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 AN OFFSHORE TRANSACTION 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 Ministry of Finance of the Russian Federation (the "**Issuer**") acting on behalf of the Russian Federation and to VTB Capital plc (the "**Lead Manager**"), 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 Issuer and the Lead Manager; 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.

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**Markets in Financial Instruments Directive II**"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the Markets in Financial Instruments Directive II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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 Lead Manager or any affiliate of the Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Lead Manager or such affiliate on behalf of the Issuer and the Lead Manager 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 Issuer, the Russian Federation or any officials thereof, the Lead Manager, 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.$2,500,000,000 5.25 per cent. Bonds due 2047
(to be consolidated and form a single series on and as of the Closing Date with the U.S.$4,500,000,000 5.25 per cent. Bonds due 2047 issued on 23 June 2017 and 25 September 2017)

Issue Price of the Further Bonds: 99.9915 per cent.

(plus interest accrued from, and including, 23 December 2017, to, but excluding, 21 March 2018)

and

U.S.$1,500,000,000 4.375 per cent. Bonds due 2029
Issue Price of the New Bonds: 97.863459 per cent.

The Ministry of Finance of the Russian Federation (the "**Ministry of Finance**" or the "**Issuer**") acting on behalf of the Russian Federation ("**Russia**" or the "**Russian Federation**") is issuing (i) an aggregate principal amount of U.S.$2,500,000,000 5.25 per cent. Bonds due 2047 (the "**Further Bonds**") to be consolidated and form a single series on and as of the Closing Date (as defined below) with the U.S.$4,500,000,000 5.25 per cent. Bonds due 2047 issued on 23 June 2017 and 25 September 2017 (the "**Original Bonds**", and together with the Further Bonds, the "**2047 Bonds**") and (ii) an aggregate principal amount of U.S.$1,500,000,000 4.375 per cent. Bonds due 2029 (the "**New Bonds**"). The Further Bonds and the New Bonds are together referred to as the "**Offered Bonds**", the 2047 Bonds and the New Bonds are together referred to as the "**Bonds**".

Interest on the 2047 Bonds is payable semi-annually in arrear, on 23 June and 23 December in each year. See "*Terms and Conditions of the Further Bonds—Interest*". Interest on the New Bonds is payable semi-annually in arrear, on 21 March and 21 September in each year. See "*Terms and Conditions of the New 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 Further Bonds—Taxation*" and "*Terms and Conditions of the New Bonds —Taxation*".

Unless previously redeemed, or purchased and cancelled, the 2047 Bonds will be redeemed at their principal amount together with accrued interest on 23 June 2047 and are not redeemable prior to that date. See "*Terms and Conditions of the Further Bonds—Redemption, Purchase and Cancellation*". Unless previously redeemed, or purchased and cancelled, the New Bonds will be redeemed at their principal amount together with accrued interest on 21 March 2029 and are not redeemable prior to that date. See "*Terms and Conditions of the New Bonds —Redemption, Purchase and Cancellation*".

The Offered Bonds will be issued to VTB Capital plc (the "**Lead Manager**") (i) in part in exchange for certain of the Issuer's existing bonds of different series pursuant to an intermediated exchange of such existing bonds being conducted by the Issuer acting on behalf of the Russian Federation, which the Lead Manager will purchase from their holders on or prior to the issue date of the Offered Bonds, and (ii) in part for further sale to investors and transfer of the proceeds from the sale of such Offered Bonds to the Issuer. The Offered Bonds are being offered for sale by the Lead Manager on the terms set forth in this document (the "**Prospectus**").

SEE "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS STARTING ON PAGE 18.

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 of America (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 "*Plan of Distribution*", "*Summary of Provisions Relating to the Bonds While in Global Form*" and "*Transfer Restrictions*".

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

The Original Bonds have been and the Offered Bonds will be offered and sold in registered form in denominations of U.S.$200,000.

The Original Bonds offered and sold in reliance on Regulation S (the "**Original Unrestricted Bonds**") are represented by beneficial

interests in an unrestricted global bond (the "**Original Unrestricted Global Bond**"). Upon issue, the Further Bonds offered and sold in reliance on Regulation S (the "**Further Unrestricted Bonds**", and together with the Original Unrestricted Bonds, the "**2047 Unrestricted Bonds**") will be represented by beneficial interests in an unrestricted global bond (the "**Further Unrestricted Global Bond**", and together with the Original Unrestricted Global Bond, the "**2047 Unrestricted Global Bonds**"), in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about 21 March 2018 (the "**Closing Date**") with, the National Settlement Depository (the "**NSD**"). The Original Bonds offered and sold in reliance on Rule 144A (the "**Original Restricted Bonds**") are represented by beneficial interests in a restricted global bond (the "**Original Restricted Global Bond**"). Upon issue, the Further Bonds offered and sold in reliance on Rule 144A (the "**Further Restricted Bonds**", and together with the Original Restricted Bonds, the "**2047 Restricted Bonds**") will be represented by beneficial interests in a restricted global bond (the "**Further Restricted Global Bond**", and together with the Original Restricted Global Bond, the "**2047 Restricted Global Bonds**"), in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about the Closing Date, with NSD.

Upon issue, the New Bonds offered and sold in reliance on Regulation S (the "**New Unrestricted Bonds**") will be represented by beneficial interests in an unrestricted global bond (the "**New Unrestricted Global Bond**"), in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about the Closing Date with, the NSD. The New Bonds offered and sold in reliance on Rule 144A (the "**New Restricted Bonds**") will be represented by beneficial interests in a restricted global bond (the "**New Restricted Global Bond**", and together with the New Unrestricted Global Bond, the "**New Global Bonds**"), in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about the Closing Date with, the NSD.

The Further Unrestricted Global Bond and the New Unrestricted Global Bond together referred to as the "**Offered Unrestricted Global Bonds**", the Further Restricted Global Bond and the New Restricted Global Bond together referred to as the "**Offered Restricted Global Bonds**", the 2047 Unrestricted Bonds and the New Unrestricted Bonds together referred to as the "**Unrestricted Bonds**", the 2047 Unrestricted Global Bonds and the New Unrestricted Global Bond together referred to as the "**Unrestricted Global Bonds**", the 2047 Restricted Bonds and the New Restricted Bonds together referred to as the "**Restricted Bonds**", the 2047 Restricted Global Bonds and the New Restricted Global Bond together referred to as the "**Restricted Global Bonds**", the Unrestricted Global Bonds and the Restricted Global Bonds together referred to as the "**Global Bonds**".

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish law and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to the Offered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU or which are to be offered to the public in any member state of the EU ("**Member State**"). The Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange ("**Irish Stock Exchange**") for the Offered Bonds to be admitted to the official list (the "**Official List**") and trading on its Main Securities Market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2014/65/EU (the "**Markets in Financial Instruments Directive II**").

It is expected that the Offered Bonds will be issued on the Closing Date. Interests in the Restricted Global Bonds 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 NSD and its participants ("**Participants**"), which include Euroclear Bank SA/NV ("**Euroclear**"). Settlement with investors on the Closing Date will occur through the facilities of NSD and Euroclear. Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Bonds.

Lead Manager

VTB Capital

Prospectus dated 20 March 2018

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.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Offered Bonds and the listing of the Offered Bonds on the Official List and admission of the Offered Bonds to trading on the Market.

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 Offered Bonds to give any information or make any representation regarding the Issuer or the Offered 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 Lead Manager (as defined under "*Plan of Distribution*"). 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 Prospectus. Neither the delivery of this Prospectus nor any sales made in connection with the issue of the Offered 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 the Lead Manager in any jurisdiction where an offer or invitation by or on behalf of the Issuer or any agency thereof or the Lead Manager is not permitted by the laws of such jurisdiction. The distribution of this Prospectus and the offering of the Offered 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 the Offered Bonds and distribution of this Prospectus, see "*Plan of Distribution*", "*Summary of Provisions Relating to the Bonds While in Global Form*" 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.

NSD makes no representation regarding this Prospectus or the Offered Bonds.

To the fullest extent permitted by law, the Lead Manager does not accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made in connection with the issue and offering of the Offered Bonds. The Lead Manager accordingly disclaims 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 the Lead Manager or any person affiliated with the Lead Manager in connection with its

investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Offered 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 Offered Bonds; (ii) have sufficient knowledge and experience to make a meaningful evaluation of the Offered Bonds, the information contained in this Prospectus and the merits and risks of investing in the Offered 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 Offered 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 Offered Bonds; and (v) be able to evaluate (either alone or with the help of a financial advisor) how the Offered 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.

In connection with the issue of the Offered Bonds, VTB Capital plc (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may over-allot the Offered 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 Offered 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 Closing Date and 60 days after the date of the allotment of the Offered 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.

The Issuer and the Lead Manager reserve the right to reject any offer to purchase the Offered Bonds, in whole or in part, for any reason.

Credit ratings of the Russian Federation included or referred to in this Prospectus have been issued by Moody's Investors Service Limited ("**Moody's**"), Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and Fitch Ratings Ltd. ("**Fitch**"), each of which is established in 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.

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Offered Bonds has led to the conclusion that: (i) the target market for the Offered Bonds is eligible counterparties and professional clients only, each as defined in the Markets in Financial Instruments Directive II; and (ii) all channels for distribution of the Offered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Offered Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the Markets in Financial Instruments Directive II is responsible for undertaking its own target market assessment in respect of the Offered Bonds

(by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Notice relating to the U.S. Securities Act

The Bonds have not been and will not be registered under the Securities Act or the securities laws of any state 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. In the United States, the offering of the Offered Bonds is being made only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act). Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Offered Bonds may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Outside the United States, the offering is being made in offshore transactions (as defined in and in reliance on Regulation S).

The Offered Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), 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 Offered Bonds or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Notice to investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive (as defined below) is implemented in that Relevant Member State it has not made and will not make an offer of the Offered Bonds which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than offers:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchaser for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Offered Bonds shall result in a requirement for the publication by the Issuer or the Lead Manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer to the public**" in relation to any Offered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Offered Bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus**

Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

In the United Kingdom (the "**United Kingdom**"), this document is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (b) high net worth entities falling within Article 49(2) of the Order and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

PRESENTATION OF CERTAIN INFORMATION

In this Prospectus, all references to "**RUB**", "**Russian rouble**" or "**rouble**" are to the lawful currency of the Russian Federation, all references to "**$**", "**U.S.$**", "**U.S. dollar**" and "**dollar**" are to the lawful currency of the United States, all references to "**EUR**", "**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, all references to the "**Pound sterling**" are to the lawful currency of the United Kingdom, all references to the "**Swiss franc**" are to the lawful currency of Switzerland, 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, euro 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*", the World Trade Organisation (the "**WTO**"), solely in respect of the average final bound tariff rates discussed in "*Balance of Payments of Foreign Trade—Foreign Trade—Foreign Trade Regime*", 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 Ministry of Finance, the Federal Customs Service (the "**Customs Service**"), the Ministry of Transport, the Ministry of Health, the Ministry of Labour and Social Protection, 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 instances, historical statistical information related to the Russian economy has been revised as compared to numbers disclosed by the Ministry of Finance as the issuer of foreign currency denominated bonds, reflecting corresponding revisions and corrections of such information by Rosstat. 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 changes in the international prices of commodities, particularly oil and gas;
    - the impact of the international political and economic environment on the Russian economy, including international political and economic responses to geopolitical events;
    - the degree of liquidity in the international financial 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 ratings of the Russian Federation; 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 tables set forth the rouble to dollar, the rouble to euro and the dollar to euro exchange rates for the last day of the periods indicated, the average exchange rates during the periods indicated and the low and high exchange rates for the periods indicated.

	Exchange Rate Information					
	2013	**2014**	**2015**	**2016**	**2017**	**Starting from 1 January 2018**
	(roubles per U.S.$)[3]					
Low	29.93	32.66	49.17	60.27	55.85	55.67
High	33.47	67.79	72.88	83.59	60.75	58.17
Average for the period[1]	31.82	37.97	60.66	66.90	58.33	56.82
Period end[2]	32.73	56.26	72.88	60.66	57.60	57.55
	(roubles per €)[3]					
Low	39.64	45.21	52.91	63.02	59.61	67.88
High	45.37	84.59	81.15	91.18	71.95	71.39
Average for the period[1]	42.27	50.46	67.43	74.06	65.78	69.75
Period end[2]	44.97	68.34	79.70	63.81	68.87	70.60
	(U.S.$ per €)[4]					
Low	1.28	1.21	1.06	1.04	1.04	1.19
High	1.38	1.39	1.20	1.15	1.20	1.25
Average for the period[1]	1.33	1.33	1.11	1.11	1.13	1.23
Period end[2]	1.38	1.21	1.09	1.06	1.20	1.23

Notes:

(1) The average rates are calculated as the average of the average monthly exchange rates for the period.

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

(3) The information is provided as of 20 March 2018 and for the period from 1 January 2018 to 20 March 2018.

(4) The information is provided as of 9 March 2018 and for the period from 1 January 2018 to 9 March 2018.

Sources: Bank of Russia; U.S. Federal Reserve (for U.S.$ to € data only).

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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 law-governed state, consisting of 85 sub-federal political units, also referred to as "**Federation subjects**". The Russian Federation is the largest country in the world by land mass, covering 17.1 million square kilometres (as of 1 January 2018). The Russian Federation borders 18 countries (two of which are by maritime boundary only) 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.

Lead Manager

The Lead Manager is offering to sell the Offered Bonds. The Issuer will issue the Offered Bonds to the Lead Manager which will acquire them on their issue date. In return, the Lead Manager will (i) deliver to the Issuer U.S.$5,790,762,219 original principal amount of 7.5 per cent. bonds due 2030 (the "**Old Bonds**"), and (ii) pay the Issuer U.S.$797,589,756.15.

The Old Bonds will be acquired by the Lead Manager from their holders following a tender offer made by the Lead Manager, in respect of which the offer period closed on 15 March 2018. The Issuer will receive only U.S.$797,589,756.15 of the proceeds from the offer and sale of the Offered Bonds by the Lead Manager. See "*Use of Proceeds*".

Bonds

Title

U.S.$2,500,000,000 5.25 per cent. Bonds due 2047 (the "**Further Bonds**") to be consolidated and form a single series on and as of the Closing Date with the U.S.$4,500,000,000 5.25 per cent. Bonds due 2047 issued on 23 June 2017 and 25 September 2017 (the "**Original Bonds**", and together with the Further Bonds, the "**2047 Bonds**").

U.S.$1,500,000,000 4.375 per cent. Bonds due 2029 (the "**New Bonds**").

The Further Bonds and the New Bonds are together referred to as the "**Offered Bonds**", the 2047 Bonds and the New Bonds are together referred to as the "**Bonds**".

Interest

The 2047 Bonds bear interest from 23 June 2017 at 5.25 per cent. per annum, payable semi-annually in arrear on 23 June and 23 December in each year, commencing on 23 December 2017.

The New Bonds bear interest from 21 March 2018 at 4.375 per cent. per annum, payable semi-annually in arrear on 21 March and 21 September in each year, commencing on 21 September 2018.

Redemption

Unless previously redeemed, or purchased and cancelled, each 2047 Bond will be redeemed at its principal amount together with accrued interest on 23 June 2047, subject as provided in Condition 7 set out in "*Terms and Conditions of the Further Bonds*". The Terms and Conditions of the Original Bonds and the Terms and Conditions of the Further Bonds are referred to as the "**2047 Conditions**". Unless previously redeemed, or purchased and cancelled, each New Bond will be redeemed at its principal amount together with accrued interest on 21 March 2029 subject as provided in Condition 7 set out in "*Terms and Conditions of the New Bonds*". References herein to "**Conditions**" are to 2047 Conditions and "*Terms and Conditions of the New Bonds*".

Repurchase

The Issuer 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 any such resale takes place outside the United States).

Status

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and, as at their date of issue, rank *pari passu* without any preference among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer.

Events of Default

1. Failure to pay any amount of principal or interest in respect of the 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 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 installment 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 installment 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 Issuer 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 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 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 Bonds 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.

7. The Bonds do not rank *pari passu* without any preference among themselves or *pari passu* with any other unsecured and unsubordinated obligations of the Russian Federation, and any such failure to rank *pari passu* continues for a period of 60 calendar days.

Negative Pledge

So long as any of the Bonds remains Outstanding (as defined in the relevant Conditions), 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 Original Bonds are and the Offered Bonds will be issued in registered form, without interest coupons attached.

The Further Unrestricted Bonds will be represented by beneficial interests in the Further Unrestricted Global Bond, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

The Further Restricted Bonds will be represented by beneficial interests in the Further Restricted Global Bond, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

The New Unrestricted Bonds will be represented by beneficial interests in the New Unrestricted Global Bond, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

The New Restricted Bonds will be represented by beneficial interests in the New Restricted Global Bond, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

The Bonds will be subject to certain restrictions on transfer. See "*Transfer Restrictions*".

Settlement with investors on the Closing Date will occur through the facilities of NSD and Euroclear. Interests in the Global Bonds may be held (directly or indirectly) through NSD and its Participants, including Euroclear. Investors wishing to hold beneficial interests in the Global Bonds through any other international clearing system will not be able to do so until such clearing system makes an eligibility determination with respect to the Bonds, which may be made only if and when customers of such clearing system instruct it to receive the Bonds. See "*Summary of Provisions Relating to the Bonds While in Global Form*".

Currency Election

While the New Bonds are represented by beneficial interests in the New Unrestricted Global Bond and/or the New Restricted Global Bond, payments of principal and interest on the New Bonds will be made, or procured to be made, (i) in Russian roubles, in the case of a Bondholder who has irrevocably elected to receive the relevant payment in Russian roubles and has so notified the Registrar on or prior to the time required by NSD for the relevant payment to be made in Russian roubles and (ii) in the case of all other holders of the New Bonds, in U.S. dollars or the Alternative Payment Currency (as defined in relevant Condition 7).

Bondholders whose interests in the New Bonds are represented by Bond Certificates (as defined in the relevant Condition 1(a)) shall receive all payments in U.S. dollars or the Alternative Payment Currency unless such Bondholders irrevocably elect to receive the relevant payment on the New Bonds in Russian roubles in accordance with relevant

	Condition 7.
Further Issues	The Russian Federation shall be at liberty from time to time, without the consent of the holders of the 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 the Bonds, provided that such further issuance shall not be issued with the same International Securities Identification Number ("**ISIN**") number as the Bonds unless the further issuance is treated as part of the same issuance as the Bonds for U.S. federal income tax purposes, such further issuance constitutes a qualified reopening for U.S. federal income tax purposes, or the further bonds are issued with less than a de minimis amount of original issue discount.
Denomination	U.S.$200,000.
Alternative Payment Currency Event	In case of the 2047 Bonds, notwithstanding any other provisions in the relevant Conditions, if, for reasons beyond its control, the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the 2047 Bonds in U.S. dollars, the Russian Federation shall make such payments (in whole or in part) in euros, Pound sterling or Swiss francs on the due date at the Alternative Payment Currency Equivalent (as defined in the relevant Condition 7) of any such U.S. dollar-denominated amount. In case of the New Bonds, notwithstanding any other provisions in the relevant Conditions, if, for reasons beyond its control, the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the New Bonds in U.S. dollars, the Russian Federation shall make such payments (in whole or in part) in euros, Pound sterling or Swiss francs or, if for reasons beyond its control the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the New Bonds in any of these currencies, in Russian roubles on the due date at the Alternative Payment Currency Equivalent (as defined in the relevant Condition 7) of any such U.S. dollar-denominated amount.
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	Application has been made to the Irish Stock Exchange for the

Trading	Offered Bonds to be admitted to the Official List and trading on the Market. It is expected that admission of the Offered Bonds to trading will be granted on or the next working day after the Closing Date. Transactions will normally be effected for delivery on the second working day after the day of the transaction, subject only to the issue of the Offered Unrestricted Global Bonds and Offered Restricted Global Bonds.
Risk Factors	Risks associated with the Russian Federation generally include: (1) the recent decline in crude oil and natural gas prices has adversely affected the revenues of the Russian Federation and a sustained period of low crude oil and/or natural gas prices may have a prolonged or greater adverse effect; (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 could all have a material adverse effect on the Russian Federation's economic growth and the market for the Bonds; (3) emerging markets such as the Russian Federation are subject to greater risks than more developed markets; (4) recent geopolitical events have had a significant impact on foreign trade and the economy; (5) the depreciation of the rouble against the dollar or other major currencies and the consequences for foreign exchange reserves; (6) the economy of the Russian Federation is subject to the risk of inflation; and (7) official economic data published by the Russian Federation may not be directly comparable with data produced by other sources, and may be subject to revision and amendment. Risks associated with the Bonds generally include: (1) the terms of the Bonds may be modified pursuant to their collective-action provisions; (2) the Russian Federation is a 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 or impossible to obtain or enforce judgments against it; (3) Russia's credit ratings may not reflect all risks associated with an investment in the Bonds; (4) legal investment considerations may restrict certain investments; (5) payments under the Bonds may be affected by geopolitical developments and, if payment in U.S. dollars cannot be made, such payments will instead be made in an Alternative Payment Currency; (6) risks relating to the exercise of the currency election; and (7) a trading market for the Bonds may not develop, and if a market does develop, it may not be liquid. 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

The recent decline in crude oil and natural gas prices has adversely affected the revenues of the Russian Federation and a sustained period of low crude oil and/or natural gas prices may have a prolonged or greater adverse effect

The Russian Federation's revenues are affected by international oil and natural gas prices. A large portion of the Russian Federation's budgetary revenues are derived from oil and gas extraction and export taxes and levies, which together accounted for approximately 4,844 billion roubles in 2016, representing 36% of overall federal budget revenues for the year, and approximately 5,795 billion roubles in 2017, representing 39% of the overall federal budget revenues for the year. In response to global supply and demand, general economic conditions, competition from other energy sources and other factors, oil and natural gas prices fell sharply in late 2014, and have remained at low levels since then.

The average price per barrel of Urals oil was U.S.$107.88 in 2013 and U.S.$107.45 in the first six months of 2014. Beginning in September 2014, the price of Urals oil began to fall precipitously, resulting in an average price of U.S.$72.90 per barrel in 2014. The price declined further in early 2015 and remained low throughout the year, with an average price per barrel of U.S.$51.23. In 2016, the average price per barrel of Urals oil was U.S.$41.9. In 2017, the price of Urals oil gradually increased, resulting in an average price of U.S.$53.03 per barrel in 2017. The Russian Federation's budget for 2018 and the forecast for 2019-2020 assumes an average price per barrel of Urals oil of U.S.$43.8 for 2018, U.S.$41.6 for 2019 and U.S.$42.4 for 2020. See "*Public Finance—2017 Budget Law*". Natural gas prices have likewise declined significantly in recent years, in part because crude oil prices often provide a benchmark for natural gas prices. The average price of natural gas exported to countries outside the Commonwealth of Independent States ("**CIS**") per MMBTU was U.S.$11.2 in 2013, U.S.$10.5 in 2014, U.S.$7.3 in 2015, U.S.$4.4 in 2016 and U.S.$5.4 for the first six months of 2017.

The decline in oil and natural gas prices has adversely affected the budgetary revenues and financial condition of the Russian Federation, including its foreign currency reserves. Export revenues declined from U.S.$592.0 billion in 2013 to U.S.$562.6 billion in 2014, U.S.$393.1 billion in 2015 and U.S.$332.4 billion in 2016. The decline in 2016 was mainly due to a reduction in exports of mineral products, which include oil, gas and coal exports, and which fell from U.S.$219.2 billion in 2015 to U.S.$168.4 billion in 2016. Although, in 2017 export

revenues increased to U.S.$411.8 billion, there can be no assurance that there will be no further declines in the future.

Largely in response to lower oil and natural gas prices, the Bank of Russia freely floated the rouble in November 2014. The shock absorbing feature of the free-floating regime allowed the rouble to depreciate in line with the drop in oil prices, thereby mitigating the impact of lower oil prices on the Russian economy and budgetary revenues. However, foreign exchange reserves have been significantly impacted by lower foreign currency revenues coupled with efforts by the Bank of Russia to support the rouble and to provide U.S. dollar refinancing for the banking sector, and have declined from U.S.$456.4 billion as of 31 December 2013 to U.S.$308.0 billion as of 31 December 2016. Foreign exchange reserves subsequently increased to U.S.$357.6 billion as of 1 February 2018, but there can be no assurance that there will not be further declines in the future.

If oil and gas prices remain low for a sustained period of time, exports and foreign exchange revenues will continue to be adversely affected. A prolonged period of low oil and gas prices therefore could have a material adverse impact on the financial condition of the Russian Federation.

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 could all have a material adverse effect on the Russian Federation's economic growth and the market for the Bonds

The Russian Federation's economy is vulnerable to external shocks. For example, the global financial crisis of 2008-2009 adversely impacted the Russian economy, which recorded negative growth and increased unemployment in 2009 compared to 2008. More recently, Russian exports were adversely affected by the sovereign debt crisis in the Eurozone, which was marked by low or even negative growth rates in certain countries in the EU, including many of the Russian Federation's principal trading partners. Economic growth and demand for Russian exports have also been affected by slowing growth in certain countries not a part of the Organisation for Economic Cooperation and Development (the "**OECD**"), particularly China, which is a major purchaser of Russian exports, a surplus of oil on the world markets and recent geopolitical events. A continued deceleration of economic growth in China, a significant decline in the economic growth of the EU or any of the Russian Federation's other major trading partners, the persistence of excess global oil inventories, or the renewal of sustained volatility on global financial markets 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 the Russian Federation'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.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets

Emerging markets such as the Russian Federation are subject to increased political, economic and legal risks. Changes in the political or economic policies of the Government of the Russian Federation (the "**Government**"), or the overall political or economic environment in the Russian Federation, including in the context of the presidential elections in March 2018, may result in heightened volatility. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set forth in this Prospectus may become outdated relatively quickly. If financial or economic problems occur in the future, or if the perceived risks associated with investing in emerging economies become more acute, this could dampen foreign investment in the Russian Federation and adversely affect the Russian economy, as well as result in a decrease in the market value of the Bonds.

Recent geopolitical events have had a significant impact on foreign trade and the economy

The Russian Federation's economic relations with certain of its trading partners have been affected by geopolitical events, particularly involving Ukraine and the Middle East, as well as allegations relating to cyber-security issues. Differences of views between the Russian Federation and certain other countries (including the United States and Member States of the EU) regarding events in Ukraine have resulted in the Russian Federation, on the one hand, and the United States, the EU and certain other countries, on the other hand, imposing economic sanctions against certain entities and individuals, as well as on the import or export of certain products, technology and services. In addition, the Russian Federation has imposed sanctions on another significant trading partner, Turkey, following military actions taken against Russian Federation aircraft on a mission in northern Syria, although most of these sanctions have since been lifted.

These events have resulted in a significant reduction in foreign trade among the countries involved, and have also limited new investment projects that depend on access to foreign products, technology and services. In addition, trade between the Russian Federation and Ukraine has declined significantly. Limitations imposed by foreign governments on the ability of their financial institutions and other parties to provide funding to certain Russian banks and entities have also impaired their access to international bank and capital markets financing in certain currencies (which required Government measures to recapitalise certain financial institutions in 2014 and 2015). The related political and economic tensions have contributed to capital outflows and the depreciation of the rouble, which in turn (together with lower oil and gas prices) have reduced the Russian Federation's foreign exchange reserves, particularly in 2014 and 2015.

The restrictions adopted in 2017 in response to alleged cybersecurity activity include secondary sanctions on certain energy sector investments, which may impact future development activities in this sector.

More recently, on 29 January 2018, the US Treasury Department (the "US Treasury") published the unclassified portion of the Report to Congress Pursuant to Section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 ("C**AATSA**") Regarding Senior Foreign Political Figures and Oligarchs in the Russian Federation and Russian Parastatal Entities ("**Section 241 Report**"), which lists senior political figures in Russia as well as oligarchs with an estimated net worth of US$1 billion or more. According to Section 241 Report, the inclusion of individuals or entities in this report does not impose sanctions on them or create any restrictions or prohibitions on dealing with such persons by either U.S. or foreign persons. In addition, on 2 February 2018, the US Treasury issued a report under Section 242 of CAATSA ("**Section 242 Report**") addressing the potential effects of expanding US sanctions to include Russian sovereign debt and derivatives. The unclassified portion of Section 242 Report did not recommend such expansion and stated that given the size of Russia's economy and its interconnectedness and prevalence in global asset markets, the magnitude and scope of consequences from expanding sanctions to sovereign debt and derivatives is uncertain and the effects could be borne by both the Russian and U.S. investors and businesses. Sections 241 and 242 of CAATSA themselves do not require any further action in response to Section 241 or Section 242 Reports.

While the overall strength of the Russian Federation's economy has thus far limited the impact of the geopolitical events described above, they have increased market volatility and sharply reduced investment by both foreign and domestic investors, which could impact future economic growth. More generally, continued geopolitical tensions, particularly if they were to result in additional sanctions (such as those relating to Russian sovereign debt) and retaliatory measures, could have a material adverse impact on the Russian Federation's economy, the economies of the other countries involved, global economic conditions and the trading price of the Bonds.

Exchange rate risks and consequences for foreign exchange reserves

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. In response to a host of factors, particularly a decline in oil and natural gas prices and market reactions to geopolitical events, the rouble experienced significant depreciation against major world currencies in the second half of 2014, continuing into 2015. The rouble/dollar exchange rate was 72.88 roubles/dollar as of 31 December 2015, compared to 32.73 roubles/dollar as of 31 December 2013. The rouble/euro rate was 79.70 roubles/euro as of 31 December 2015, compared to 44.97 roubles/euro as of 31 December 2013. The Bank of Russia has responded by raising interest rates on several occasions (which could affect future economic growth), and by using foreign exchange reserves in an attempt to stabilise the rouble. While the rouble has strengthened somewhat in 2016 and 2017 (rising to 57.60 roubles/dollar and 68.87 roubles/euro as of 31 December 2017), there can be no assurance that this trend will continue in the future. Should the rouble come under further pressure, and should the Bank of Russia expend significant reserves to stabilise the exchange rate, the Russian Federation's foreign exchange reserves may be further depleted, which may adversely affect its ability to service its external debt. Furthermore, as the value of the rouble declines, payments on the Bonds and other Russian Federation obligations denominated in foreign currencies become relatively more expensive in rouble terms.

The Government in the past has used Reserve Fund ("**Reserve Fund**") and National Wealth Fund ("**National Wealth Fund**" and together with the Reserve Fund, the "**Funds**") balances

(which comprise part of the Russian Federation's foreign exchange reserves) to finance the federal budget. The budgetary rules effective since 1 February 2016 allowed the use of oil and gas revenues as well as assets from both Funds to be used to finance Government expenditures. The use of these Funds (as well as oil and gas proceeds that are meant to replenish these Funds) for budgetary purposes have affected the Russian Federation's foreign exchange reserves. As of 1 January 2017, the Reserve Fund balance equalled 972.1 billion roubles (U.S.$16.0 billion). In 2017, all of the funds from the Reserve Fund were spent and on 1 February 2018, it was liquidated. As of 1 January 2018, the National Wealth Fund balances amounted to 3,752.9 billion roubles (U.S.$65.2 billion), compared to 4,359.2 billion roubles (U.S.$71.9 billion) as of 1 January 2017. While new budgetary rules in effect since 30 July 2017 are likely to limit the use of National Wealth Fund assets to fund the budget, such rules are subject to change, and any future use of such assets to fund the budget could adversely affect the Russian Federation's ability to service external debt.

The economy of the Russian Federation is subject to the risk of inflation

Consumer price inflation ("**CPI**") increased from 6.5% in 2013 to 11.4% in 2014 and 12.9% in 2015 and decreased to 5.4% in 2016 and 2.5% in 2017. Industrial producer price inflation ("**PPI**") increased from 3.7% in 2013 to 5.9% in 2014 and 10.7% in 2015 and decreased to 7.5% in 2016 and again increased to 8.4% in 2017. The increase in inflation in 2014 and 2015 was mainly due to the depreciation of the rouble and an increase in food prices. Although the Government has taken measures to control inflation and the Bank of Russia has established inflation target objectives, there can be no guarantee that these measures will continue to be effective to maintain inflation at the targeted levels. Renewed and sustained high inflation could lead to market volatility, a reduction in consumer purchasing power, particularly as imports become more expensive, and erosion of consumer and/or investor confidence.

Official economic data published by the Russian Federation may not be directly comparable with data produced by other sources, and may be subject to revision and amendment

While a range of official and other sources, including, among others, the Ministry of Finance, the Bank of Russia and Rosstat, produce statistics on the Russian Federation and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies or in other countries, which may use different methodologies. Accordingly, data relating to Russia's economy may differ from data prepared by international bodies, such as the International Monetary Fund (the "**IMF**").

In addition, data compiled by the Ministry of Finance, the Bank of Russia, Rosstat and others is periodically subject to revision, including in respect of historical periods. As a result, data reported by these sources in future periods may differ from such data as presented in this Prospectus.

Risks Relating to the Bonds

Collective Action Clauses

The Bonds contain a collective action clause that governs voting procedures on matters related to the Bonds, including amendments, modifications and changes to the Bonds. Under these clauses, certain key provisions of the Bonds may be amended, modified or changed, including the maturity, principal amount, interest rate and payment terms, with the consent of

the Russian Federation and the specified majority of Bondholders, as defined in the relevant Conditions (see "*Terms and Conditions of the Further Bonds—Meeting of the Bondholders; Written Resolutions*" and "*Terms and Conditions of the New Bonds—Meeting of the Bondholders; Written Resolutions*"). Each such amendment, modification or change will be binding on all Bondholders, whether or not they voted in favour of such amendment, modification or change or voted at all and will be notified to the Bondholders in accordance with the relevant Conditions (see "*Terms and Conditions of the Further Bonds—Notices*" and "*Terms and Conditions of the New Bonds —Notices*".

In addition, the Bonds permit cross-series modifications to be made to the Bonds and one or more series of debt securities issued by the Russian Federation (as long as the other series of debt securities also contain a cross-series modification provision). In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, although in certain cases a lower defined majority of Bondholders of each affected series of Bonds must also approve the relevant amendment. See "*Terms and Conditions of the Further Bonds—Meetings of Bondholder; Written Resolutions—Modification of this Series of Bonds only*" and "*Terms and Conditions of the New Bonds—Meetings of Bondholder; Written Resolutions—Modification of this Series of Bonds only*".

As a result of these provisions, the relevant Conditions may be amended, modified or waived with the affirmative vote of a lower percentage of the holders of the Bonds than the percentage that would have been necessary for an amendment, modification or waiver of the Bonds taken alone, without any other series. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Bonds less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the relevant Conditions) or in a distress situation. Further, any such amendment, modification or waiver in relation to the Bonds may adversely affect their trading price.

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 also has 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 many 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 in the past have 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 or impossible to obtain recognition or enforcement in the Russian Federation of a foreign judgment in respect of the Bonds.

Credit ratings may not reflect all risks

The Russian Federation has been assigned foreign currency sovereign credit ratings of Ba1 with positive outlook (Moody's), BBB- with stable outlook (Standard & Poor's) and BBB- with positive outlook (Fitch); the Moody's is one notch below investment grade. The Bonds have been assigned a BBB- with positive outlook rating by Fitch. 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. Similar ratings on different types of bonds do not necessarily mean the same thing. Ratings do not address the likelihood that the principal on the Bonds will be prepaid or paid on an expected final payment date. Ratings also do not address the marketability of the Bonds at any market price. The significance of each rating should be analysed independently from any other rating. 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 (including as a result of geopolitical events). 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.

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.

Payments on the Bonds may be affected by compliance requirements

Payments on the Bonds will be made through the facilities of various international financial institutions that clear U.S. dollar transactions in the ordinary course of their business. While there are currently no legal or regulatory restrictions that restrict the ability of these financial institutions to process payments on the Bonds, it is possible that the application by some of these financial institutions of their internal compliance procedures might cause some holders to experience delays in receiving payments on the Bonds. While such delays, in the event they occur, should be of very limited duration (at least under currently applicable laws and regulations), they could temporarily impact the liquidity position of affected investors in the Bonds.

Investors will be subject to exchange rate risk if payments on the Bonds are made in an Alternative Payment Currency

Subject to certain conditions, the relevant Conditions of the Bonds set out that if, for reasons beyond its control, the Russian Federation is unable to make payments on the Bonds in U.S. dollars payments of principal or interest (in whole or in part) will be paid in an alternative payment currency such as:

- with respect to 2047 Bonds: Pound sterling; euro; or Swiss francs;
- with respect to New Bonds: Pound sterling; euro; Swiss francs; or, if for reasons beyond its control the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the Bonds in any of these currencies, Russian roubles,

The Alternative Payment Currency Equivalent (as defined in the relevant Condition 7) of the U.S. dollar amounts due in respect of the Bonds will be calculated on the basis of the exchange rates determined as provided in the relevant Condition 7. Because currency exchange rates may vary between the time the Alternative Payment Currency Equivalent is calculated and the time payment is effectively received by a holder, there can be no assurance that investors will be able to use the amount received in the Alternative Payment Currency to purchase an amount of U.S. dollars equivalent to the amount they would have received had the payment been made directly in U.S. dollars.

Risks relating to the exercise of the currency election

Conditions of the New Bonds provide that the Bondholders may give an irrevocable election notice to the Registrar (as defined in the relevant Condition 1(a)) to receive the relevant payment of interest or principal, as the case may be, in Russian roubles ("**Currency Election**"). Upon any such election in accordance with the foregoing, such interest or principal will be converted into Russian roubles by NSD and paid to the relevant Bondholders. The U.S. dollar interest and principal payments made by the Russian Federation in relation to the New Bonds will be converted into Russian roubles by NSD at a purchase price equal to (a) the bid price then used by NSD to purchase Russian roubles with U.S. dollars or alternative payment currency, as applicable, for its own account, or (b) if no such bid price is then available from NSD, at the bid price for the purchase of Russian roubles with U.S. dollars or alternative payment currency, as applicable, quoted by a leading foreign exchange bank in Moscow, London or New York City selected by NSD, in each case for delivery on the date on which a payment becomes due on the New Bonds (the "**Relevant**

Bond Payment Date"). Although NSD has agreed to ensure that each purchase of Russian roubles with the related aggregate U.S. dollar or the alternative currency amount, as applicable, will represent the "best execution" for that trade then available to NSD, no assurance can be given that the amount of Russian roubles received by an investor will be equal to the amount of Russian roubles that the investor could have realised in the foreign exchange market if the interest and principal payments made on the investor's New Bonds were instead paid directly to the investor in U.S. dollars or the alternative payment currency, as applicable. Following submission by a Bondholder of a notice in relation to the Currency Election, the respective New Bonds which are the subject of such Currency Election, will be blocked from trading from no later than the business day following such submission until the Relevant Bond Payment Date.

The 2047 Conditions do not provide for the Currency Election therefore investors in the Further Bonds will not be able to choose Russian roubles as payment currency.

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 FURTHER BONDS

The following is the text of the terms and conditions of the Further 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 Further Bonds.

The Bonds will initially be issued in the form of Global Bonds deposited with and registered in the name of NSD, which will hold the Global Bonds on behalf of its participants, including Euroclear. No definitive Bond Certificates will be issued except in the limited circumstances described in "Summary of Provisions Relating to the Bonds While in Global Form–Exchange of Interests in Global Bonds for Bond Certificates".

The U.S.$2,500,000,000 5.25 per cent. Bonds due 2047 (the "**Further Bonds**") (which expression includes any further bonds issued pursuant to Condition 14 and forming a single series with the Bonds) of the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**" or the "**Issuer**") acting on behalf of the Russian Federation (the "**Russian Federation**") 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. 362-FZ of 5 December 2017 "On the Federal Budget for 2018 and planning period of 2019 and 2020"; Resolution of the Government of the Russian Federation dated 16 December 2017 No. 2851-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Resolution of the Government of the Russian Federation dated 28 February 2018 No. 336-r; Order of the Ministry of Finance dated 24 February 2012 No. 31n; Order of the Ministry of Finance dated 7 March 2018 No. 127; and Order of the Ministry of Finance dated 16 March 2018 No. 151. The Further Bonds shall have the same terms and conditions as, and will be consolidated and form a single series and rank *pari passu* with, the U.S.$4,500,000,000 5.25 per cent. Bonds due 2047 issued on 23 June 2017 and 25 September 2017 (the "**Original Bonds**", and together with the Further Bonds, 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 shall be kept either by the Issuer or by an agent acting on its behalf (the Issuer or such agent, in such capacity, the "**Registrar**").

(b) Title

Title to the Bonds will be evidenced and 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 agent (which may include the Issuer itself) appointed by the Issuer for purposes of recording transfers (a "**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 only part 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.

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. As at their date of issue, the Bonds rank *pari passu* without any preference among themselves and *pari passu* with all other 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, 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 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.

"**Outstanding**" means in relation to the Bonds (including, for the avoidance of doubt, Direct Rights (as defined in the Global Bonds) in respect thereof), all such Bonds other than:

(i) those which have been redeemed in accordance with the Conditions;

(ii) to the extent that the Issuer has appointed any party to act as fiscal agent in respect of the Bonds (a "**Fiscal Agent**") or otherwise to make payment on its behalf under the Bonds (a "**Paying Agent**"), those in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption monies wherefor (including all interest accrued thereon to such date for redemption) have been duly paid to any such Fiscal Agent or Paying Agent in the manner provided for herein (and, where appropriate, notice to that effect has been given to the relative Bondholders in accordance with the Conditions);

(iii) those which have been purchased and surrendered for cancellation as provided in the Conditions and notice of the cancellation of which has been given to the Issuer or any such Fiscal Agent appointed to act on its behalf;

(iv) those which have become void under the Conditions;

(v) those mutilated or defaced Bonds which have been surrendered or cancelled and in respect of which replacement Bonds have been issued pursuant to the Conditions;

(vi) (for the purpose only of ascertaining the amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds the Bond Certificates in respect of which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to the Conditions; and

(vii) any Global Bond to the extent that it has been validly exchanged for Bond Certificates in accordance with its terms;

and furthermore Bonds shall not be Outstanding in the circumstances set out in, and solely for the purposes of, Condition 12(j).

"**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 23 June 2017 at 5.25 per cent. per annum, payable semi-annually in arrear on 23 June and 23 December in each year until maturity, commencing on 23 December 2017 (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 23 June 2017 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).

Interest 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 23 June 2047 (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 an account in the relevant currency maintained by the Bondholder with a bank in New York City, in the European Union, in the United Kingdom or in Switzerland (or in each case to such bank's correspondent, if applicable). Such payment will be made only upon presentation and surrender of the relevant Bond Certificate at the specified office of the Issuer or any Paying Agent, to the extent that the Issuer has appointed any such Paying Agent, 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 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, in the European Union, in the United Kingdom or in Switzerland (or in each case to such bank's correspondent, if applicable).

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.

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

All payments of principal and interest in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement), but in each case without prejudice to the provisions of Condition 8.

(d) **Payments of Alternative Payment Currency Equivalent**

Notwithstanding any other provision in these Conditions, if, for reasons beyond its control, the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the Bonds in U.S. dollars (an "**Alternative Payment Currency Event**"), the Russian Federation shall make such payments (in whole or in part) in the Alternative Payment Currency on the due date at the Alternative Payment Currency Equivalent of any such U.S. dollar-denominated amount. If an Alternative Payment Currency Event occurs, the Issuer shall give not less than five nor more than 30-days' notice to the Bondholders prior to the due date for payment, indicating the Alternative Payment Currency in which payments will be made. Such notice shall apply on all subsequent payment dates unless and until the Russian Federation provides a subsequent notice that payments shall once again be made in U.S. dollars.

In the case of an Alternative Payment Currency Event, payment of the Alternative Payment Currency Equivalent of the relevant principal or interest in respect of the Bonds shall be made by transfer to the applicable Alternative Payment Currency account of the relevant Bondholder, provided that such Bondholder has provided details of its Alternative Payment Currency account for receipt of such payments.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of these Conditions by the exchange rate calculation agent, will (in the absence of manifest error) be binding on the Russian Federation and all Bondholders.

(e) **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.

(f) **Payments on Business Days**

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 to the Issuer or, to the extent that a Paying Agent has been appointed, at the specified office of any such Paying Agent.

In these Conditions, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Moscow, London and New York City and, in the case of the surrender of a Bond Certificate, in the place where the Bond Certificate is surrendered. In the case of a payment of an Alternative Payment Currency Equivalent denominated in Swiss francs, a "business day" will only occur on a day on which commercial banks are open for business in Zurich. In the case of a payment of an Alternative Payment Currency Equivalent denominated in Euros, a "business day" will only occur on a day on which the TARGET System is open. "**Target System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto.

(g) **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; or (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so).

(h) **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.

(i) **Agents**

Initially, the Issuer shall perform the roles ascribed to any Fiscal Agent, Paying Agent and Transfer Agent (each, an "**Agent**") in these Conditions. The Issuer reserves the right at any time to appoint additional or other Agents and vary or terminate the appointment of any Agent. In the event that any Agent so

appointed, other than the Issuer, is unable or unwilling to continue performing any such role, the Issuer shall appoint one or more financial institutions of international standing duly authorised by applicable law to act in such capacity, and, in the case of a Paying Agent, by law of the jurisdictions of the currency in which payment is to be made to perform such role. Notice of any appointment of an Agent and its specified office, or any change in the Agents or their specified offices, will promptly be given to the Bondholders in accordance with Condition 15.

(j) **Definitions**

In these Conditions:

"**Alternative Payment Currency**" means Euros, Pound sterling or Swiss francs, as selected by the Russian Federation.

"**Alternative Payment Currency Equivalent**" means the relevant U.S. dollar amount converted into the Alternative Payment Currency using the Exchange Rate for the relevant U.S. Dollar Calculation Date.

"**Exchange Rate**" means, for a U.S. Dollar Rate Calculation Date, (i) if the Alternative Payment Currency is the Euro, the rate for the purchase of U.S. dollars with Euros quoted by the European Central Bank at or around 11 a.m. (Central European time), (ii) if the Alternative Payment Currency is the Pound sterling, the rate for the purchase of U.S. dollars with Pound sterling quoted by the Bank of England at or around 11 a.m. (London time) and (iii) if the Alternative Payment Currency is the Swiss franc, the rate for the purchase of U.S. dollars with Swiss francs quoted by the Swiss National Bank at or around 11 a.m. (Central European time) (if the Alternative Payment Currency is the Swiss franc), each as quoted on such U.S. Dollar Rate Calculation Date. In the event that any such rate cannot be determined at the relevant time, the Exchange Rate shall be the rate for the purchase of U.S. dollars with the Alternative Payment Currency quoted by a major bank in the London market at approximately the relevant time, for a transaction of a size approximately equal to that of the payment being made.

"**U.S. Dollar Rate Calculation Date**" means the day which is two business days (as defined herein) before the due date for payment of the relevant U.S. dollar amount under the Conditions.

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 from such a payment by the Russian Federation, 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; or

(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.

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 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 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 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; or

(g) ***Pari passu***

The Bonds do not rank *pari passu* without any preference among themselves or *pari passu* with any other unsecured and unsubordinated obligations of the Russian Federation, and any such failure to rank *pari passu* continues for a period of 60 calendar days, 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 Issuer or, if there is one that is not the Issuer, the specified office of the Registrar or the Transfer Agent 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 Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF BONDHOLDERS; WRITTEN RESOLUTIONS

(a) Certain Provisions for Meetings of Bondholders

(i) A holder of a Bond may by an instrument in writing (a "form of proxy") in the form included with the notice convening a meeting of Bondholders pursuant to Condition 12(b)(iv)(D) or available from the specified office of the Issuer or, if there is one that is not the Issuer, the specified office of the Fiscal Agent or the Registrar, as the case may be, in the English language, signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the Issuer or, if there is one that is not the Issuer, the Fiscal Agent or the Registrar, as the case may be, not less than 24 hours before the time fixed for any meeting, appoint any person (a "proxy") to act on his or its behalf in connection with any meeting or proposed meeting of Bondholders or the signing of any Written Resolution that the holder is entitled to sign. The proxy named in any form of proxy need not be a Bondholder.

In these Conditions, "24 hours" shall mean a period of 24 hours including all or part of a day upon which banks are open for business in both the place where the relevant meeting is to be held and in Moscow (disregarding for this purpose the day upon which such meeting is to be held) and any such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid.

(ii) Any holder of a Bond which is a corporation may by delivering to the Issuer, or if there is one that is not the Issuer, the Fiscal Agent or the Registrar, as the case may be, not later than 24 hours before the time fixed for any meeting a resolution of its directors or other governing body in the English language authorising any person to act as its representative (a "**representative**") in connection with any meeting or proposed meeting of Bondholders.

(iii) Any proxy appointed pursuant to Condition 12(a)(i) above or representative appointed pursuant to Condition 12(a)(ii) above shall so long as such appointment remains in force be deemed, for all purposes in connection with any meeting or proposed meeting of Bondholders or the signing of any Written Resolution specified in such appointment, to be the holder of the Bond to which such appointment relates and the holder of the Bond shall be deemed for all such purposes not to be the holder. Any vote cast by a proxy will be valid notwithstanding the prior revocation or amendment of the appointment of that proxy unless the Issuer has received notice or has otherwise been informed of the revocation or amendment at least 24 hours before the time fixed for the commencement of the meeting at which the proxy intends to cast its vote or, if applicable, the signing of a Written Resolution.

(iv) A person (who may, but need not, be a Bondholder) nominated in writing by the Issuer may take the chair at every such meeting but, if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time fixed for the meeting, Bondholders present representing more than 50 per cent. of the aggregate principal amount of the Bonds then Outstanding represented at the meeting shall appoint a chairman. The chairman of an adjourned meeting need not be the same person as was chairman of the original meeting.

(v) Unless all of the Outstanding Bonds are held by one person (in which case the quorum shall be at least one person present in person holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), subject as provided below, at any such meeting any two or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than one tenth in principal amount of the outstanding Bonds shall (except for the purpose of voting on a proposed modification of a Reserved Matter or non-Reserved Matter) form a quorum for the transaction of business, and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for voting on a proposed modification of a non-Reserved Matter shall (subject as aforesaid in the event that all the outstanding Bonds are held by one person and subject as provided below) be two or more persons present in person holding Bonds or being proxies or representatives and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Bonds; provided that, at any meeting the business of which includes any of the Reserved Matters (as defined below), unless all the outstanding Bonds are held by one person (in which case, the quorum shall be at least one person present in person holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), the quorum shall be two or more persons present in person holding Bonds or being proxies or representatives and holding or representing at least 66⅔ per cent. of the aggregate principal amount of the outstanding Bonds.

(vi) If within 30 minutes from the time fixed for any such meeting a quorum is not present, the meeting shall stand adjourned for such period, not being less than 14 days nor more than 42 days, and to such place, as may be decided by the chairman. Unless all of the outstanding Bonds are held by one person (in which case the quorum shall be at least one person present holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), at any adjourned meeting at which Bondholders will vote on a proposed modification of a non-Reserved Matter, two or more persons holding Bonds or being proxies or representatives and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Bonds shall form a quorum and may pass any resolution

and decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting. At any adjourned meeting at which Bondholders will vote on a proposed modification of a Reserved Matter, unless all the outstanding Bonds are held by one person (in which case the quorum shall be at least one person present holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), the quorum shall be two or more persons so present holding Bonds or being proxies or representatives and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Bonds.

(vii) The chairman may, with the consent of (and shall if directed by) any meeting, adjourn such meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

(viii) At least 10 days' notice of any meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting, and such notice shall state the quorum required at such adjourned meeting. It shall not, however, otherwise be necessary to give any notice of an adjourned meeting.

(ix) The Issuer, the Russian Federation and its financial and legal advisers may attend and speak at any meeting of Bondholders. No one else may attend at any meeting of Bondholders or join with others in requesting the convening of such a meeting unless he is the holder of a Bond or is a proxy or a representative.

(x) At any meeting every person who is so present shall have one vote in respect of each U.S.$200,000 in principal amount of the Bonds that are Outstanding and so produced or in respect of which he is a proxy or a representative. Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

(xi) A meeting of Bondholders shall, subject to the Conditions, in addition to the powers given above, but without prejudice to any powers conferred on other persons by these Conditions, have power exercisable by resolution passed at such meeting duly convened and held in accordance with these provisions and by written resolution duly signed by the requisite majority of Bondholders:

(A) to sanction any proposal by the Russian Federation for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders against the Russian Federation; or

(B) to assent to any modification of the Bonds; or

(C) to authorise anyone to concur in and do all such things as may be necessary to carry out and give effect to any resolution; or

(D) to appoint any persons (whether Bondholders or not) as a committee or committees to represent the interests of the Bondholders and to confer upon such committee or committees any powers or discretions which the Bondholders could themselves exercise by resolution;

provided that the special quorum provisions contained in the proviso to Condition 12(a)(v) and, in the case of an adjourned meeting, in the proviso to Condition 12(a)(vi) shall apply in relation to any resolution for the purpose of approving any Reserved Matters.

(xii) Minutes of all resolutions and proceedings at every such meeting shall be made and entered in the books to be from time to time provided for that purpose by the Russian Federation and any such minutes, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings transacted or by the chairman of the next succeeding meeting of Bondholders, shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at such meeting shall be deemed to have been duly passed and transacted.

(b) **Convening Meetings of Bondholders; Conduct of Meetings of Bondholders; Written Resolutions**

(i) The Issuer may convene a meeting of the Bondholders at any time in respect of the Bonds in accordance with these Conditions. The Issuer will determine the time and place of the meeting and will notify the Bondholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer will convene a meeting of Bondholders if the holders of at least 10% in principal amount of the Bonds that are Outstanding have delivered a written request to the Russian Federation (directly or through the Fiscal Agent, if there is one that is not the Issuer) setting out the purpose of the meeting. The Issuer will notify the Bondholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer will set the procedures governing the conduct of any meeting in accordance with these Conditions.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Bondholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Bondholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Bonds are traded and/or held by Bondholders;

(F) whether Condition 12(c), or Condition 12(d), or Condition 12(e) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 12(g);

(I) the identity of the aggregation agent (the "**Aggregation Agent**") and the calculation agent (the "**Calculation Agent**"), if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 12(h); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Conditions contain provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 12(b) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Bondholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple

Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes, bonds (including the Bonds), debentures or other debt securities issued by the Issuer or the Russian Federation in one or more series with an original stated maturity of more than one year.

(x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 12 and Condition 13 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(c) **Modification of the Bonds only**

(i) Any modification of any provision of, or any action in respect of, these Conditions in respect of the Bonds may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Bondholders duly convened and held in accordance with the procedures prescribed by the Russian Federation pursuant to Condition 12(b) by a majority of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the Bonds that are Outstanding present or represented at such meeting; or

(B) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the Bonds that are Outstanding present or represented at such meeting.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the Bonds that are Outstanding; or

(B) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the Bonds that are Outstanding.

(iv) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders.

(v) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Bondholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(d) **Multiple Series Aggregation — Single limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 12(b), as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of debt securities.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved

shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) It is understood that a proposal under paragraph (d)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(vii) Any modification or action proposed under paragraph (d)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Multiple Series Aggregation — Two limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Russian Federation pursuant to Condition 12(b), as supplemented if necessary, which is passed by a majority of:

(A) at least 66 2/3% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the debt securities that are Outstanding in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66 2/3% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the debt securities that are Outstanding in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or

not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(vi) Any modification or action proposed under paragraph (e)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(e) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(f) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the dates, or the method of determining the dates, for payment of principal, interest or any other amount in respect of the Bonds, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Bonds or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Bonds on any date;

(ii) to change the currency in which any amount due in respect of the Bonds is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Bondholders or the number or percentage of votes required to be cast, or the number or percentage of Bonds required to be held, in connection with the taking of any decision or action by or on behalf of the Bondholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(vi) to change the definition of "Uniformly Applicable";

(vii) to change the definition of "Outstanding" or to modify the provisions of Condition 12(j);

(viii) to change the legal ranking of the Bonds set out in Conditions 3 and/or 4;

(ix) to change any provision of the Bonds describing circumstances in which Bonds may be declared due and payable prior to their scheduled maturity date, as set out in Condition 9;

(x) to change the law governing the Bonds;

(xi) to impose any condition on or otherwise change the Russian Federation's obligation to make payments of principal, interest or any other amount in respect of the Bonds, including by way of the addition of a call option;

(xii) to modify the provisions of this Condition 12(f);

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Bonds or to change the terms of any such guarantee or security; or

(xiv) to exchange or substitute all the Bonds for, or convert all the Bonds into, other obligations or securities of the Issuer or the Russian Federation or any other person, or to modify any provision of these Conditions in connection with any exchange of the Bonds for, or the conversion of the Bonds into, any other obligations or securities of the Issuer or the Russian Federation, which would result in the Conditions as so modified being less favourable to the Bondholders which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or the Russian Federation or any other person resulting from the relevant exchange or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(g) **Information**

(i) Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 12(c), Condition 12(d) or Condition 12(e), the Issuer shall publish in accordance with Condition 13, the following information:

(A) a description of the Russian Federation's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Russian Federation's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(B) if the Russian Federation shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement

with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(C) a description of the Russian Federation's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Bondholders in Condition 12(a)(iv)(G).

(h) **Claims Valuation**

For the purpose of calculating the par value of the Bonds and any affected series of debt securities which are to be aggregated with the Bonds in accordance with Condition 12(d) and Condition 12(e), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Bonds and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Bonds and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(i) **Manifest error**

The Bonds and these Conditions may be amended without the consent of the Bondholders to correct a manifest error.

(j) **Bonds controlled by the Russian Federation**

(i) For the purposes of (a) determining the right to attend and vote at any meeting of Bondholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) Conditions 12(a)(v) and 12(a)(vi) and (c) Condition 9, Bonds shall be disregarded and shall not be Outstanding if they are held by or on behalf of (x) the Russian Federation or any public sector instrumentality or (y) a corporation, trust, financial institution or other entity that is controlled directly or indirectly by the Russian Federation or any public sector instrumentality in cases where the holder of the Bond does not have autonomy of decision, where:

(A) the holder of a Bond for these purposes is the entity legally entitled to vote the Bond for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Bond for or against a proposed modification;

(B) "public sector instrumentality" means the Bank of Russia or any department, ministry or agency of the Russian Federation;

(C) "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity; and

(D) the holder of a Bond has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Russian Federation or any public sector instrumentality, as applicable:

(1) the holder may not, directly or indirectly, take instruction from the Issuer or public sector instrumentality, as applicable, on how to vote on a proposed modification; or

(2) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or

(3) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Bonds (if that person then held any Bonds) would be deemed to be not Outstanding.

(ii) In advance of any meeting of Bondholders, or in connection with any Written Resolution, the Issuer shall make available for inspection a certificate prepared pursuant to Condition 13(d) which includes information on the total number of Bonds which are for the time being held by or on behalf of (x) the Russian Federation or any public sector instrumentality or (y) a corporation, trust, financial institution or other entity that is controlled directly or indirectly by the Russian Federation or any public sector instrumentality in cases where the holder of the Bond does not have autonomy of decision (as such term is used in Condition 12(j)(i)) and, as such, such Bonds shall be disregarded and deemed not to remain Outstanding for the purposes described in Condition 12(j)(i). The Issuer shall make any such certificate available

for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(k) **Publication**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 13(g).

(l) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Bonds and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Bonds is notified to Bondholders at the time notification is given to the Bondholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Bondholders.

13. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment**

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Bonds and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Bondholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

(i) For the purposes of Condition 13(b) and Condition 13(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 12(c), Condition 12(d) or Condition 12(e), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution:

(ii) The certificate shall:

(A) list the total principal amount of Bonds and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(B) clearly indicate the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain Outstanding as a consequence of Condition 12(j) on the record date identifying the holders of the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

(iii) The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 13 to be notified to the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Bondholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes

of this Condition 13 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer and the Bondholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to Condition 12, this Condition 13 and Condition 9:

(i) on http://minfin.ru/;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

14. 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 shall not be issued with the same ISIN number as the Bonds unless the further issuance is treated as part of the same issuance as the Bonds for U.S. federal income tax purposes, such further issuance constitutes a qualified reopening for U.S. federal income tax purposes, or the further bonds are issued with less than a de minimis amount of original issue discount.

15. 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 Irish Stock Exchange and the rules and guidelines of that exchange so require, notices will be published via the companies announcements of the Irish Stock Exchange. Any 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.

16. CURRENCY INDEMNITY

Save as otherwise provided in Condition 7 hereof, the U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Except in the case of an Alternative Payment Currency Event, 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 Issuer shall only constitute a discharge to the Issuer 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 (a "**Currency Indemnity Event**"), the Issuer shall indemnify such recipient against any loss sustained by it as a result. In a Currency Indemnity Event, the Issuer shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Issuer'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.

17. 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.

18. GOVERNING LAW

The Bonds 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 NEW BONDS

The following is the text of the terms and conditions of the New 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 New Bonds.

The New Bonds will initially be issued in the form of Global Bonds deposited with and registered in the name of NSD, which will hold the Global Bonds on behalf of its participants, including Euroclear. No definitive Bond Certificates will be issued except in the limited circumstances described in "Summary of Provisions Relating to the Bonds While in Global Form–Exchange of Interests in Global Bonds for Bond Certificates".

The U.S.$1,500,000,000 4.375 per cent. Bonds due 2029 (the "**Bonds**") (which expression includes any further bonds issued pursuant to Condition 14 and forming a single series with the Bonds) of the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**" or the "**Issuer**") acting on behalf of the Russian Federation (the "**Russian Federation**") 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. 362-FZ of 5 December 2017 "On the Federal Budget for 2018 and planning period of 2019 and 2020"; Resolution of the Government of the Russian Federation dated 16 December 2017 No. 2851-r; Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Resolution of the Government of the Russian Federation dated 28 February 2018 No. 336-r; Order of the Ministry of Finance dated 24 February 2012 No. 31n; Order of the Ministry of Finance dated 7 March 2018 No. 127 and Order of the Ministry of Finance dated 16 March 2018 No. 152.

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 shall be kept either by the Issuer or by an agent acting on its behalf (the Issuer or such agent, in such capacity, the "**Registrar**").

(b) Title

Title to the Bonds will be evidenced and 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 agent (which may include the Issuer itself) appointed by the Issuer for purposes of recording transfers (a "**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 only part 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.

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. As at their date of issue, the Bonds rank *pari passu* without any preference among themselves and *pari passu* with all other 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, 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 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.

"**Outstanding**" means in relation to the Bonds (including, for the avoidance of doubt, Direct Rights (as defined in the Global Bonds) in respect thereof), all such Bonds other than:

(i) those which have been redeemed in accordance with the Conditions;

(ii) to the extent that the Issuer has appointed any party to act as fiscal agent in respect of the Bonds (a "**Fiscal Agent**") or otherwise to make payment on its behalf under the Bonds (a "**Paying Agent**"), those in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption monies wherefor

(including all interest accrued thereon to such date for redemption) have been duly paid to any such Fiscal Agent or Paying Agent in the manner provided for herein (and, where appropriate, notice to that effect has been given to the relative Bondholders in accordance with the Conditions);

(iii) those which have been purchased and surrendered for cancellation as provided in the Conditions and notice of the cancellation of which has been given to the Issuer or any such Fiscal Agent appointed to act on its behalf;

(iv) those which have become void under the Conditions;

(v) those mutilated or defaced Bonds which have been surrendered or cancelled and in respect of which replacement Bonds have been issued pursuant to the Conditions;

(vi) (for the purpose only of ascertaining the amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds the Bond Certificates in respect of which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to the Conditions; and

(vii) any Global Bond to the extent that it has been validly exchanged for Bond Certificates in accordance with its terms;

and furthermore Bonds shall not be Outstanding in the circumstances set out in, and solely for the purposes of, Condition 12(j).

"**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 21 March 2018 at 4.375 per cent. per annum, payable semi-annually in arrear on 21 March and 21 September in each year until maturity, commencing on 21 September 2018 (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 21 March 2018 and ending on but excluding the first Interest Payment Date (the "**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).

Interest 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 21 March 2029 (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 an account of the Bondholder in the relevant currency. Such payment will be made only upon presentation and surrender of the relevant Bond Certificate at the specified office of the Issuer or any Paying Agent, to the extent that the Issuer has appointed any such Paying Agent, 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 in respect of each Bond will be made by transfer to an account of the Bondholder in the relevant currency.

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 at the Registrar's close of business on the fifteenth day before the due date for such payment of interest.

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

All payments of principal and interest in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement), but in each case without prejudice to the provisions of Condition 8.

(d) **Payments of Alternative Payment Currency Equivalent**

Notwithstanding any other provision in these Conditions, if, for reasons beyond its control, the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the Bonds in U.S. dollars (an "**Alternative Payment Currency Event**"), the Russian Federation shall make such payments (in whole or in part) in the Alternative Payment Currency on the due date at the Alternative Payment Currency Equivalent of any such U.S. dollar-denominated amount. If an Alternative Payment Currency Event occurs, the Issuer shall give not less than 15 business days' notice to the Bondholders prior to the due date for payment, indicating the Alternative Payment Currency in which payments will be made. Such notice shall apply on all subsequent payment dates unless and until the Russian Federation provides a subsequent notice that payments shall once again be made in U.S. dollars.

In the case of an Alternative Payment Currency Event, payment of the Alternative Payment Currency Equivalent of the relevant principal or interest in respect of the Bonds shall be made by transfer to the applicable Alternative Payment Currency account of the relevant Bondholder, provided that such Bondholder has provided details of its Alternative Payment Currency account for receipt of such payments.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of these Conditions by the exchange rate calculation agent, will (in the absence of manifest error) be binding on the Russian Federation and all Bondholders.

(e) **Currency Election**

Notwithstanding any other provision in these Conditions (including Condition 7(d) above, save where the Alternative Payment Currency selected by the Russian Federation is the Russian rouble), a Bondholder may, no earlier than thirty business days and no later than the fifth business day before the due date for any payment of interest or principal in respect of the Bonds, give an irrevocable election notice to the Registrar to receive such payment of interest or principal, as the case may be, in Russian roubles ("**Currency Election**"). The election notice for receiving the relevant payments on the Bonds in Russian roubles must be submitted by a Bondholder for each payment separately. Upon any such election in accordance with the foregoing, such interest or principal will be converted into Russian roubles by the National Settlement Depository ("**NSD**") and paid to the relevant Bondholders on the relevant payment date in Russian roubles in the amount calculated at the Exchange Rate, to an account specified in the currency election notice to the Registrar.

(f) **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.

(g) **Payments on Business Days**

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 to the Issuer or, to the extent that a Paying Agent has been appointed, at the specified office of any such Paying Agent.

In these Conditions, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Moscow, London and New York City, and, in the case of the surrender of a Bond Certificate, in the place where the Bond Certificate is surrendered. In the case of a payment of an Alternative Payment Currency Equivalent denominated in Swiss francs, a "business day" will only occur on a day on which commercial banks are open for business in Zurich. In the case of a payment of an Alternative Payment Currency Equivalent denominated in Euros, a "business day" will only occur on a day on which the TARGET System is open. "**Target System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto.

(h) **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; or (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so).

(i) **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.

(j) **Agents**

Initially, the Issuer shall perform the roles ascribed to any Fiscal Agent, Paying Agent and Transfer Agent (each, an "**Agent**") in these Conditions. The Issuer reserves the right at any time to appoint additional or other Agents and vary or terminate the appointment of any Agent. In the event that any Agent so appointed, other than the Issuer, is unable or unwilling to continue performing any such role, the Issuer shall appoint one or more financial institutions of international standing duly authorised by applicable law to act in such capacity, and, in the case of a Paying Agent, by law of the jurisdictions of the currency in which payment is to be made to perform such role. Notice of any appointment of an Agent and its specified office, or any change in the Agents or their specified offices, will promptly be given to the Bondholders in accordance with Condition 15.

(k) **Definitions**

In these Conditions:

"**Alternative Payment Currency**" means Euros, Pound sterling or Swiss francs or, if for reasons beyond its control the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the Bonds in any of these currencies, Russian roubles.

"**Alternative Payment Currency Equivalent**" means the relevant U.S. dollar amount converted into the Alternative Payment Currency using the Exchange Rate for the relevant Calculation Date.

"**Calculation Date**" means the day which is two business days (as defined herein) before the due date for payment of the relevant amount under the Conditions.

"**Exchange Rate**" means, for a Calculation Date, (i) if the Alternative Payment Currency is the Euro, the rate for the purchase of U.S. dollars with Euros quoted by the European Central Bank at or around 11 a.m. (Central European time), (ii) if the Alternative Payment Currency is the Pound sterling, the rate for the purchase of U.S. dollars with Pound sterling quoted by the Bank of England at or around 11 a.m. (London time), (iii) if the Alternative Payment Currency is the Swiss franc, the rate for the purchase of U.S. dollars with Swiss francs quoted by the Swiss National Bank at or around 11 a.m. (Central European time), or (iv) if the Alternative Payment Currency is the Russian rouble and for the purposes of the Currency Election, a purchase price equal to (a) the bid price then used by NSD to purchase Russian roubles with U.S. dollars or Alternative Payment Currency other than Russian roubles, if applicable, for its own account, or (b) if no such bid price is then available

from NSD, at the bid price for the purchase of Russian roubles with U.S. dollar or Alternative Payment Currency other than Russian roubles, if applicable, quoted by a leading foreign exchange bank in Moscow, London or New York City selected by NSD. In the case of the Currency Election, NSD shall ensure that the purchase of Russian roubles with the related U.S. dollars or Alternative Payment Currency amount represents the "best execution" of that trade then available to NSD. With respect to (i) to (iii) above, in the event that any such rate cannot be determined at the relevant time, the Exchange Rate shall be the rate for the purchase of U.S. dollars with the Alternative Payment Currency quoted by a major bank in the London market at approximately the relevant time, for a transaction of a size approximately equal to that of the payment being made.

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 from such a payment by the Russian Federation, 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; or

(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.

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 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 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 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; or

(g) ***Pari passu***

The Bonds do not rank *pari passu* without any preference among themselves or *pari passu* with any other unsecured and unsubordinated obligations of the Russian Federation, and any such failure to rank *pari passu* continues for a period of 60 calendar days,

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 Issuer or, if there is one that is not the Issuer, the specified office of the Registrar or the Transfer Agent 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 Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF BONDHOLDERS; WRITTEN RESOLUTIONS

(a) Certain Provisions for Meetings of Bondholders

(i) A holder of a Bond may by an instrument in writing (a "form of proxy") in the form included with the notice convening a meeting of Bondholders pursuant to Condition 12(b)(iv)(D) or available from the specified office of the Issuer or, if there is one that is not the Issuer, the specified office of the Fiscal Agent or the Registrar, as the case may be, in the English language, signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the Issuer or, if there is one that is not the Issuer, the Fiscal Agent or the Registrar, as the case may be, not less than 24 hours before the time fixed for any meeting, appoint any person (a "proxy") to act on his or its behalf in connection with any meeting or proposed meeting of Bondholders or the signing of any Written Resolution that the holder is entitled to sign. The proxy named in any form of proxy need not be a Bondholder.

In these Conditions, "24 hours" shall mean a period of 24 hours including all or part of a day upon which banks are open for business in both the place where the relevant meeting is to be held and in Moscow (disregarding for this purpose the day upon which such meeting is to be held) and any such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid.

(ii) Any holder of a Bond which is a corporation may by delivering to the Issuer, or if there is one that is not the Issuer, the Fiscal Agent or the Registrar, as the case may be, not later than 24 hours before the time fixed for any meeting a resolution of its directors or other governing body in the English language authorising any person to act as its representative (a "**representative**") in connection with any meeting or proposed meeting of Bondholders.

(iii) Any proxy appointed pursuant to Condition 12(a)(i) above or representative appointed pursuant to Condition 12(a)(ii) above shall so long as such appointment remains in force be deemed, for all purposes in connection with any meeting or proposed meeting of Bondholders or the signing of any Written Resolution specified in such appointment, to be the holder of the Bond to which such appointment relates and the holder of the Bond shall be deemed for all such purposes not to be the holder. Any vote cast by a proxy will be valid notwithstanding the prior revocation or amendment of the appointment of that proxy unless the Issuer has received notice or has otherwise been informed of the revocation or amendment at least 24 hours before the time fixed for the commencement of the meeting at which the proxy intends to cast its vote or, if applicable, the signing of a Written Resolution.

(iv) A person (who may, but need not, be a Bondholder) nominated in writing by the Issuer may take the chair at every such meeting but, if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time fixed for the meeting, Bondholders present representing more than 50 per cent. of the aggregate principal amount of the Bonds then Outstanding represented at the meeting shall appoint a chairman. The chairman of an adjourned meeting need not be the same person as was chairman of the original meeting.

(v) Unless all of the Outstanding Bonds are held by one person (in which case the quorum shall be at least one person present in person holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), subject as provided below, at any such meeting any two or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than one tenth in principal amount of the outstanding Bonds shall (except for the purpose of voting on a proposed modification of a Reserved Matter or non-Reserved Matter) form a quorum for the transaction of business, and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for voting on a proposed modification of a non-Reserved Matter shall (subject as aforesaid in the event that all the outstanding Bonds are held by one person and subject as provided below) be two or more persons present in person holding Bonds or being proxies or representatives and holding or representing at least 50 per cent. of the aggregate principal amount of

the outstanding Bonds; provided that, at any meeting the business of which includes any of the Reserved Matters (as defined below), unless all the outstanding Bonds are held by one person (in which case, the quorum shall be at least one person present in person holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), the quorum shall be two or more persons present in person holding Bonds or being proxies or representatives and holding or representing at least 66⅔ per cent. of the aggregate principal amount of the outstanding Bonds.

(vi) If within 30 minutes from the time fixed for any such meeting a quorum is not present, the meeting shall stand adjourned for such period, not being less than 14 days nor more than 42 days, and to such place, as may be decided by the chairman. Unless all of the outstanding Bonds are held by one person (in which case the quorum shall be at least one person present holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), at any adjourned meeting at which Bondholders will vote on a proposed modification of a non-Reserved Matter, two or more persons holding Bonds or being proxies or representatives and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Bonds shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting. At any adjourned meeting at which Bondholders will vote on a proposed modification of a Reserved Matter, unless all the outstanding Bonds are held by one person (in which case the quorum shall be at least one person present holding all such Bonds or being a proxy or a representative and holding or representing all of such Bonds), the quorum shall be two or more persons so present holding Bonds or being proxies or representatives and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Bonds.

(vii) The chairman may, with the consent of (and shall if directed by) any meeting, adjourn such meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

(viii) At least 10 days' notice of any meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting, and such notice shall state the quorum required at such adjourned meeting. It shall not, however, otherwise be necessary to give any notice of an adjourned meeting.

(ix) The Issuer, the Russian Federation and its financial and legal advisers may attend and speak at any meeting of Bondholders. No one else may attend at any meeting of Bondholders or join with others in requesting the convening of such a meeting unless he is the holder of a Bond or is a proxy or a representative.

(x) At any meeting every person who is so present shall have one vote in respect of each U.S.$200,000 in principal amount of the Bonds that are Outstanding and so produced or in respect of which he is a proxy or a representative. Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

(xi) A meeting of Bondholders shall, subject to the Conditions, in addition to the powers given above, but without prejudice to any powers conferred on other persons by these Conditions, have power exercisable by resolution passed at such meeting duly convened and held in accordance with these provisions and by written resolution duly signed by the requisite majority of Bondholders:

(A) to sanction any proposal by the Russian Federation for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders against the Russian Federation; or

(B) to assent to any modification of the Bonds; or

(C) to authorise anyone to concur in and do all such things as may be necessary to carry out and give effect to any resolution; or

(D) to appoint any persons (whether Bondholders or not) as a committee or committees to represent the interests of the Bondholders and to confer upon such committee or committees any powers or discretions which the Bondholders could themselves exercise by resolution;

provided that the special quorum provisions contained in the proviso to Condition 12(a)(v) and, in the case of an adjourned meeting, in the proviso to Condition 12(a)(vi) shall apply in relation to any resolution for the purpose of approving any Reserved Matters.

(xii) Minutes of all resolutions and proceedings at every such meeting shall be made and entered in the books to be from time to time provided for that purpose by the Russian Federation and any such minutes, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings transacted or by the chairman of the next succeeding meeting of Bondholders, shall be conclusive evidence of the matters contained in them and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at such meeting shall be deemed to have been duly passed and transacted.

(b) **Convening Meetings of Bondholders; Conduct of Meetings of Bondholders; Written Resolutions**

(i) The Issuer may convene a meeting of the Bondholders at any time in respect of the Bonds in accordance with these Conditions. The Issuer will determine the time and place of the meeting and will notify the Bondholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer will convene a meeting of Bondholders if the holders of at least 10% in principal amount of the Bonds that are Outstanding have delivered a written request to the Russian Federation (directly or through the Fiscal Agent, if there is one that is not the Issuer) setting out the purpose of the meeting. The Issuer will notify the Bondholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer will set the procedures governing the conduct of any meeting in accordance with these Conditions.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Bondholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Bondholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Bonds are traded and/or held by Bondholders;

(F) whether Condition 12(c), or Condition 12(d), or Condition 12(e) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 12(g);

(I) the identity of the aggregation agent (the "**Aggregation Agent**") and the calculation agent (the "**Calculation Agent**"), if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 12(h); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Conditions contain provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 12(b) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Bondholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes, bonds (including the Bonds), debentures or other debt securities issued by the Issuer or the Russian Federation in one or more series with an original stated maturity of more than one year.

(x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 12 and Condition 13 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(c) **Modification of the Bonds only**

(i) Any modification of any provision of, or any action in respect of, these Conditions in respect of the Bonds may be made or taken if approved

by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Bondholders duly convened and held in accordance with the procedures prescribed by the Russian Federation pursuant to Condition 12(b) by a majority of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the Bonds that are Outstanding present or represented at such meeting; or

(B) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the Bonds that are Outstanding present or represented at such meeting.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the Bonds that are Outstanding; or

(B) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the Bonds that are Outstanding.

(iv) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders.

(v) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Bondholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(d) **Multiple Series Aggregation — Single limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 12(b), as supplemented if necessary,

which is passed by a majority of at least 75% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of debt securities.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) It is understood that a proposal under paragraph (d)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but

unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(vii) Any modification or action proposed under paragraph (d)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Multiple Series Aggregation — Two limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Russian Federation pursuant to Condition 12(b), as supplemented if necessary, which is passed by a majority of:

(A) at least 66 2/3% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the debt securities that are Outstanding in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when

taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66 2/3% of the aggregate principal amount of the debt securities that are Outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the debt securities that are Outstanding in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(vi) Any modification or action proposed under paragraph (e)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(e) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(f) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the dates, or the method of determining the dates, for payment of principal, interest or any other amount in respect of the Bonds, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Bonds or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Bonds on any date;

(ii) to change the currency in which any amount due in respect of the Bonds is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Bondholders or the number or percentage of votes required to be cast, or the number or percentage of Bonds required to be held, in connection with the taking

of any decision or action by or on behalf of the Bondholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(vi) to change the definition of "Uniformly Applicable";

(vii) to change the definition of "Outstanding" or to modify the provisions of Condition 12(j);

(viii) to change the legal ranking of the Bonds set out in Conditions 3 and/or 4;

(ix) to change any provision of the Bonds describing circumstances in which Bonds may be declared due and payable prior to their scheduled maturity date, as set out in Condition 9;

(x) to change the law governing the Bonds;

(xi) to impose any condition on or otherwise change the Russian Federation's obligation to make payments of principal, interest or any other amount in respect of the Bonds, including by way of the addition of a call option;

(xii) to modify the provisions of this Condition 12(f);

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Bonds or to change the terms of any such guarantee or security; or

(xiv) to exchange or substitute all the Bonds for, or convert all the Bonds into, other obligations or securities of the Issuer or the Russian Federation or any other person, or to modify any provision of these Conditions in connection with any exchange of the Bonds for, or the conversion of the Bonds into, any other obligations or securities of the Issuer or the Russian Federation, which would result in the Conditions as so modified being less favourable to the Bondholders which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or the Russian Federation or any other person resulting from the relevant exchange or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(g) **Information**

(i) Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 12(c), Condition 12(d) or Condition 12(e), the Issuer shall publish in accordance with Condition 13, the following information:

(A) a description of the Russian Federation's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Russian Federation's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(B) if the Russian Federation shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(C) a description of the Russian Federation's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Bondholders in Condition 12(a)(iv)(G).

(h) **Claims Valuation**

For the purpose of calculating the par value of the Bonds and any affected series of debt securities which are to be aggregated with the Bonds in accordance with Condition 12(d) and Condition 12(e), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Bonds and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Bonds and each other affected series of debt

securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(i) **Manifest error**

The Bonds and these Conditions may be amended without the consent of the Bondholders to correct a manifest error.

(j) **Bonds controlled by the Russian Federation**

(i) For the purposes of (a) determining the right to attend and vote at any meeting of Bondholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) Conditions 12(a)(v) and 12(a)(vi) and (c) Condition 9, Bonds shall be disregarded and shall not be Outstanding if they are held by or on behalf of (x) the Russian Federation or any public sector instrumentality or (y) a corporation, trust, financial institution or other entity that is controlled directly or indirectly by the Russian Federation or any public sector instrumentality in cases where the holder of the Bond does not have autonomy of decision, where:

(A) the holder of a Bond for these purposes is the entity legally entitled to vote the Bond for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Bond for or against a proposed modification;

(B) "public sector instrumentality" means the Bank of Russia or any department, ministry or agency of the Russian Federation;

(C) "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity; and

(D) the holder of a Bond has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Russian Federation or any public sector instrumentality, as applicable:

(1) the holder may not, directly or indirectly, take instruction from the Issuer or public sector instrumentality, as applicable, on how to vote on a proposed modification; or

(2) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an

objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or

(3) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Bonds (if that person then held any Bonds) would be deemed to be not Outstanding.

(ii) In advance of any meeting of Bondholders, or in connection with any Written Resolution, the Issuer shall make available for inspection a certificate prepared pursuant to Condition 13(d) which includes information on the total number of Bonds which are for the time being held by or on behalf of (x) the Russian Federation or any public sector instrumentality or (y) a corporation, trust, financial institution or other entity that is controlled directly or indirectly by the Russian Federation or any public sector instrumentality in cases where the holder of the Bond does not have autonomy of decision (as such term is used in Condition 12(j)(i)) and, as such, such Bonds shall be disregarded and deemed not to remain Outstanding for the purposes described in Condition 12(j)(i). The Issuer shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(k) **Publication**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 13(g).

(l) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Bonds and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Bonds is notified to Bondholders at the time notification is given to the Bondholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Bondholders.

13. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment**

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Bonds and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series

of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Bondholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

(i) For the purposes of Condition 13(b) and Condition 13(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 12(c), Condition 12(d) or Condition 12(e), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution:

(ii) The certificate shall:

(A) list the total principal amount of Bonds and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(B) clearly indicate the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt

securities which shall be disregarded and deemed not to remain Outstanding as a consequence of Condition 12(j) on the record date identifying the holders of the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

(iii) The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 13 to be notified to the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Bondholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 13 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer and the Bondholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to Condition 12, this Condition 13 and Condition 9:

(i) on http://minfin.ru/;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

14. 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 shall not be issued with the same ISIN number as the Bonds unless the further issuance is treated as part of the same issuance as the Bonds for U.S. federal income tax purposes, such further issuance constitutes a qualified reopening for U.S. federal income tax purposes, or the further bonds are issued with less than a de minimis amount of original issue discount.

15. 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 Irish Stock Exchange and the rules and guidelines of that exchange so require, notices will be published via the companies announcements of the Irish Stock Exchange. Any 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.

16. CURRENCY INDEMNITY

Save as otherwise provided in Condition 7 hereof, the U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Except in the case of an Alternative Payment Currency Event, 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 Issuer shall only constitute a discharge to the Issuer 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 (a "**Currency Indemnity Event**"), the Issuer shall indemnify such recipient against any loss sustained by it as a result. In a Currency Indemnity Event, the Issuer shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Issuer'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.

17. 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.

18. GOVERNING LAW

The Bonds 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 aggregate gross proceeds of the sale of the Offered Bonds are expected to amount to approximately U.S.$3,999,822,760.

The Issuer will receive only U.S.$797,589,756.15 of the proceeds which will be credited to the U.S. dollar account of the Federal Treasury (Treasury of Russia) in the Bank of Russia, which is used to cover U.S. dollar expenses (such as interest and principal due on state external debt). Any proceeds not retained in the Federal Treasury account would be sold to the Bank of Russia, where they would become part of the Bank of Russia's foreign exchange reserves.

A portion of the proceeds equal to U.S.$3,202,246,803.85 will not be transferred to the Issuer and will be used by the Lead Manager to fund the purchase of the Old Bonds (together with accrued interest hereon) acquired by the Lead Manager in a tender offer with respect to which the offer period closed on 15 March 2018, and to cover certain commissions and expenses. The Old Bonds will be delivered to the Issuer and are expected to be cancelled by the Issuer.

The net proceeds of the issue will not be directed to any activity that (i) would be prohibited for a U.S. or EU person or entity under sanctions laws, directives or regulations applicable to them or (ii) could reasonably be expected to result in the imposition of U.S. or EU sanctions on the holders of the Bonds, the Lead Manager or other persons involved in the offering because of their participation in the offering. Total commissions and expenses payable by the Russian Federation in connection with the issue of the Offered Bonds are expected to be approximately U.S.$2,000,000.

RUSSIAN FEDERATION

Territory, Population and Natural Resources

The Russian Federation is a sovereign and democratic federal state, consisting of 85 sub-federal political units. The Russian Federation is the largest country in the world by land mass, covering 17.1 million square kilometres (as of 1 January 2017). It borders 18 countries (two of which are by maritime boundary only) 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.

The Russian Federation is rich in natural resources. According to the BP Statistical Review of World Energy (June 2017) and U.S. Geological Survey (Mineral Commodity Summaries 2017), it is the world's second largest producer of natural gas, one of the world's leading producers of oil and a significant producer of coal, uranium, nickel, palladium and platinum. As of 31 December 2016, the Russian Federation's proved natural gas reserves were estimated at 32.3 trillion cubic metres, and its proved oil reserves were estimated at 109.5 billion barrels (15.0 billion tonnes equivalent), according to the BP Statistical Review of World Energy (June 2017). "Proved" reserves for these purposes are those quantities that geological and engineering information indicates with reasonable certainty that can be recovered in the future from known reservoirs under existing economic and operating conditions. The Russian Federation also has substantial coal deposits, 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. The Russian Federation is among the world's leading producers of electricity, steel, fertilisers, cotton textiles and other goods. Forests cover approximately 50% of the Russian Federation's total land area, and the Russian Federation's timber reserves, the largest of any country, are estimated by the Russian Federal Forestry Agency at 79.7 billion cubic metres as of 31 December 2016.

The Russian Federation is home to approximately 146.8 million people, ranking ninth in the world by population, and has a population density of approximately 8.6 persons per square kilometre. Approximately 74% of the population lives in European Russia, and 74% of the Russian Federation's population lives in urban settlements. The Russian Federation's capital and largest city is Moscow with a population of approximately 12 million, and 14 other Russian cities have a population of more than one million residents.

According to the 2010 general census, ethnic Russians are the largest demographic group and account for approximately 81.0% of the population (based on the 96.1% of respondents in the census who indicated their ethnic group). Other ethnic groups include Tatars (approximately 3.9% of the population), Ukrainians (1.4%), Bashkirs (1.2%), Chuvashs (1.1%) and Chechens (1.0%). No other ethnic group accounted for more than 1% of the Russian Federation's population.

The Russian Federation has a well-developed system of education, with a literacy rate of persons aged 10 and older exceeding 99%, and elementary and middle school education is compulsory. The Russian Federation has approximately 820 institutions of higher education, with approximately 4.4 million students, as of the beginning of the 2016-2017 educational year. According to Rosstat, in 2017 the average number of economically active population

within the range of 15-72 years old (both employed and unemployed) was 76.1 million people.

Political System

Constitution

The Constitution of the Russian Federation (the "**Constitution**") 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 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 (the "**State Duma**"), a three-fourths majority of the Federation Council (the upper house of the Federal Assembly (the "**Federal Assembly**")) (the "**Federation Council**") and signature by the President of the Russian Federation (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 ("**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 is Vladimir Putin, who was elected President in March 2012, receiving approximately 64% of the vote. Mr. Putin previously served two consecutive terms as President, from March 2000 to May 2008, and was acting President from January 2000, following Boris Yeltsin's resignation, to March 2000. From May 2008 until his inauguration as President in May 2012, Mr. Putin was Prime Minister ("**Prime Minister**") while Dmitry Medvedev served as President. See "*—Political Parties, Recent Elections and Political Developments*". The next presidential elections are scheduled for 18 March 2018.

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 or military emergency (subject to immediate notification of the State Duma and Federation Council and approval of the Federation Council), the ability to commence military engagements outside the territory of the Russian Federation (subject to approval of the Federation Council), the power to issue decrees and orders that are enforced throughout the entire territory of the Russian Federation (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 authorities of sub-federal political units of the Russian Federation. 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 the Russian Federation 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 "**Constitutional Court**") and the Supreme Court (the "**Supreme 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. See "—*Federal Structure and Regional Issues*".

The President is elected in a national election for a term of six years. Under the 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 is the highest executive government body of the Russian Federation and 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 a new President to form the Government. See "*Risk Factors — Risks Relating to the Russian Federation — Emerging markets such as the Russian Federation are subject to greater risks than more developed markets*".

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 Dmitry Medvedev, who took office in May 2012 following his nomination by President Putin. Before becoming Prime Minister, Mr. Medvedev served as President from 2008 to 2012.

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 five-year terms by a mixed system of proportional representation and majority voting. Since 2016, 225 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 5% or more of the vote, and 225 from single-mandate districts. 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 represents the Russian Federation's 85 Federation subjects. See "—*Federal Structure and Regional Issues*". Each Federation subject appoints two members of the Federation Council: one member is elected by the legislative body of the Federation subject and the other is appointed by the head of the respective Federation subject. In addition, according to the Constitution the President appoints the representatives of the Russian Federation to the Federation Council. The number of such representatives shall not exceed 10% of the total Federation subjects' representatives in the Federation Council. The members of the Federation Council 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

The Russian Federation has two 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. Historically, the Supreme Arbitration Court (the "**Supreme Arbitration Court**") and lower arbitration courts have had jurisdiction over economic disputes, with judicial authority otherwise vested in the Supreme Court and lower courts of general jurisdiction over civil, criminal, administrative and other matters. In August 2014, the Supreme Arbitration Court and the Supreme Court were reorganised into a unified Supreme Court, which has become a court of

final appeal for decisions issued in both the lower arbitration courts and lower courts of general jurisdiction.

Judges of the Constitutional 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 multi-party system. First, candidates must collect a specified number of signatures to qualify for elections. In the case of presidential elections, a candidate from a political party must collect at least 100,000 signatures (unless such party has seats in the current State Duma or in one-third of the legislative bodies of Federation subjects) while independent candidates must collect at least 300,000 signatures. Second, 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 2012, legislative reforms were adopted in an effort to simplify the registration process for political parties, a significant element of which was the reduction in the number of people required to establish a political party to 500 individuals.

Based on the results of the September 2016 elections, the Edinaya Rossiya ("**United Russia**") party received 343 State Duma seats. United Russia is currently led by Prime Minister Medvedev and is the product of the 2001 merger of two large public organisations, Yedinstvo (Unity) and Otechestvo-Vsya Rossiya (Fatherland-All Russia). The Communist Party holds 42 State Duma seats. Two other parties are also represented in the State Duma: the Liberal Democratic Party with 39 seats and Spravedlivaya Rossiya (Fair Russia) with 23 seats. The most recent State Duma elections were held in September 2016. As of 1 February 2018, there were 67 political parties officially registered by the Ministry of Justice.

Currently, United Russia holds a majority of total seats in 85 federation subject legislative bodies. The Communist Party, Fair Russia, the Liberal Democratic Party and other parties are also represented in the legislative bodies of Federation subjects.

Anti-corruption efforts

A number of measures aimed at combating corruption have been implemented in the Russian Federation. Federal Law No. 273-FZ "On Preventing Corruption" dated 25 December 2008 addresses corruption at the corporate level and, with effect from 1 January 2013, has required that companies implement anti-corruption policies and procedures. Additional measures passed in December 2014, *inter alia*, establish special procedures for bringing anti-corruption claims against law enforcement personnel and require public officials to declare the assets and income of immediate family members. These measures build on former President Medvedev's National Anti-Corruption Plan, which was initially adopted on 31 July 2008 (and is restated every two years thereafter) and sought to bolster the Russian Federation's anti-corruption regime through new legislation. As part of its initiative to improve the Russian Federation's Transparency International corruption ranking, which is 131 out of 176 countries

in the Corruption Perceptions Index 2016, the Russian Federation ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, effective as of 13 February 2012.

Federal Structure and Regional Issues

The Russian Federation consists of 85 Federation subjects, comprising 22 republics, nine *krais*, 46 *oblasts*, three cities of federal importance, one autonomous *oblast* and four autonomous *okrugs*. The Federation subjects are grouped into eight federal circuits, each circuit overseen by a representative of the President.

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).

The Constitution recognises the importance of local (municipal) government and provides for self-administration at the local level, including with respect to the management of municipal property, the formation, adoption and implementation of local budgets, the introduction of local taxes and duties, ensuring the protection of public order and addressing various other issues of local importance within the Russian Federation.

Russia is a federal state. 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 the Russian Federation.

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 Dagestan and Ingushetia.

International Relations

The Russian Federation's Position in the International Community

The Russian Federation 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.

The Russian Federation is a member of the G20 – a group of major economies. Since 1992, the Russian Federation has been a member of the IMF and the International Bank for Reconstruction and Development (the "**World Bank**"). See "*Public Debt and Related Matters—Relations with International Financial Institutions*". The Russian Federation 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 the Russian Federation became a member of the Paris Club of creditor nations (the "**Paris Club**"). In August 2012, the Russian Federation became a member of the WTO.

Russia is also a member of the Financial Stability Board (the "**FSB**"), an international body established in April 2009 as the successor to the Financial Stability Forum. The FSB promotes international financial stability through the coordination of national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies. Russia adheres to FSB standards and regularly participates in its peer review process.

In 1994, the Russian Federation concluded a Declaration on Cooperation with the OECD, and, in May 1996, the Russian Federation formally applied for membership in the OECD. In 2007, the OECD on a ministerial level invited the Russian Federation to begin negotiations regarding its accession; the OECD, however, postponed the accession process in March 2014. At the same time Russia continues active cooperation with the OECD through interaction on a regular basis with a wide range of the OECD's bodies and through forums in the status of participant, associate or observer.

In 1997, the Founding Act "On Mutual Relations, Cooperation and Security between NATO and the Russian Federation" (the "**Founding Act**") was signed. The Founding Act states that the Russian Federation and NATO shall not consider each other to be adversaries and that, together, they intend to build stability and security in the Euro-Atlantic region. The NATO-Russia Council was established on 28 May 2002 under the Rome Declaration. The NATO-Russia Council is a mechanism of political dialogue and cooperation in the security sphere. At the meeting of the NATO-Russia Council held in Lisbon on 20 November 2010 certain agreements on the building of a strategic, upgraded partnership between the Russian Federation and NATO were reached, again with the purpose of building and maintaining stability and security in the Euro-Atlantic region. In April 2014, NATO suspended civilian and military cooperation with Russia, although political dialogue between NATO and Russia is continuing (with the most recent NATO-Russia Council meeting held in October 2017).

In October 2015, the Russian Federation launched a series of military actions to combat jihadist organisations operating in Syria, following a request for assistance from the Syrian government. The actions included primarily air strikes against rebel targets. In November 2015, a Russian military aircraft operating in northern Syria was shot down by Turkish forces. In response, the Russian Federation imposed economic sanctions on Turkey, although almost all of these sanctions have since been lifted. In December 2017, the Russian Federation initiated withdrawal of its military forces from Syria.

In early 2016, the Russian Federation took part in several meetings with member states in the Organisation of Petroleum Exporting Countries ("**OPEC**"). As a result of these discussions, the Russian Federation, Saudi Arabia, Qatar and Venezuela agreed to freeze oil output at the level prevailing on 11 January 2016, provided that other major oil producers follow suit. In early September 2016, the Russian Federation and Saudi Arabia agreed to cooperate in an effort to stabilise the oil market, including by means of a production ceiling. On 30 November 2016, members of OPEC reached an agreement to reduce output by about 1.2 million barrels a day to 32.5 million barrels for a six-month period effective 1 January 2017. On 10 December 2016 the Russian Federation and certain other non-OPEC producers also implemented production adjustments for the same period with the Russian Federation

accounting for an adjustment of up to 300,000 barrels a day. In May 2017, the Russian Federation and Saudi Arabia agreed to extend their production cuts through at least March 2018. An extension for the same period was approved by the members of OPEC on 25 May 2017. On 30 November 2017 the production adjustments were further extended by the members of OPEC until the end of 2018.

The Russian Federation and Regional Cooperation

The Russian Federation has wide-ranging contacts with the EU, one of its most significant economic and political partners. The Partnership and Cooperation Agreement between the Russian Federation and the EU, signed in 1994 and in effect since December 1997. This agreement establishes a framework for the parties' economic, political, financial, legal and humanitarian relationship. The strategic partnership between the EU and the Russian Federation has developed with a focus on four common spaces, or areas of deep policy cooperation: the economic space, the common space of freedom, security and justice, the common space of external security and the common space of research, education and culture.

The Russian Federation is a member and seventh largest shareholder of the European Bank for Reconstruction and Development ("**EBRD**") and one of the largest shareholders (16.5%) of the Black Sea Trade and Development Bank. The Russian Federation also participates in a number of other organisations and forums, including the Shanghai Cooperation Organisation ("**SCO**"), the Asia-Pacific Economic Cooperation forum, the East Asia Summit and the Association of South-East Asian Nations ("**ASEAN**"). Russia is also a shareholder of the New Development Bank BRICS (established in 2014) and the Asian Infrastructure Investment Bank (established in 2015).

The Russian Federation, the Former Soviet Union and the CIS

After the dissolution of the Soviet Union, the Russian Federation 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 were mutually ratified, except the agreement with Ukraine, which has not been ratified by Ukraine. Each zero-option agreement provides that, as between the Russian Federation and the other former Soviet republic, the Russian Federation 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 Russian Federation regularised its relations with virtually all the external creditors of the former Soviet Union and has repaid the former Soviet Union debt.

The Russian Federation is a member of the CIS, which was founded in December 1991 to promote mutually beneficial cooperation among its members in political, economic, humanitarian and other spheres. Currently, nine 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 in August 2009. Turkmenistan and Ukraine are associate members, having ratified the Creation Agreement in December 1991, but not the CIS Charter.

In December 1999, the Russian Federation and the Republic of Belarus ("**Belarus**") signed a treaty on the creation of a unified state and a programme for its implementation. Under the treaty, the Russian Federation 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 October 2007, the Russian Federation, Belarus

and Kazakhstan signed a tripartite agreement on the creation of a customs union, which entered into force in October 2008. This customs union was ultimately replaced by the Eurasian Economic Union (the "**EEU**"), which was established on 1 January 2015. Armenia and Kyrgyzstan joined the EEU in 2015.

The Russian Federation 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 also include Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

In August 2008, there was an armed conflict between the Russian Federation and Georgia on the territories of South Ossetia and Abkhazia. Both territories are now de facto independent from Georgia and have been legally recognised by the Russian Federation, Nicaragua, Venezuela and the Pacific island states of Nauru and Tuvalu. In the aftermath of the August 2008 hostilities, Georgia terminated diplomatic relations with the Russian Federation, and Russian troops are currently stationed in both South Ossetia and Abkhazia.

In March 2014, following mass protests and a change of government in Ukraine, the citizens of Crimea voted by referendum to join the Russian Federation. The Republic of Crimea (the "**Republic of Crimea**") and the City of Sevastopol (the "**City of Sevastopol**") officially acceded to the Russian Federation pursuant to an accession treaty dated 18 March 2014. The accession has not been universally recognised by the international community.

In 2014, armed conflicts arose in the Eastern part of Ukraine, resulting in the creation by citizens of the Donetsk People's Republic ("**DPR**") and the Lugansk People's Republic ("**LPR**"). In September 2014, representatives of the Russian Federation, the DPR, the LPR and Ukraine signed the Minsk Protocol, an agreement to halt these hostilities. The agreement was signed after extensive talks in Minsk, Belarus, under the auspices of the Organisation for Security and Co-operation in Europe ("**OSCE**"). An additional package of security measures was agreed in Minsk in February 2015, involving the leaders of the Russian Federation, Ukraine, France and Germany.

As a consequence of these events, the Russian Federation, on the one hand, and the United States, the EU and certain other countries, on the other hand, have imposed sanctions against various individuals and entities, as well as the import and export of certain products, services and technology. These sanctions have had a significant impact on the Russian Federation's foreign trade. See "*Risk Factors—Risks Relating to the Russian Federation—Recent geopolitical events have had a significant impact on foreign trade and the economy*". In addition, Ukraine has initiated legal actions against the Russian Federation before various international bodies, including the International Court of Justice, the World Trade Organisation and the European Court for Human Rights. In 2016, an international trustee acting on instructions of the Russian Federation, initiated litigation in the English High Court for Ukraine's failure to pay a US$3 billion Eurobond held by the Russian Federation at maturity in December 2015. In March 2017, the English High Court granted the trustee's application for summary judgment. In June 2017 Ukraine appealed the English High Court's judgment. In January 2018, the Court of Appeal of England completed public hearings on this case and reviewed the arguments of the participants in the process. Until 5 February 2018, the Court of Appeal of England had been hearing the case in absentia and during that period the parties were expected to provide additional evidence and documents that were not presented before. The adoption of the final decision may take up to three months.

On several occasions since the collapse of the Soviet Union, disputes have arisen with Ukraine and Belarus concerning the supply and transit of natural gas and with Belarus concerning the supply and transit of both natural gas and oil. The Russian Federation is dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas it exports to western Europe (the Russian Federation 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 January 2009, following a dispute regarding Russian gas supplies to Ukraine, the Russian Federation and Ukraine agreed to a 10-year transit and supply contract. Under this agreement, prices for gas supplies were set pursuant to a European pricing formula, subject to various discounts and favourable payment terms. In 2014, Gazprom and Naftogaz Ukraine agreed to a revised pricing formula providing for higher prices and stricter payment terms. Since 2014 Gazprom has been litigating with Ukraine's Naftogaz in the Arbitration Institute of the Stockholm Chamber of Commerce (the "**SCC**") over gas supplies and gas transit through Ukraine for the total amount of more than U.S.$37.1 billion which includes the claim for payment for the gas supplied by Gazprom, under delivery of gas under the "take or pay" provisions in 2012-2016 and delay in payments for the gas supplies. Naftogaz, in turn, submitted counterclaims requesting a retroactive change in natural gas prices, reimbursement of alleged overpayments made since 20 May 2011, compensation for the reduction in transit volumes and for a low transit rate and cancellation of the contractual prohibition on re-export of natural gas. On 31 May 2017 and 22 December 2017, the arbitration tribunal rendered the interim (separate) and final awards, respectively. In particular, the arbitration tribunal (a) obligated Naftogaz to pay Gazprom the amount of overdue debts for supplied gas of around U.S.$2.02 billion together with interest of 0.03 per cent. per day accrued from 22 December 2017 to the payment date, (b) rejected the Naftogaz claim to retroactively revise the gas price for the period from May 2011 to the end of April 2014, as well as recover allegedly overpaid amounts for the same period, and ruled to introduce a new pricing formula from the end of April 2014 until the expiration of the contract, and (c) required Naftogaz to annually off-take 5 bcm of natural gas or pay 80% of that volume if it fails to off-take it.

In October 2014, Naftogaz brought an action against Gazprom to the SCC challenging 2009 contract for transit of gas through Ukraine. Among its claims, Naftogaz sought compensation from Gazprom for an alleged shortfall in gas transit through Ukraine in the amount varying from U.S.$11 billion to U.S.$16 billion. The arbitral tribunal rendered its final award on 28 February 2018 requiring Gazprom to pay U.S.$4.673 billion to Naftogaz for such shortfall and to net the awarded amount against the amount that Naftogaz has to pay to Gazprom under the award rendered in December 2017. In addition, the arbitral tribunal denied Naftogaz's claim to revise the transit tariff, affirmed the validity of most of the contract terms, acknowledged that neither Ukranian, nor EU antitrust laws are applicable to the transit contract and refused to effect transfer of rights and obligations to any third party.

In 2016, the Antimonopoly Committee of Ukraine imposed a fine and penalties on Gazprom for abuse of a dominant position on the market of transit of natural gas through main pipelines which was subsequently affirmed by Ukrainian courts, including the Supreme Court of Ukraine. In May 2017 enforcement proceedings for the total amount of approximately U.S.$7 billion were commenced and Gazprom's shares in JSC "Gaztransit", an operator of Ukraine's gas transportation system for supply of gas to Turkey and the Balkans, were seized. Ukraine has announced in the fall of 2017 its intention to initiate enforcement proceedings against Gazprom's assets in other countries.

In turn, Gazprom has stated that it had sent a notification to the Ukraine's Cabinet of Ministers requiring it to remedy the breaches of the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine "On the Encouragement and Mutual Protection of Investments" dated 27 November 1998 which occurred in connection with the seizure Gazprom's shares in JSC "Gaztransit". If the breaches are not cured, Gazprom may commence international arbitration against Ukraine to contest the seizure.

In 2011, the Russian Federation and Belarus reached agreement on the supply of Russian gas to Belarus for the period 2012-2014. Under this agreement, starting from 1 January 2013, prices for gas supplies to Belarus are calculated on the basis of the gas price for consumers of the Yamalo-Nenetsky Autonomous District. In addition, at the end of 2011, Gazprom (controlled by the Russian state) purchased a 50% stake in Beltransgaz, making Gazprom the sole shareholder in Belarus' principle gas transportation company. In December 2014, Gazprom and OAO Gazprom Transgaz Belarus (previously known as Beltransgaz) extended the 2012-2014 agreement for the 2015-2017 period. On 13 April 2017 Gazprom and Belarus signed a protocol which sets out the pricing terms for natural gas to be supplied in 2018-2019. According to the protocol, the price will continue to be calculated on the basis of the gas price for the Yamalo-Nenetsky Autonomous District. In 2016, an oil and gas dispute arose between the Russian Federation and Belarus when Belarus declared that the price for the Russian gas was unfair and made only partial payments for the gas supplies. In response, the Russian Federation reduced the duty-free supply of oil to Belarus. The dispute was resolved in April 2017 when the parties agreed that Belarus will repay U.S.$726 million of accrued debt for gas supply while Gazprom will allow a discount for the supply of gas. It was further agreed that the supply of oil will be restored to the level of 24 million tonnes per year in the period of 2017-2024.

THE RUSSIAN ECONOMY

Overview

Liberalisation, starting in 1991, and privatisation, starting in 1992, have substantially transformed the Russian economy since the Soviet era, when the state regulated virtually all economic and financial activities. At present, only certain public services and legislatively defined "natural monopolies" (for example, pipeline transport of oil and gas, electricity transmission, railway transport, terminal, port and airport services, and postal services) are subject to price regulation.

A privatisation programme underpinned by expanded legal recognition for private property and the creation of a legal and macroeconomic framework designed to support private sector growth commenced in January 1992. Following the initial stages of the privatisation programme, Russia's economy came under severe pressure during the Asian currency and financial crisis, and a sharp fall in world prices for oil and other commodities in the late 1990s adversely affected the Russian Federation's ability to finance its budget deficit, maintain the value of the rouble against the dollar and service its debt. From 1999 through the first half of 2008, the Russian economy experienced real growth in its gross domestic product ("**GDP**"). As a result of the global financial crisis, GDP fell by 7.8% in 2009 (compared to 5.2% growth in 2008). Thanks in part to the Government's anti-crisis programme, the Russian economy returned to growth between 2010 and 2013. In 2014 and 2015, due in large part to the significant fall in global oil prices, Russia's GDP growth slowed to 0.7% in 2014, and contracted by 2.5% in 2015 and by 0.2% in 2016. In 2017 Russia's GDP grew by 1.5%.

In November 2008, the Government adopted a long-term social and economic development programme (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. At the end of 2011, the Government passed the Strategy for Innovative Development through 2020, which sets forth the key objectives and priorities of, and means to implement, state innovation policy, and in 2013 approved a series of road maps for the development of certain industries, including biotechnology, engineering, industrial design, optoelectronic technology and information technology On 31 January 2013, the Government approved the Policy Priorities of the Government of the Russian Federation to 2018 (the "**Government Policy Priorities**"), which was further restated on 14 May 2015. The Government Policy Priorities emphasises the improvement of economic, demographic and social policy and of general government administration in the Russian Federation. The principal goal of the Government Policy Priorities is to put in place the conditions necessary for a model of economic development that achieves growth rates higher than the world average. Among the main objectives set out by the Government Policy Priorities are: (a) supporting businesses and improving business conditions (through the creation of favourable investment conditions, the development of new markets and the improvement of infrastructure, among other measures); (b) improving the quality and availability of social institutions (by increasing housing availability and improving the quality and availability of social services and education); (c) balancing regional development through measures such as the development of special economic zones and advanced development territories; and (d) improving state management by increasing the efficiency of Government spending and revenue measures and by enhancing the quality of and access to public services.

Since the second half of 2014, the Russian economy has been negatively impacted by low oil prices and a deterioration of economic relations with certain of the Russian Federation's trading partners. This has resulted in rouble depreciation, higher inflation, a decline in trade and an overall contraction in GDP. The Government and Bank of Russia, however, have implemented a series of temporary measures designed to protect the stability of the financial sector. See "*Monetary and Financial System—Monetary Policy—Anti-Crisis Measures Taken in 2014-2015*" for a description of certain of these measures.

As a result of lower oil prices and the worsening of economic relations with certain trading partners, the economy of the Russian Federation has undergone a rebalancing in certain respects. Certain sectors of the Russian economy, such as the food, chemicals and domestic tourism industries, have experienced an increase in activity (with the agricultural sector in particular growing by 2.6% in 2015 and by 3.2% in 2016). Gross investment (net of inventory accumulation), driven by growing operating margins in certain parts of the Russian corporate sector, has shown initial signs of recovery (was only marginally negative in 2016) after a deep decline in 2015, driven by repayment of significant amounts of corporate debt in the fourth quarter of 2014 and the first quarter of 2015.

By the end of 2016 the Russian economy adapted to the sharp deterioration in external economic conditions in 2014-2015. As a result of the implementation of anti-crisis policies, the effects of the crisis were less profound, and the adaptation was faster than initially expected. The structure of the economy has become healthier, with the increased competitiveness of industry and a growing share of profits in national income. The GDP growth rate was 1.5% in 2017 as compared to a 0.2% decline in 2016 mainly due to growth of household consumption (by 3.4% in 2017 as compared to a decline of 2.8% in 2016), gross capital formation (by 7.6% in 2017 as compared to a decline of 1.9% in 2016) and exports (by 5.4% in 2017 as compared to growth of 3.2% in 2016)

Civil and Commercial Law

Since 1992, the Russian Federation has sought to establish a legal framework for economic relations between independent legal persons and entities by adopting a series of laws governing the principal areas of economic activity. The rule of law in the Russian Federation 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 natural persons and legal entities to hold private property. Ownership rights and basic rules for commercial relations are set out in the Russian Federation's Civil Code (the "**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 partnerships and joint-stock 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. Part III of the Civil Code came into effect in March 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. In recent years, the Civil Code has been subject to a series of amendments covering a wide range of topics, including compensation for losses incurred as a result of the wrongful acts of state authorities, grounds

for invalidating transactions, greater protections of individual privacy and related rights and further development of certain aspects of securities and real property law.

The Russian Federation has legislation in place that regulates the principal areas of economic activity, including:

- the ownership, purchase, privatisation and use of land, including agricultural land;
- 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 issuance and circulation of securities, the activities of professional participants in the securities market and the clearing and settlement of securities, including the establishment of a central depository for securities (see "*Monetary and Financial System—Capital Markets—Regulation of the Capital Markets*");
- the organisation and governance of limited liability companies;
- bankruptcy procedures, including rules for declaring an enterprise or credit institution bankrupt, for managing and liquidating an enterprise or credit institution after it has been declared bankrupt and for satisfying creditors' claims;
- foreign investment in the Russian Federation, including protections against nationalisation and expropriation without compensation and foreign investment in Russian businesses having strategic importance in matters of state defence and security;
- the protection of economic competition;
- customs procedures;
- special economic zones; and
- advanced social-economic development territories.

The Federal Assembly has passed laws allowing for the gradual privatisation of certain businesses. In July 2013, the Government adopted the Programme for the Privatisation of Federal State Property for 2014-2016 (the "**2014-2016 Privatisation Programme**"). Proceeds from sales in 2014 and 2015 under the 2014-2016 Privatisation Programme amounted to 36.9 billion roubles, including 18.8 billion roubles from the 2014 sale of a stake in PJSC Inter RAO UES and 2.2 billion roubles from the 2014 sale of a stake in JSC Arkhangelsk Trawler Fleet.

In June 2016, the Government sold a 10.9% stake in ALROSA for 52.2 billion roubles. In October 2016, a 50.08% stake in Bashneft was sold to Rosneft for 329.7 billion roubles, and

in January 2017 a 19.5% stake in Rosneft was sold to Glencore and the Qatar Investment Authority for 692.4 billion roubles.

In February 2017, the Government adopted the Programme for the Privatisation of Federal State Property for 2017-2019 (the "**2017-2019 Privatisation Programme**") which approved, among other things, the privatisation of Novorossiysk Commercial Sea Port and United Grain Company in 2017-2019 and decrease of the state interest in ALROSA, Sovcomflot and VTB Bank before 2019. The objective of the 2017-2019 Privatisation Programme is to raise proceeds of approximately 5.6 billion roubles per year (including from federal property privatisations which were not completed in 2014-2016) which does not include the proceeds from the sale of shares of the major companies with the leading position in the relevant industries.

Gross Domestic Product

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

Gross Domestic Product

	For the year ended 31 December[(1)]				
	2013	**2014**	**2015**	**2016**	**2017**
Nominal GDP (*billions of roubles*)	73,134	79,200	83,387	85,918	92,082
GDP in 2012 constant prices (*billions of roubles*)	69,381	69,893	68,119	67,998	69,050
Real GDP index (%) (2012=100%)	101.8	102.5	99.9	99.8	101.3
Real GDP (as % of prior period)	101.8	100.7	97.5	99.8	101.5
Nominal GDP per capita (*roubles*)	509,619	542,126	569,561	585,772	627,087
GDP per capita in 2012 constant prices (*roubles*)	483,467	478,423	465,276	463,595	470,237
Real GDP per capita index (%) (2012=100%)	101.6	100.5	97.7	97.4	98.8
Real GDP per capita (as % of prior period)	101.6	99.0	97.3	99.6	101.4
GDP deflator (%, period-on-period)	105.4	107.5	108.0	103.2	105.5
Memo:					
Average annual resident population (*thousands*)	143,507	146,091	146,406	146,675	146,841

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat and changes in methodology.

Source: Rosstat.

From 2013 through 2017, real GDP grew by an average annual rate of 0.3%, although annual growth rates have varied significantly during the period. GDP growth rate was 0.7% in 2014; in 2015 and 2016 GDP contracted by 2.5% and by 0.2%, respectively, and in 2017 GDP grew by 1.5%.

Growth in the Russian economy decelerated in 2013, with real GDP expanding by 1.8%. The slowdown in growth was mainly caused by a deceleration in consumption growth, which grew by 4.1% in 2013 (compared to consumption growth of 6.5% in 2012) and a 5.6% contraction in gross investment. The dollar value of the Russian Federation's GDP increased

in 2013 as a result of continued growth in the Russian economy and despite a slight depreciation in the average rouble/dollar exchange rate.

The Russian economy continued to slow in 2014, with real GDP growing by 0.7%. This slowdown was mainly due to a deceleration in consumption growth to 0.9% (compared to 4.1% growth in 2013) and in export growth to 0.5% (compared to 4.6% growth in 2013, resulting in part from a decline in international oil and gas prices). However, the slowdown was mitigated by a 7.3% contraction in imports. The decrease in the dollar value of the Russian Federation's GDP in 2014 was mainly caused by rouble depreciation that resulted from lