4%, 2.7% and 3%, respectively, and domestic debt as a share of GDP is expected to equal 10.8%, 12.2% and 12.7%, respectively.

The Government intends to use its public debt policy to accelerate Russia's social and economic development. In pursuit of this endeavor, the Government has adopted a public debt policy that is designed to meet the following key objectives: (i) ensuring the performance of the Government's budgetary commitments, while at the same time maintaining the sustainability of its debt programme; (ii) creating the conditions for elevating Russia's credit ratings to the "A" category; (iii) further developing the domestic market for Government debt; (iv) creating favourable market conditions that facilitate both sovereign and corporate borrowings, including establishing benchmark issuances at various points on the yield curve; (v) ensuring an optimal balance between the yields and duration of soverign debt; and (vi) introducing policy measures to limit speculative capital inflows.

In order to effectively implement its overall public debt policy, the Government has put into place both an external debt policy and a domestic debt policy.

The current objectives of the Government's external debt policy are to maintain Russia's presence as an active sovereign borrower on the international capital markets and to establish a representative yield curve for debt in different currencies. The Russian authorities also aim to continue creating the conditions necessary to attract a diverse portfolio of long-term investors.

According to the Public Debt Management Policy of the Russian Federation for 2012-2014, the development of the domestic debt market is a key priority of the Government. In particular, the Government expects domestic borrowing to be the main source of federal budget deficit financing through 2014, with domestic borrowing expected to be approximately 1.2 trillion roubles in each of 2012 and 2013 and approximately 1.1 trillion roubles in 2014. Demand for medium- and long-term debt instruments is expected to remain relatively high due to the pension reforms enacted in 2001 and amended in 2009, which established a "funded" component to the country's pension system, whereby a portion of pension contributions may be invested in domestic securities. See "The Russian Economy—Pension Reform."

The authorities have implemented several measures to develop the domestic debt market, including the following: (i) the Ministry of Finance has enhanced the transparency of the government bond market by publishing in advance and on a regular basis the quarterly schedules for OFZ auctions and notifying market participants in advance of the expected yields on government bonds issued through such auctions; (ii) the Ministry of Finance has started to consult with key market participants on a regular basis; (iii) advance deposit requirements for auctions have been eliminated; (iv) the Ministry of Finance continues to develop and extend the maturity of benchmark domestic bonds in volumes sufficient to enhance liquidity; (v) the Law on the Central Depository and the Law on Clearing and Central Counterparty have been adopted; (vi) restrictions on over-the-counter trading of OFZs have been lifted; and (vii) as of 1 January 2012, OFZs have been allowed to trade on the MICEX exchange alongside corporate and municipal securities. In recent years, OFZ turnover has tripled, OFZ market volume has doubled and, over the last two years, the OFZ yield curve has tightened substantially.

As part of its plan to further develop the domestic debt market, the Government intends to extend the average duration of outstanding OFZs as well as introduce a number of measures aimed at improving the infrastructure of the domestic debt market. This includes working towards allowing OFZ settlement through international depositary and clearing systems, introducing a centralised registration of securities in order to increase the effectiveness and competitiveness of the registration and payment infrastructure, and running OFZ auctions in the same section of the MICEX exchange as corporate securities. The Government also intends to continue supporting the development of the derivatives market. In February 2012, the authorities extended the OFZ issuance programme to a 15-year tenor. At the end of 2011, the weighted average duration of OFZs was approximately 3.7 years. It is the strategy of the Government that the weighted average life of OFZs be increased to five years. The Government also believes that the provision of state guarantees will continue to play a significant role in its overall domestic debt policy and intends to introduce better management of such guarantees, as well as enhanced monitoring of private sector external debt.

The Government also intends to create the Russian State Financial Agency, whose responsibilities are expected to include developing relations with investors, advising the Ministry of Finance on matters related to the Government's debt policy, issuing securities on behalf of the Russian Federation and managing the Government's debt portfolio through secondary market operations.

Furthermore, due to changes in the Budget Code, as of 1 January 2011, sub-federal entities have the right to resume foreign borrowings for the purposes of budget deficit financing and external debt repayments, provided that certain conditions are met, including the requirement that the sub-federal entity obtain ratings from at least two leading international credit rating agencies.

External Debt

As at 31 December 2011, the total outstanding external debt of the Government, or for which the Government has agreed to be responsible, amounted to approximately U.S.$34.8 billion. This amount included all loans contracted or guaranteed by the Government, loans contracted or guaranteed by Vnesheconombank and debt contracted or guaranteed by other entities legally authorised to borrow on behalf of the government of the former Soviet Union. Undisbursed commitments and public or private sector borrowings not guaranteed by the Government are excluded from the U.S.$34.8 billion outstanding as of 31 December 2011. In 2010 and 2011, the Government's external debt was 2.7% and 2.1% of GDP, respectively, compared to 89.2% of GDP in 1999. External debt comprised approximately 29.0% of the Government's total debt in 2010 and approximately 21.1% of the Government's total debt in 2011. The Government's external debt as a share of the country's total public- and private-sector debt has declined since 1999.

The following table sets forth information with respect to the Government's external debt as of the indicated dates:

External Debt Stock of the Government of the Russian Federation by Creditor(1)

	As of 31 December					
	2006	2007	2008	2009	2010	2011
	(U.S.$ billion)					
Total external debt	**52.2**	**44.6**	**42.6**	**36.1**	**39.1**	**34.8**
Multilateral creditors(2)	5.5	5.0	4.5	3.8	3.1	2.5
World Bank	4.8	4.4	3.8	3.2	2.6	2.1
Other	0.7	0.6	0.7	0.6	0.5	0.5
Eurobonds	31.9	28.6	27.8	26.2	30.5	29.2
2007 10% Eurobond	2.4	0.0	0.0	0.0	0.0	0.0
2010 8.25% Eurobond	2.3	1.6	1.0	0.3	0.0	0.0
2015 3.625% Eurobond	—	—	—	—	2.0	2.0
2018 11% Eurobond	3.5	3.5	3.5	3.5	3.5	3.5
2020 5% Eurobond	—	—	—	—	3.5	3.5
2028 12.75% Eurobond	2.5	2.5	2.5	2.5	2.5	2.5
2030 7.5% Eurobond(3)	21.2	21.0	20.8	19.9	19.0	17.7
Official Creditors	8.2	5.4	4.7	4.2	3.7	3.1
o/w COMECON, China and former Yugoslavia	1.9	1.5	1.5	1.4	1.2	1.1
Ministry of Finance Hard Currency Bonds	5.1	4.5	4.5	1.8	1.8	0.0
Commercial creditors(4)	1.5	1.2	1.2	0.1	0.1	0.1

Notes:

(1) Foreign currency values of outstanding external debt have been converted into dollars at the relevant market exchange rates prevailing at the end of the indicated period. This table does not include amounts representing indebtedness under hard-currency guarantees issued by the Russian Federation, which, in 2010 and in 2011, totalled U.S.$0.9 billion and U.S.$1.0 billion, respectively.

(2) Excludes contingent liabilities, which, as of 31 December 2011, amounted to approximately U.S.$1.0 billion, including in the form of guarantees.

(3) The 2030 Eurobond has a step-up coupon which will remain at 7.5% until maturity in 2030.

(4) Includes FTO, London Club and other claims not submitted in previous exchange offers.

Some totals may not add due to rounding.

Sources: Ministry of Finance; Vnesheconombank.

Of the U.S.$34.8 billion outstanding at 31 December 2011, U.S.$2.5 billion represents loans from multilateral creditors, including the World Bank. Of the total U.S.$29.2 billion of Eurobonds outstanding at 31 December 2011, U.S.$2 billion represents the 2015 Eurobond maturing in April 2015, U.S.$3.5 billion represents the 2018 Eurobond maturing in July 2018, U.S.$3.5 billion represents the 2020 Eurobond maturing in April 2020, U.S.$2.5 billion represents the 2028 Eurobond maturing in June 2028 and U.S.$17.7 billion represents the 2030 Eurobond maturing between March 2012 and March 2030. An additional U.S.$328.2 million representing the 2010 Eurobond was outstanding at year-end 2009 and was repaid in full on 31 March 2010. U.S.$3.1 billion represents official government-to-government credits and export credits, of which U.S.$1.1 billion is owed to former member countries of the Council for Mutual Economic Assistance ("CMEA" or "COMECON"), China and the former Yugoslavia. See "—Other Former Soviet Union Debt" below. The last outstanding Ministry of Finance Hard Currency Bond, Series VII, was repaid in 2011.

The Government prepaid approximately U.S.$44 billion of its external debt in 2005 and 2006. This included approximately U.S.$37 billion of rescheduled Soviet-era debt owed to the Paris Club, which was prepaid in August 2005 and August 2006.

Russia has in the past purchased Russian Government Eurobonds and other federal Government obligations in the open market and may do so in the future.

External Debt Restructuring

Paris Club

In January 1992, the Government concluded an initial annual rescheduling agreement with the Paris Club of official creditors, followed by three further annual reschedulings in 1993, 1994 and 1995, covering debt service falling due during the period from December 1991 to the end of 1995.

In April 1996, a comprehensive rescheduling was agreed with the Paris Club covering approximately U.S.$33 billion of debt owed to Paris Club creditors, including debt service falling due between the beginning of January 1996 and the end of March 1999 and virtually all the debt rescheduled under the previous agreements.

In August 1999, the Government concluded a further rescheduling agreement with the Paris Club. This agreement provided for the deferral of approximately U.S.$8.3 billion of debts owed to Paris Club creditors, including payment arrears outstanding at the end of June 1999 and debt service falling due between the beginning of July 1999 and the end of December 2000 in respect of both previously rescheduled and non-previously rescheduled Soviet-era obligations.

In May 2005, the Government reached an agreement with the Paris Club under which approximately U.S.$15 billion of the debts rescheduled under the 1996 and 1999 rescheduling agreements was prepaid at face value. All of Russia's remaining Paris Club debt, in the approximate amount of U.S.$21.6 billion, was prepaid in August 2006.

London Club

A comprehensive restructuring agreement in respect of Soviet-era debt owed to Vnesheconombank's London Club commercial bank and other financial creditors was closed in December 1997. Under the terms of this agreement, the entire stock of outstanding principal owed to London Club creditors, amounting to approximately U.S.$22.2 billion, was restructured as interests in restructured loans maturing in 2002 to 2020 ("PRINs"), and the interest regarded as having accrued on this debt (net of a cash down-payment) was restructured into U.S.$6.7 billion principal amount of U.S.$ floating rate interest notes due 2002 to 2015 ("IANs").

In July 2000, the Russian Federation offered to exchange Vnesheconombank's PRINs and IANs for 2030 Bonds and the interest arrears on PRINs and IANs for a combination of 2010 Bonds and cash. For each U.S.$1,000 principal amount of PRINs tendered, a creditor received U.S.$625 principal amount of 2030 Bonds, and for each U.S.$1,000 principal amount of IANs tendered, a creditor received U.S.$670 of 2030 Bonds. In August 2000, U.S.$18.2 billion of 2030 Bonds and U.S.$2.8 billion of 2010 Bonds were issued in exchange for PRINs and IANs, and U.S.$275 million was paid in cash in exchange for PRIN and IAN interest arrears. A further U.S.$129.4 million of 2030 Bonds and U.S.$19.8 million of 2010 Bonds have been issued in subsequent re-openings of this exchange. At 31 December 2011, U.S.$0.1 million of PRINs and U.S.$32.9 million of IANs have not been tendered for exchange and remain outstanding.

FTO Debt

In November 2002, the Russian Federation offered to exchange 2030 Bonds and 2010 Bonds for eligible uninsured trade debt of the former Soviet Union for which the Government has agreed to be responsible ("FTO claims") on terms broadly comparable to the terms previously offered to PRIN and IAN holders. In December 2002, U.S.$1.19 billion principal amount of 2030 Bonds and U.S.$183.8 million principal amount of 2010 Bonds were issued in exchange for FTO claims and U.S.$171.5 million was paid in cash. An additional U.S.$1.075 billion of FTO claims were exchanged for U.S.$140.5 million principal amount of 2010 Bonds, U.S.$907.8 million principal amount of 2030 Bonds and U.S.$383.4 million in cash in November 2006. In December 2009, a further U.S.$405.5 million of FTO claims were exchanged for U.S.$45.8 million principal amount of 2010 Bonds, U.S.$327.1 million principal amount of 2030 Bonds and U.S.$262.8 million in cash. The bonds that were exchanged in 2009 were previously issued by the Russian Federation and subsequently acquired in the secondary market. No new Eurobonds were issued in connection with the last exchange offer.

As a result of these three exchange offers, a total of 12.7 thousand claims of foreign commercial creditors from 24 different countries, representing a total of U.S.$2.8 billion, have been settled, and, accordingly, all claims of foreign commercial creditors on Soviet-era debt have been satisfied.

Other Former Soviet Union Debt

Following the dissolution of the former Soviet Union, the Government assumed responsibility for Soviet-era debts owed to the former member countries of the CMEA. These debts relate to the CMEA trade settlement systems that were in place between CMEA member countries. Most of these debts were incurred as a result of an imbalance in the settlements in favour of the creditor country at the time of the dissolution of the CMEA and the Soviet Union. As of 31 December 2011, debt to the former member countries of the CMEA, China and the former Yugoslavia amounted to U.S.$1.1 billion. A substantial portion of this debt will be repaid in the form of goods and services, with the balance to be repaid in cash.

The Government has also concluded negotiations with a number of non-Paris Club official creditors under which repayment is partly in the form of goods and services. As of 31 December 2011, debt to non-Paris Club official creditors amounted to U.S.$1.4 billion.

In 1993, the Government issued dollar denominated Internal Government Hard Currency Bonds ("OVVZs," known as "Taiga" bonds or "MinFins") to compensate Russian legal entities whose funds had been frozen in 1991 in foreign currency accounts at Vnesheconombank. MinFins were initially issued in five series, with maturities ranging between one and 15 years. Two additional series were issued in May 1996 with maturities of 10 and 15 years, respectively. All of the MinFins pay a 3% coupon annually until redemption. OVVZs trade in the over-the-counter market. The MinFin Series VII, the last outstanding OVVZs which were issued in 1996, was repaid in 2011. Historically, OVVZs were regarded as domestic public debt. Starting in 2000, they were reclassified as external debt for budgetary purposes.

On 11 May 1999, the Ministry of Finance requested the holders of U.S.$1.3 billion aggregate principal amount of Series III MinFins maturing on 14 May 1999 not to present their bonds for redemption, pending the development of a restructuring proposal. The Ministry of Finance did, however, pay all of the interest accrued on Series III MinFins and announced that interest on these bonds would continue to accrue at the original rate of 3% until they were restructured into new instruments. Following consultations with representative investor groups, the Government made a proposal in November 1999 to exchange all Series III MinFins for (i) new dollar-denominated Government bonds with an average life of seven and a half years and bearing interest at 3% payable semi-annually or (ii) rouble-denominated OFZs with maturities of four years, paying interest semi-annually at 15% in the first year, declining to 10% in subsequent periods. Under the Government's proposal, Series III MinFins were exchanged for new dollar-denominated bonds at par, and for new rouble-denominated bonds at par at the rate of 26.2 roubles per dollar, that being the average official exchange rate for the first week of November 1999. Between 2000 and 2005, the Ministry of Finance had received applications for the exchange of substantially all of the outstanding Series III MinFins, of which approximately 72% was exchanged for dollar instruments and the remaining 28% was exchanged for OFZs. In accordance with Government Decree No. 387 dated 20 June 2007, additional Series III MinFins principal and interest claims amounting to U.S.$1.4 million were settled by the Ministry of Finance between 2007 and 2009. In January 2010, the Ministry of Finance announced the expiry of the deadline to submit further Series III MinFins for settlement.

External Debt Service Projection

The following table sets forth a projection of the Government's contractual external debt service by type of creditor from 2012 through 2020, including principal and interest payable on all external debt outstanding as of 1 January 2012, on the basis of the exchange rates and interest rates prevailing at that time.

This table does not reflect the external debt service (i) on any borrowings by or on behalf of the Government since 1 January 2012, which have not been significant, (ii) on any new drawdowns on existing borrowings by or on behalf of the Government during the period covered by the table or (iii) on the Bonds.

External Debt Service Projections by Type of Creditor(1)

	For the year ended 31 December								
	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(U.S.$ billion)								
Principal	**2.36**	**2.17**	**2.06**	**3.75**	**1.54**	**1.52**	**4.94**	**1.85**	**5.33**
Multilateral creditors	0.63	0.52	0.43	0.26	0.19	0.17	0.13	0.08	0.06
Bonds	1.27	1.27	1.27	3.27	1.27	1.27	4.74	1.70	5.20
Official creditors(2)	0.45	0.37	0.36	0.22	0.08	0.07	0.07	0.07	0.07
Ministry of Finance Hard Currency Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial creditors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	**2.31**	**2.20**	**2.09**	**1.95**	**1.81**	**1.72**	**1.62**	**1.13**	**0.91**
Multilateral creditors	0.03	0.02	0.02	0.01	0.00	0.01	0.00	0.00	0.00
Bonds	2.25	2.16	2.06	1.93	1.80	1.70	1.61	1.12	0.91
Official creditors(2)	0.03	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Ministry of Finance Hard Currency Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial creditors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	**4.66**	**4.37**	**4.16**	**5.70**	**3.35**	**3.23**	**6.56**	**2.98**	**6.25**

Notes:

(1) Includes contractual payments of existing obligations as at 1 January 2012.

(2) Includes debt service to be made in the form of goods and services. The repayment schedule is provisional and can fluctuate depending on actual delivery.

Some totals may not add due to rounding.

Sources: Ministry of Finance; Vnesheconombank.

External Borrowings

Since the dissolution of the former Soviet Union, the Ministry of Finance has borrowed externally on behalf of Russia only in respect of certain multilateral facilities, through bond issues and through certain medium- and short-term financings. All other previous external borrowings of the Government have been implemented through Vnesheconombank, Vneshtorgbank (Russia's foreign trade bank), or Roseximbank (Russia's export-import bank), which were all authorised on a case-by-case basis to borrow externally under the guarantee of the Government and are responsible for recording and monitoring these borrowings. Borrowings by these banks under the Government's guarantee are included in the external debt statistics of the Government.

The provision of state guarantees is strictly regulated by the budget laws of the Russian Federation. State guarantees are provided solely on the basis of a Government resolution or international agreement and the budget code and federal budget law together with its implementating resolutions for a particular year and particular target period. The 2012 Budget Law provides for the issuance of state guarantees in support of investment projects (up to U.S.$1 billion in each of 2012 and 2013), the export of industrial products (up to U.S.$1.5 billion in each of 2012 and 2013 and up to U.S.$1.6 billion in 2014) and other projects with the participation of international financial institutions (up to U.S.$500 million in 2012, U.S.$1.3 billion in 2013 and up to U.S.$1.6 billion in 2014).

The Government has paid in full all of the debt service due on borrowings contracted by the Government since 1 January 1992.

Domestic Debt

The following table sets forth information with respect to Russia's domestic debt as of the indicated dates:

Domestic Debt of the Federal Government[1]

	As of 31 December					
	2006	2007	2008	2009	2010	2011
	(billions of roubles)					
Total	1,064.9	1,301.1	1,499.8	2,094.7	2,940.4	4,190.6
Domestic bonds	1,028.0	1,248.8	1,421.4	1,837.2	2,461.6	3,546.5
OFZs	975.6	1,147.4	1,244.0	1,569.8	2,154.2	2,903.3
OFZs with fixed rates	205.6	288.4	328.2	706.4	1,338.6	1,823.7
OFZs with fixed coupon	94.8	51.4	33.8	—	—	—
Amortising OFZs[2]	675.2	807.6	882.0	863.4	815.6	1,079.6
State savings bonds (OGSZ, GSO)	52.4	101.4	177.4	267.4	307.4	553.2
OVOZ[3]	—	—	—	—	—	90.0
State guarantees	31.2	46.7	72.5	251.4	472.2	637.3
Other	5.6	5.6	5.8	6.1	6.6	6.8
	(% of total)					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Domestic bonds	96.5	96.0	94.8	87.7	83.7	84.6
OFZs	91.6	88.3	83.0	74.9	73.3	69.3
OFZs with fixed rates	19.3	22.2	21.9	33.7	45.5	43.5
OFZs with fixed coupon	8.9	4.0	2.3	—	—	—
Amortising OFZs[2]	63.4	62.1	58.8	41.2	27.7	25.8
State savings bonds (OGSZ, GSO)	4.9	7.8	11.8	12.8	10.5	13.2
OVOZ[3]	—	—	—	—	—	2.1
State guarantees	2.9	3.6	4.8	12.0	16.1	15.2
Other	0.5	0.4	0.4	0.3	0.2	0.2
	(% of GDP)					
Total	3.9	3.9	3.6	5.4	6.6	7.7
Domestic bonds	3.9	3.9	3.4	4.7	5.5	6.5
OFZs	3.7	3.7	3.0	4.0	4.8	5.3
OFZs with fixed rates	0.8	0.9	0.8	1.8	3.0	3.4
OFZs with fixed coupon	0.4	0.2	0.1	—	—	—
Amortising OFZs[2]	2.5	2.4	2.1	2.2	1.8	2.0
State savings bonds (OGSZ, GSO)	0.2	0.3	0.4	0.7	0.7	1.0
OVOZ[3]	—	—	—	—	—	0.2
State guarantees	0.1	0.1	0.2	0.6	1.0	1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo:						
Exchange rate, rouble/U.S.$, end of period	26.33	24.55	29.38	30.24	30.48	32.20
GDP (billions of roubles)[4]	26,917	33,248	41,277	38,809	45,166	54,369
Total domestic public debt (U.S.$ billion)	40.5	53.1	51.0	69.3	96.5	130.1

Notes:

(1) Certain data presented in this table differ from previously published data due to changes in the accounting methodology of the Ministry of Finance.

(2) In accordance with the federal budget law for 2003, non-marketable rouble government bonds (fixed rate OFZs) held by the Bank of Russia were exchanged for amortising OFZs with a total face value of 282.5 billion roubles in February 2003. The goal of this exchange operation was to reinforce liquidity management by the Bank of Russia. Similar exchanges have occurred since 2005.

(3) Rouble-denominated Eurobonds placed in the international capital markets.

(4) GDP figures current as of 31 January 2012.

Sources: Ministry of Finance; Bank of Russia.

Government Domestic Debt

The Government's domestic indebtedness consists principally of medium- and long-term OFZs and rouble-denominated state guarantees. As of 31 December 2010, the Government's domestic debt equalled 2,940.2 billion roubles (U.S.$96.5 billion), or 6.6% of GDP for 2010. As of 31 December 2011, the Government's domestic debt amounted to 4,190.6 billion roubles (U.S.$130.1 billion), or 7.7% of GDP for 2011. Since 2006, the Government has also issued state savings bonds, and in 2011 issued rouble-denominated Eurobonds for the first time. Rouble-denominated Eurobonds are considered to be domestic debt under Russian law.

OFZs are rouble denominated obligations with a maturity of up to or over one year, and pay interest quarterly, semi-annually or annually. Initially issued in June 1995, OFZs represented 91.6% of the Government's domestic debt (3.7% of GDP) at the end of 2006. OFZs as a share of the Government's domestic debt declined to 88.3% (3.7% of GDP) in 2007, 83% (3% of GDP) in 2008, 74.9% (4% of GDP) in 2009, 73.3% (4.8% of GDP) in 2010 and 69.3% (5.3% of GDP) in 2011.

There are three types of OFZs in circulation: fixed-rate OFZs, fixed-coupon OFZs and OFZs. Fixed-rate OFZs accounted for 19.3% (0.8% of GDP), 22.2% (0.9% of GDP), 21.9% (0.8% of GDP), 33.7% (1.8% of GDP), 45.5% (3% of GDP) and 43.5% (3.4% of GDP) of the Government's domestic debt in 2006, 2007, 2008, 2009, 2010 and 2011, respectively. Fixed-coupon OFZs, which are issued with maturities between two and four years, account for a declining share of Government domestic debt. They comprised 8.9% (0.4% of GDP), 4% (0.2% of GDP) and 2.3% (0.1% of GDP) of the Government's domestic debt in 2006, 2007 and 2008, respectively. In 2009, 2010 and 2011, the Government did not issue fixed-coupon OFZs. Fixed-coupon amortising OFZs represent the Government's main instrument of domestic borrowing, accounting for 63.4% (2.5% of GDP), 62.1% (2.4% of GDP), 58.8% (2.1% of GDP), 41.2% (2.2% of GDP), 27.7% (1.8% of GDP) and 25.8% (2% of GDP) of the Government's domestic debt in 2006, 2007, 2008, 2009, 2010 and 2011, respectively.

In 2006, state savings bonds, which are sold to retail customers and for which there is no trading market, began to play a more substantial role in the Government's domestic borrowing. State savings bonds comprised 4.9% (0.2% of GDP), 7.8% (0.3% of GDP), 11.8% (0.4% of GDP), 12.8% (0.7% of GDP), 10.5% (0.7% of GDP) and 13.2% (1% of GDP) of the Government's domestic debt in 2006, 2007, 2008, 2009, 2010 and 2011, respectively.

In 2011, for the first time, the Government issued rouble-denominated Eurobonds, placing 90 billion roubles in the international capital markets. Rouble-denominated Eurobonds accounted for 2.1% (0.2% of GDP) of the Government's domestic debt in 2011.

The Government also issues rouble-denominated state guarantees. State guarantees represented 2.9% (0.1% of GDP), 3.6% (0.1% of GDP) and 4.8% (0.2% of GDP) of the Government's domestic debt in 2006, 2007 and 2008, respectively. As part of its anti-crisis measures, beginning in 2009, the Government significantly expanded in absolute terms the value of state guarantees issued. See "The Russian Economy—General Anti-Crisis Measures" and "Monetary and Financial System—Banking—Anti-Crisis Measures" for a discussion of the measures undertaken by the Government in response to the global financial crisis. In 2009, 2010 and 2011, rouble-denominated state guarantees totalled 12% (0.6% of GDP), 16.1% (1.1% of GDP) and 15.2% (1.2% of GDP), respectively, of the Government's domestic debt. In 2012, the federal budget anticipates state guarantees issued in support of investment projects to total up to 222.4 billion roubles (0.3% of GDP).

In 2007 and 2008, 5-year and 10-year OFZs offered yields of approximately 6%, before increasing in 2009 up to over 12% for 5-year OFZs and over 14% for 10-year OFZs. Beginning at the end of 2009 and through 2011, yields on both the 5-year and 10-year OFZs declined to approximately 8-9%.

Non-Residents' Access to the Local Bond Market

Currently, there are no restrictions on foreign investment in the domestic bond market, except with respect to certain government issuances. According to the Law on State Securities, state savings bonds may only be purchased by an exhaustive list of Russian residents, and secondary trading in such bonds is not permitted. Furthermore, any government issuer of domestic debt, whether it is the federal Government or a sub-federal or municipal entity, may at the issuer's discretion include in the terms and conditions of an issuance restrictions on a non-resident's ability to purchase, hold or dispose of the securities that are the subject of the issuance.

Government Domestic Debt Service

Domestic debt service equalled 0.2% of GDP from 2006-2009, 0.3% in 2010 and 0.4% in 2011. The domestic debt to GDP ratio was 3.9% of GDP in 2006, 3.9% of GDP in 2007, 3.6% of GDP in 2008, 5.4% in 2009, 6.6% in 2010 and 7.7% in 2011. The domestic debt to GDP ratio increased in 2010 primarily because of the 89.5% increase in the nominal amount of OFZs with fixed rates outstanding and the 87.8% increase in the nominal amount of state guarantees outstanding at year-end 2010 relative to year-end 2009. The domestic debt to GDP ratio increased in 2011 primarily due to increases in the nominal amounts outstanding of OFZs with fixed rates, amortising OFZs, state savings bonds and state guarantees, as well as the placement of rouble-denominated Eurobonds in the international capital markets.

Other Public Sector Domestic Debt

Russia's total domestic public debt includes debt of sub-federal and local governments in the form of municipal bonds and bank credits. The Government is not legally responsible for the debts of sub-federal and local governments in the absence of a Government guarantee. The aggregate principal amount of consolidated domestic debt of Federation subjects and local authorities outstanding at 31 December 2010 and 31 December 2011 was estimated at 1,265.8 billion roubles (2.8% of GDP) and 1,369.9 billion roubles (2.5% of GDP), respectively.

External Financial Assets

Following the dissolution of the Soviet Union, the Russian Government assumed responsibility for virtually all the external debts contracted on behalf of the government of the former USSR pursuant to agreements signed with 11 of the other former Soviet republics. See "—Russian Federation—International Relations—Russia, the Former Soviet Union and the CIS." In return, Russia received the right to the republics' claims on the external assets of the former Soviet Union. These assets included claims on other countries, the majority of which are claims on less-developed countries. In most cases, the loans are non-performing. As of 1 January 2012, the total amount of Russia's external financial assets consisting of claims on credits provided to other countries by the government of the USSR or by the Government of the Russian Federation was estimated at U.S.$59.7 billion, including U.S.$48.9 billion of claims on Soviet-era credits. Currently, Cuba and North Korea are Russia's largest debtors with debt obligations, as of 1 January 2012, of over U.S.$27 billion and approximately U.S.$11 billion, respectively.

In September 1997, Russia became a full member of the Paris Club of official creditors. As a result, the Government now settles its claims against debtor governments predominantly within the Paris Club framework. In connection with Russia's joining the Paris Club, the Government agreed to apply certain up-front discounts on its claims on Paris Club debtors.

Russia is a participant in the international initiative to alleviate the debt of highly indebted poor countries (the "HIPC Initiative"). As of 1 January 2012, within the framework of the HIPC Initiative, Russia has in the aggregate forgiven over U.S.$24.4 billion of debt owed by the world's poorest countries, including approximately U.S.$12 billion in Soviet-era debt owed by Iraq and over U.S.$10 billion in Soviet-era debt owed by Afghanistan.

Relations with International Financial Institutions

The Government has in the past received financial, budgetary and technical assistance from various international financial institutions, including the IMF, the World Bank (the IBRD and IFC) and the EBRD.

In January 2005, Russia fully prepaid all of its indebtedness to the IMF.

Beginning in 2002, the Russian Federation stopped receiving budgetary assistance from the World Bank, focusing instead on cooperating with the World Bank in the implementation of joint investment projects in key sectors of the economy. As of 1 January 2012, the IBRD has signed 64 loan agreements with Russia (of which 10 are still active) in the approximate amount of U.S.$10.4 billion, directed primarily to infrastructure development and industrial restructuring. Under the IBRD loans, U.S.$9.9 billion has been disbursed, of which U.S.$0.5 billion represents active projects and U.S.$9.4 billion represents completed projects. Disbursements of up to U.S.$0.3 billion are envisaged for 2012, aimed at improving public sector management, mitigating social and environmental risks, preserving objects of cultural importance and developing the public utilities network. In addition, the EBRD has signed 15 loan agreements with the Russian Federation amounting to U.S.$1.2 billion.

Among international financial institutions, the EBRD and the IFC have been the main sources of investment in the private sector. The EBRD has invested €20.3 billion in 732 private sector investment projects, and the IFC has invested U.S.$6.1 billion in 233 private sector investment projects. Other international financial institutions that invest in Russia's private sector include the Eurasian Development Bank, the Black Sea Bank of Trade and Development, the Nordic Investment Bank, the European Investment Bank, the Interregional Investment Bank and IBEC.

TAXATION

The following discussion summarises certain Russian tax and United States federal income tax considerations that may be relevant to Bondholders. It also includes a limited discussion of certain EU tax considerations. This summary is based on laws, regulations, rulings and decisions now in effect and is subject to changes in tax law, including changes that could have a retroactive effect.

This summary does not describe all of the tax considerations that may be relevant to holders of Bonds, particularly Bondholders subject to special tax rules. Bondholders are advised to consult their own professional tax advisors as to the consequences under the tax laws of the country of which they are resident of purchasing Bonds.

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the acquisition, ownership and disposal of Bonds. This summary is based on the tax laws of the Russian Federation and official clarifications of those laws in effect on the date of this Prospectus.

Unless specifically indicated otherwise, this summary is limited to the tax treatment of Bonds that are held by foreign legal entities and organisations, otherwise than through a permanent establishment in the Russian Federation (a "non-resident holder"). A legal entity or organisation is a foreign legal entity or organisation if not organised under Russian law, and a legal entity or organisation will generally not be deemed to have a permanent establishment in the Russian Federation if it does not have a branch, representative office, division, office, bureau, agency or other separate division or place of economic activity through which it conducts business on a regular basis within the Russian Federation. A Bondholder will not be deemed to have a permanent establishment in Russia solely by virtue of having acquired the Bonds.

This summary does not address the availability of, or procedures for claiming, double tax treaty relief, the practical difficulties involved in claiming such relief, or the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation.

The substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities are not clear in all respects and are subject to significant uncertainty. The interpretation and application of these provisions will in practice rest largely with local tax inspectorates, and are subject to more rapid and unpredictable change and to greater inconsistency than is generally the case in jurisdictions with more developed capital markets.

The Ministry of Finance is officially authorised to issue clarifications of Russia's tax laws, and its clarifications are binding on Russia's tax authorities, including Russia's Federal Tax Service, the federal authority responsible for the collection of Russian taxes, to the extent not inconsistent with the Tax Code. On 16 April 2010, the Ministry of Finance issued Letter No. 03-00-08/61, addressed to the Russian Federal Tax Service (the "Tax Letter"), providing clarifications to be followed by the tax authorities in the taxation of the Bonds. None of the clarifications included in the Tax Letter is inconsistent with the Tax Code.

Prospective investors should consult their own tax advisors with respect to the tax consequences of the acquisition, ownership and disposal of Bonds and the application of the Tax Letter to the tax treatment of the Bonds. No representation is made with respect to the Russian tax consequences of any particular Bondholder's acquisition, ownership or disposal of Bonds.

Interest on Bonds

The Tax Letter states that no tax is required to be withheld on interest payable on Bonds held by a non-resident holder because tax is required to be withheld only by an organisation within the meaning of the Tax Code that pays income in the form of interest, and (i) the Russian Federation, the issuer of the Bonds, is not an organisation for these purposes, and (ii) none of the other parties participating in the transfer of interest payments (including the Ministry of Finance, the banks making payments for the account of the Russian Federation, the fiscal agent, the paying agents and the depositaries for the Bonds) is (a) deemed to be paying interest on the Bonds and (b) is required to withhold tax on the interest payments made on the Bonds.

The relevant Condition 8 requires the Russian Federation to increase the payment of principal or interest made in respect of the Bonds in the event any Taxes (as defined in such Condition 8) are withheld or deducted, subject to the exceptions therein provided. There has been some uncertainty as to whether the payment of additional amounts to a lender in the event Russian tax is withheld from payments made to that lender is consistent with Russian law. The Tax Letter states that the payment of such additional amounts on the Bonds will not contradict the Tax Code.

The Tax Letter further states that if Bonds are sold or disposed of between Bond interest payment dates by a non-resident holder (i) to a Russian legal entity or to an individual who is tax resident in the Russian Federation, (ii) to a foreign legal entity that has a permanent establishment in the Russian Federation, provided that such permanent establishment is a party to the agreement, (iii) through a Russian licensed professional participant in the securities market, or (iv) through an agreement made in the territory of the Russian Federation, then the proceeds attributable to any accrued but unpaid interest will be treated as Russian source income.

Under these circumstances, the purchaser of the Bonds may be required to withhold 15% of the purchase price attributable to the accrued but unpaid interest from the proceeds payable to the seller. The taxation of accrued interest under these circumstances may give rise to a tax liability even if the seller realises a capital loss on the disposal of the Bonds. Depending on the residence of the non-resident holder, any tax withheld in respect of accrued interest may potentially be reduced or eliminated under the terms of an applicable double tax treaty.

Disposal or Redemption of Bonds

Gain on the sale, redemption or disposal of Bonds by a non-resident holder from a source within the Russian Federation will not be subject to withholding tax except to the extent attributable to interest accrued but not paid on the Bonds between interest payment dates, as discussed above.

Other Taxes

Except as described in this Prospectus, including as set forth below under "General Information" (i) no federal stamp, registration, documentary or similar federal taxes are payable in the Russian Federation by reason of the issue of the Bonds or in relation to any enforcement proceedings in respect of the Bonds brought in Russian courts, (ii) non-resident holders of Bonds will not incur any federal tax on income or capital gain, stamp duty, registration, transfer or other similar federal taxes by reason only of the acquisition, ownership or disposal of Bonds and (iii) all payments by the Russian Federation of principal and interest on the Bonds to non-resident holders may be made without withholding or deduction for or on account of any other federal taxes, duties, assessments or governmental charges in the Russian Federation.

United States Taxation

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following summary contains a description of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Bonds by a U.S. holder (as defined below). This summary addresses only U.S. holders that purchase Bonds at their issue price as part of the initial offering and that hold Bonds as capital assets for U.S. federal income tax purposes. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular investor, and the Issuer has assumed that U.S. holders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. In particular, this summary does not address considerations that may be relevant to an investor that may be subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, tax-exempt organisation, dealer in securities or currencies, trader in securities or commodities that elects mark-to-market treatment, person that will hold the Bonds as a hedge against currency risk or as a position in a "straddle" or conversion transaction, person subject to the alternative minimum tax, or person whose "functional currency" is not the dollar.

This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations issued thereunder and judicial and administrative interpretations thereof, each as in effect on the date hereof, as well as on the income tax treaty between the United States and Russia (the "Treaty"), all of which are subject to change, possibly with retroactive effect. Furthermore, there can be no assurance that the U.S. Internal Revenue Service (the "IRS") will not assert a position contrary to those discussed herein.

As used herein, a "U.S. holder" means a beneficial owner of a Bond that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, or any entity treated as a corporation for U.S. federal income tax purposes, created or organised in the United States or under the laws of the United States or of any political subdivision thereof; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; and (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person. A "non-U.S. holder" is a beneficial owner of the Bonds (other than a partnership) that is not a U.S. holder.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Bonds, then the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the tax consequences of acquiring, owning and disposing of the Bonds.

Investors should consult their own tax advisors regarding the tax consequences of the acquisition, ownership and disposition of the Bonds, including the application to their particular circumstances of the tax considerations discussed below, as well as the application of U.S. federal estate and gift tax laws, U.S. state and local tax laws, and foreign tax laws.

Payments of Interest

Payments of interest on the Bonds will be taxable to a U.S. holder as ordinary interest income at the time that such payments accrue or are received, in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes.

In the event that a Russian withholding tax is imposed on the interest payments, then in addition to interest on the Bonds, a U.S. holder generally would be required to include in income any increased amounts received (as described under "Terms and Conditions of the 2017 Bonds—Taxation", "Terms and Conditions of the 2022 Bonds—Taxation" and "Terms and Conditions of the 2042 Bonds—Taxation") and any Russian tax withheld from interest payments notwithstanding that the tax withheld was not in fact received by such U.S. holder. A U.S. holder may be entitled to deduct or credit such Russian withholding tax, subject to applicable limitations and conditions under U.S. federal income tax laws. However, the election to deduct or credit foreign taxes applies to all of the U.S. holder's foreign taxes for a particular taxable year. U.S. holders that are eligible for the benefits under the Treaty will not be entitled to a foreign tax credit for the amount of any Russian taxes withheld in excess of the reduced Treaty rate and for which the holder can obtain a refund from the Russian tax authorities, even though a U.S. holder may be required to pay the amount of such refund to the Issuer. Payments of interest on the Bonds generally will constitute foreign source "passive category income" for U.S. foreign tax credit purposes. The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of such deduction involves the application of complex rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits.

Dispositions

A U.S. holder generally will recognise gain or loss on the sale, exchange, redemption or other disposition of the Bonds in an amount equal to the difference between the amount realised on such disposition (less any amounts attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the Bonds. A U.S. holder's adjusted tax basis in a Bond generally will equal the dollar value of its initial investment in that Bond. Gain or loss recognised by a U.S. holder on the sale, redemption or other disposition of the Bonds generally will be capital gain or loss, and generally will be long-term capital gain or loss if, at the time of the disposition, the Bonds have been held for more than one year.

The deduction of capital losses is subject to limitations. Gain or loss realised by a U.S. holder on the sale, exchange, retirement or other disposition of a Bond generally will be U.S.-source gain or loss for U.S. federal income tax purposes. Accordingly, if Russian tax is imposed on the sale or disposition of the Bonds, a U.S. holder may not be able to fully utilise its U.S. foreign tax credits in respect of such tax unless such U.S. holder has other foreign-source income. Prospective investors should consult their own tax advisors as to the U.S. tax and foreign tax credit implications of such sale, exchange, retirement or other disposition of a Bond.

Non-U.S. Holders

A non-U.S. holder generally will not be subject to U.S. federal income tax (including withholding tax) on payments of interest on the Bonds. In addition, a non-U.S. holder generally will not be subject to U.S. federal income tax on gain realised on the sale, exchange, redemption or other disposition of the Bonds. U.S. federal income tax will apply to such interest and gain, however, to the extent that such income is effectively connected with the conduct of a U.S. trade or business by such non-U.S. holder (subject to the provisions of an applicable income tax treaty); furthermore, gain realised by an individual non-U.S. holder will be subject to U.S. federal income taxation if such holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Backup Withholding

Payments in respect of the Bonds that are paid within the United States or through certain U.S.-related financial intermediaries are generally subject to information reporting, unless the U.S. holder is a corporation or other exempt recipient. Such payments to a non-exempt recipient may also be subject to backup withholding, unless the U.S. holder provides a taxpayer identification number and certifies that it has not lost its exemption from backup withholding. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is furnished to the IRS. A non-U.S. holder generally will not be subject to information reporting or backup withholding, but such a holder may have to comply with certification procedures to establish that it is not a United States person.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), each Member State of the EU is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will instead (unless during such period they elect otherwise) operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The current rate of withholding is 35%. The transitional period will end at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal to amend the EU Savings Directive has been published, which includes a number of suggested changes that, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisors.

FORM AND TRANSFER OF THE BONDS

Form of Bonds

Bonds of each series will be in definitive registered form, without interest coupons attached.

Unrestricted Bonds will each be represented by beneficial interests in an Unrestricted Global Bond, in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date with a common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg.

Restricted Bonds will each be represented by beneficial interests in a Restricted Global Bond, in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

Beneficial interests in the Global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants.

A Restricted Global Bond and any Bond Certificate (as defined below) issued in exchange therefor (a "Restricted Bond Certificate") will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Restricted Global Bond and Restricted Bond Certificate as set forth below.

The Unrestricted Global Bonds and the Restricted Global Bonds will have separate CUSIP and ISIN numbers and separate Common Codes.

The Bonds of each series will initially be in the form of an Unrestricted Global Bond and/or a Restricted Global Bond. Bond Certificates will only be available in certain limited circumstances described below.

Exchange of Interests in Global Bonds for Bond Certificates

Registration of title to Bonds initially represented by a Restricted Global Bond in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted in respect of such Bonds unless (a) such depositary notifies the Russian Federation that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Bonds or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934 (the "Exchange Act"), or is at any time no longer eligible to act as such, and the Russian Federation is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary, or (b) following a failure to pay principal in respect of such Bonds that is due and payable, the Fiscal Agent has received notice from the registered holder of any Global Bond requesting the exchange of such Global Bond for individual Restricted Bond Certificates.

Registration of title to Bonds initially represented by an Unrestricted Global Bond in a name other than the common depositary for Euroclear and Clearstream, Luxembourg or any nominee of such common depositary will not be permitted in respect of such Bonds unless (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) following a failure to pay principal in respect of such Bonds that is due and payable, the Fiscal Agent has received a notice from the registered holder of such Unrestricted Global Bond requesting the exchange of such Unrestricted Global Bond for individual bond certificates (the "Unrestricted Bond Certificates" and, together with the Restricted Bond Certificates, the "Bond Certificates").

In such circumstances, the relevant Global Bonds will be exchanged in full or in part, as the case may be, for Bond Certificates, and the Russian Federation will, at the cost of the Russian Federation (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Bond Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant holders of such Bonds. A person having an interest in the Global Bonds must provide the Registrar with (a) a written order containing instructions and such other information as the Russian Federation and the Registrar may require to complete, execute and deliver such Bond Certificates and (b) in the case of a Restricted Global Bond only, a fully completed, signed certificate substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of a simultaneous sale pursuant to Rule 144A, that the transfer is being made in compliance with the provisions of Rule 144A. Bond Certificates issued in exchange for a beneficial interest in a Restricted

Global Bond will bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions" herein. Such transfer restrictions will terminate with respect to such Bonds one year (or such other period as provided by Rule 144) after the date on which Bonds represented by an interest in such Restricted Global Bond were issued, assuming compliance with the relevant Condition 6(b).

The holder of a Bond may transfer such Bond in accordance with the provisions of Condition 2. Bond Certificates may not be eligible for trading in the DTC, Euroclear or Clearstream, Luxembourg systems.

If principal in respect of any Bonds represented by an Unrestricted Global Bond is not paid when due and payable (but subject as provided below), the registered holder of such Unrestricted Global Bond may from time to time elect that direct enforcement rights ("Direct Rights") against the Russian Federation will come into effect. Thereupon, each relevant holder of an account with Euroclear or Clearstream, Luxembourg shall, at the relevant time, acquire against the Russian Federation all rights (including the right to receive payments due on such Bonds) that such accountholder would have received if it had been the holder of Bond Certificates. Such election shall be made by the holder of an Unrestricted Global Bond by notice to the Registrar and presentation of an Unrestricted Global Bond to or to the order of the Registrar whereupon the Registrar shall reduce the principal amount of Bonds represented by such Unrestricted Global Bond entered on the Register and shall make the appropriate entry or entries on the Register to reflect that such Direct Rights have come into effect. Such Direct Rights may not be eligible for trading in the Euroclear or Clearstream, Luxembourg systems.

No Direct Rights election may be made on or before an Exchange Date (as defined in an Unrestricted Global Bond) unless the registered holder elects in such notice that the exchange in question shall no longer take place.

At the same time that each relevant holder of an account at Euroclear or Clearstream, Luxembourg acquires Direct Rights, each holder of a beneficial interest in a Restricted Global Bond shall have all rights against the Russian Federation which such holder of a beneficial interest would have had if it were the holder of a Restricted Bond Certificate issued immediately before the relevant time in an aggregate principal amount equal to such holder's beneficial interest in such Restricted Global Bond, including, without limitation, the right to receive all payments due at any time in respect of such Restricted Bond Certificate other than payments corresponding to payments already made pursuant to such Restricted Global Bond.

Upon the transfer, exchange or replacement of a Restricted Bond Certificate bearing the legend referred to under "Transfer Restrictions," or upon specific request for removal of the legend on a Restricted Bond Certificate, the Russian Federation will deliver only Restricted Bond Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Russian Federation and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Russian Federation that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Such transfer restrictions will terminate with respect to such Bonds one year (or such other period as provided by Rule 144) after the date on which Bonds represented by an interest in a Restricted Global Bond were issued, assuming compliance with the relevant Condition 6(b).

The Registrar will not register the transfer of or exchange of interests in Global Bonds for Bond Certificates during the three Business Days (as defined in the Global Bonds) ending on the due date for any payment of principal of the Bonds.

DTC, Euroclear and Clearstream, Luxembourg Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the common depositary or any nominee of such common depositary is the registered holder of a Global Bond, DTC, Euroclear or Clearstream, Luxembourg, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by such Global Bond for the purposes of the relevant Fiscal Agency Agreement and such Bonds. Payments of principal, interest and additional amounts, if any, in respect of Global Bonds will be made to DTC, Euroclear, Clearstream, Luxembourg or such common depositary or nominee, as the case may be, as the registered holder thereof. Neither the Russian Federation nor any affiliate controlled by it for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Holders of book-entry interests in Bonds held through DTC will receive from the Fiscal Agent through DTC, to the extent received by DTC from the Fiscal Agent, all distributions of principal and interest made with respect to book-entry interests in such Bonds.

Distributions of principal and interest with respect to book-entry interests in Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Interest on Bonds (other than interest on redemption) will be paid to the holder shown on the register maintained by the Registrar on the Clearing System Business Day (as defined below) immediately before the due date for such payment so long as such Bonds are represented by an Unrestricted Global Bond, and on the fifteenth day before the due date for such payment if such Bonds are in the form of Bond Certificates or a Restricted Global Bond (the "Record Date"). Trading of Bonds will therefore be net of accrued interest from the relevant Record Date to the relevant interest payment date. "Clearing System Business Day" means Monday to Friday inclusive except holidays.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in Global Bonds to such persons may be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of direct and indirect participants, the ability of a person having an interest in Global Bonds to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Bonds through DTC, Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each institution. The Registrar will adjust the amounts of Bonds on the Register as necessary for the accounts of (a) Cede & Co. and (b) Citivic Nominees Limited to reflect the amounts of Bonds held through DTC and Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership in Bonds will be held through financial institutions as direct and indirect participants in DTC, Euroclear and Clearstream, Luxembourg.

Interests in the Global Bonds will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Accountholders

Secondary market sales of book-entry interests in Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in Bonds through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in Bonds between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When a book-entry interest in Bonds is to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Bond to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Bond (subject to such certification procedures as are provided in the relevant Fiscal Agency Agreement), the purchaser must send instructions to Euroclear or Clearstream, Luxembourg at least one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will instruct the common depositary to receive the beneficial interest and make payment for it. Payment will include interest accrued on the beneficial interest in such Bonds from and including the last interest payment date to and excluding the settlement date. On the settlement date, the common depositary will make payment to the DTC participant's account against delivery of the beneficial interest. After settlement has been completed, the beneficial interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Euroclear or Clearstream, Luxembourg accountholder's account. The securities credit will appear the next day, European time. The cash debit will be back-valued to, and interest on an Unrestricted Global Bond will accrue from, the value date, which will be the preceding day when settlement occurs in New York. If settlement is not completed on the intended value date, that is, if the trade fails, the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date, whenever that may be.

The Euroclear or Clearstream, Luxembourg accountholder will need to make available to its clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as it would for any pre-settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, the purchasing accountholder may take on credit exposure to Euroclear or Clearstream, Luxembourg until the beneficial interest in an Unrestricted Global Bond is credited to its account one day later. As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to the purchasing accountholder, it can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, the Euroclear or Clearstream, Luxembourg accountholder purchasing the beneficial interest in an Unrestricted Global Bond would incur overdraft charges for one day, assuming it cleared the overdraft when the beneficial interest was credited to its account. However, interest on an Unrestricted Global Bond would accrue from the value date. Therefore, in many cases, the investment income on an Unrestricted Global Bond earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each accountholder's particular cost of funds.

Because the settlement is taking place during New York business hours, the DTC participant can use its usual procedures for transferring a beneficial interest in the Global Bonds to the common depositary for the benefit of the Euroclear or Clearstream, Luxembourg accountholder. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Day traders that use Clearstream, Luxembourg or Euroclear to purchase interests in the Bonds from DTC participants for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- Borrowing through Clearstream, Luxembourg or Euroclear for one day, until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts, in accordance with the clearing system's customary procedures; or
- Borrowing the interests in the United States from a DTC participant no later than one day prior to settlement, which will give the interests sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear account in order to settle the sale side of the trade; or
- Staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

Due to time zone differences in its favour, a Euroclear or Clearstream, Luxembourg accountholder may employ customary transfer procedures when transferring a book-entry interest in an Unrestricted Global Bond to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Bond (subject to such certification procedures as are provided in the relevant Fiscal Agency Agreement). The seller must send instructions to Euroclear or Clearstream, Luxembourg at least one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg will instruct the common depositary to credit the beneficial interest in the Global Bonds to the DTC participant's account and receive payment. Payment will include interest accrued on the beneficial interest in such Bonds from and including the last interest payment date to and excluding the settlement date. Payment will be reflected in the account of the Euroclear or Clearstream, Luxembourg accountholder the following day. Receipt of cash proceeds in the Euroclear or Clearstream, Luxembourg accountholder's account will be back-valued to the value date, which will be the preceding day, when settlement occurs in New York. If the Euroclear or Clearstream, Luxembourg accountholder has a line of credit with its clearing system and elects to draw on such line of credit in anticipation of receipt of sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date, that is, if the trade fails, receipt of the cash proceeds in the Euroclear or Clearstream, Luxembourg accountholder's account will instead be valued as of the actual settlement date, whenever that may be.

For a further description of restrictions on the transfer of Bonds, see "Transfer Restrictions" below.

DTC has advised the Russian Federation that it will take any action permitted to be taken by a holder of Bonds (including, without limitation, the presentation of Global Bonds for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Global Bonds are credited and only in respect of such portion of the aggregate principal amount of the relevant Global Bonds as to which such participant or participants has or have given such direction. In the circumstances described above, DTC will surrender the Global Bonds in exchange for individual Bond Certificates, which will, in the case of Restricted Bond Certificates, bear the legend applicable to transfers pursuant to Rule 144A.

DTC has advised the Russian Federation as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance settlement of transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations and may in the future include certain other organisations. Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers.

Euroclear and Clearstream, Luxembourg have advised the Russian Federation as follows: Euroclear and Clearstream, Luxembourg hold securities for participating organisations and facilitate the clearance and settlement of securities between their respective accountholders through electronic book-entry changes in accounts of such accountholders. Euroclear and Clearstream, Luxembourg provide to their accountholders, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg accountholders are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream, Luxembourg accountholder, either directly or indirectly.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream, Luxembourg to facilitate transfers of beneficial interests in Global Bonds among participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, none of DTC, Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Russian Federation nor any agent of the Russian Federation nor any person by whom any of them is controlled for purposes of the Securities Act will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or the sufficiency for any purpose of the arrangements described above.

While a Global Bond is lodged with DTC or the Custodian, Bonds represented by individual Bond Certificates will not be eligible for clearing or settlement through DTC. While a Global Bond is lodged with Euroclear or Clearstream, Luxembourg or the common depository for Euroclear or Clearstream, Luxembourg, Bonds represented by individual Bond Certificates will not be eligible for clearing or settlement through Euroclear or Clearstream, Luxembourg.

TRANSFER RESTRICTIONS

Transfers of interests in Global Bonds within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

A beneficial interest in a Restricted Global Bond may be transferred to a person who wishes to take delivery of such beneficial interest through an Unrestricted Global Bond only upon receipt by the Registrar of a written certification from the transferor (in the applicable form provided in the relevant Fiscal Agency Agreement) to the effect that such transfer is being made to the Russian Federation or an affiliate of the Russian Federation or in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

In respect of any such transfer as is referred to above, the transferee must give details of the accounts at Euroclear and Clearstream, Luxembourg, as the case may be, and DTC to be credited or debited, as the case may be, with an interest in the relevant Global Bonds.

With respect to the Bonds of each series, transfer restrictions will terminate one year (or such other periods as provided by Rule 144) after the date on which such Bonds represented by an interest in a Restricted Global Bond were last issued, assuming compliance with the relevant Condition 6(b).

Any beneficial interest in either a Restricted Global Bond or an Unrestricted Global Bond that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Bond will, upon transfer, cease to be a beneficial interest in such Global Bond and become a beneficial interest in the other Global Bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Bond for so long as such person retains such an interest.

The Bonds are being offered and sold in the United States only to QIBs. Because of the following restrictions, purchasers of Bonds offered in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Bonds.

Each purchaser of Bonds offered hereby other than in reliance on Regulation S will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(a) The purchaser is (1) a QIB and (2) acquiring the Bonds for its own account or for the account of a QIB.

(b) The purchaser understands that the Bonds have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except in accordance with the legend set forth below.

(c) The Restricted Global Bond and any Restricted Bond Certificates offered hereby will bear a legend to the following effect, unless the Russian Federation determines otherwise in accordance with applicable law:

THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO THE RUSSIAN FEDERATION OR AN AFFILIATE OF THE RUSSIAN FEDERATION, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS BOND.

The Russian Federation and its affiliates, the Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, TD Investments Limited and VTB Capital plc (together, the "Managers") have, in a contract with the Issuer (the "State Contract") expected to be dated 3 April 2012, agreed jointly and severally to subscribe and pay for the 2017 Bonds at their issue price of 99.657 per cent. of their principal amount, the 2022 Bonds at their issue price of 99.277 per cent. of their principal amount and the 2042 Bonds at their issue price of 97.553 per cent. of their principal amount, in each case less a combined management and underwriting commission. Each Manager is entitled in certain circumstances to be released and discharged from its obligations under the State Contract prior to the issue of the Bonds. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Bonds. The Issuer has not incurred any expenses in relation to the offering of the Bonds, other than commissions. The Managers have agreed to bear certain expenses of the Issuer pursuant to the State Contract.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Managers have agreed severally and not jointly, nor jointly and severally, to offer the Bonds for resale in the United States initially only to persons they reasonably believe to be qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S. The Bonds are being offered and sold outside of the United States in reliance on Regulation S. The State Contract provides that the Managers may, through their respective U.S. affiliates, resell a portion of the Bonds within the United States only to qualified institutional buyers in reliance on Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act if such offer is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has severally and not jointly, nor jointly and severally, represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

General

Each Manager has severally and not jointly, nor jointly and severally, represented and agreed that it will, to the best of its knowledge and belief, comply in all material respects with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Bonds or has in its possession or distributes the Prospectus or any other offering material.

Each purchaser of Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Bonds or possesses or distributes this Prospectus or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer nor any Manager shall have any responsibility therefor.

Some of the Managers, dealers and agents who participate in the securities distribution may engage in other transactions with, or perform other services for, the Issuer in the ordinary course of business, for which they have received or will continue to receive customary compensation.

GENERAL INFORMATION

1. The Bonds will be accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP numbers, ISIN numbers and Common Codes of the Bonds are as follows:

2017 Bonds

	Restricted Global Bond	Unrestricted Global Bond
CUSIP	78307ADD2	X74344DQ6
ISIN	US78307ADD28	XS0767469827
Common Code	076844763	076746982

2022 Bonds

	Restricted Global Bond	Unrestricted Global Bond
CUSIP	78307ADC4	X74344DR4
ISIN	US78307ADC45	XS0767472458
Common Code	076844780	076747245

2042 Bonds

	Restricted Global Bond	Unrestricted Global Bond
CUSIP	78307ADE0	X74344DS2
ISIN	US78307ADE01	XS0767473852
Common Code	076844828	076747385

2. The listing of the Bonds on the Official List will be expressed in dollars as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in dollars and, under current practice, for delivery on the fifth business day after the day of the transaction.

   It is expected that listing on the Official List and admission of the Bonds to trading on the Market will be granted on or about 4 April 2012, subject only to the issue of the Bonds.

   If the Bonds are not issued as mentioned in this document, the listing and admission to trading of the Bonds may be cancelled. Prior to official listing and admission to trading, however, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules. All reasonable efforts will be used to maintain any such listing and admission to trading of the Bonds for so long as any of the Bonds remain outstanding.

   For 12 months starting on the date this Prospectus is made available, the following documents may be inspected during normal business hours (local time) on any weekday (public holidays excluded) at the office of the Paying Agent, namely:

   - each Fiscal Agency Agreement, which includes the forms of the Global Bonds and the Bond Certificates; and
   - the authorisations referred to in item 4 below. Accurate English translations of these authorisations will be available, but in the event of a discrepancy the Russian language versions will prevail.

   This Prospectus will be made available free of charge on the website of the London Stock Exchange, being www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

   Copies of Russia's federal budget are available free of charge on the website of the Ministry of Finance of the Russian Federation (http://www.minfin.ru), which website and any other websites referred to herein do not form part of the Prospectus.

   The Issuer does not publish financial accounts audited by non-state entities.

3. The Russian Federation will obtain prior to the Closing Date all necessary consents, approvals and authorisations in the Russian Federation in connection with the issue of, and performance of its obligations under, the Bonds and the Fiscal Agency Agreement.

4. The issue of the Bonds and the execution of each Fiscal Agency Agreement were authorised pursuant to Federal Law No. 136-FZ of 29 July 1998 (as amended) "On the Specifics of Issuance and Circulation of State and Municipal Securities;" Federal Law No. 371-FZ of 30 November 2011 "On the Federal Budget for 2012 and for the Planning Period of 2013 and 2014;" Resolution of the Government of the Russian Federation dated 27 December 2011 No. 2390-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Order of the Ministry of Finance dated 24 February 2012 No. 31n; Order of the Ministry of Finance dated 30 March 2012 No. 144; Order of the Ministry of Finance dated 30 March 2012 No. 145; and Order of the Ministry of Finance dated 30 March 2012 No. 146.

5. Article 1210 of the Civil Code provides that the parties to an agreement may choose the governing law of the agreement, except that, if the agreement relates solely to one jurisdiction, a Russian court is entitled to apply the law of such jurisdiction. Therefore, the choice of English law will govern rights and obligations in respect of the Bonds in the case of any Bonds held by a foreign person. However, it is uncertain whether the choice of English law to govern rights and obligations in respect of the Bonds would be given effect by a court of the Russian Federation in the case of Bonds held by a Russian person.

6. Under current Russian law, a state duty may be payable upon the initiation of any action or proceeding arising out of the Bonds in any court of the Russian Federation. Such duty, which shall not exceed the maximum value for duties under Russian law, is based on formulas under Russian law that take into account the amount of the relevant claim.

7. The Russian Federation is a sovereign state and has not waived any rights to sovereign immunity it may have in any jurisdiction. Accordingly, the Russian Federation may be entitled to immunity from suit in any action or proceeding arising out of the Bonds, and the Russian Federation and its assets, properties and revenues may be entitled to immunity in any enforcement action. The Russian Federation has also not submitted to the jurisdiction of any court, agreed that any disputes may be resolved in any forum or appointed any agent for service of process in any jurisdiction in connection with any action or proceeding arising out of the Bonds. It may consequently be difficult for an investor to obtain a judgment against the Russian Federation in a foreign court.

8. A final judgment rendered by a foreign court will generally be recognised and enforced in the Russian Federation if there is an international treaty in effect between the Russian Federation and the country where the judgment is rendered providing for the mutual recognition and enforcement of judgments. There are no international treaties in effect today providing for the mutual recognition and enforcement of foreign judgments rendered by courts in the Russian Federation and courts in most of the countries where Bond investors are likely to reside, including the United States and the United Kingdom.

   In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English and Dutch court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English or Dutch court.

   Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

   As a result, it may be difficult to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Bonds.

9. During the previous 12 months, the Russian Federation has been involved in a number of litigation and arbitration proceedings in which substantial claims have been asserted or substantial damages sought against the Russian Federation. However, there are no, nor have there been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or

threatened of which the Russian Federation is aware), during the last 12 months, which may have, or have had in the recent past, significant effects on the financial position of the Russian Federation.

10. Since 31 December 2011, there have been no significant changes relating to the tax and budgetary systems, gross public debt, foreign trade and balance of payment figures, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer.

11. The address of the Issuer is 9 Ilyinka Street, Moscow 109097, Russia, and its telephone number is +7 495 987 9242.

ISSUER

Russian Federation
c/o Ministry of Finance of the Russian Federation
9 Ilyinka Street
Moscow 109097
Russian Federation

JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

TD Investments Limited
57 Digeni Akrita Avenue
Zachariades Building
Office 301 CY-1070 Nicosia
Cyprus

VTB Capital plc
14 Cornhill
London EC3V 3ND
United Kingdom

FISCAL AGENT AND REGISTRAR

Citibank, N.A., London Branch
13th Floor
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
13th Floor
Citigroup Centre
Canada Square
London, E14 5LB
United Kingdom

Citibank, N.A.
14th Floor
388 Greenwich Street
New York, NY 10013
United States of America

LEGAL ADVISORS TO THE ISSUER

As to English and U.S. law

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

LEGAL ADVISORS TO THE JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

As to Russian law

Linklaters CIS
Paveletskaya sq. 2 bld. 2
Moscow 115054
Russian Federation

As to English and U.S. law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom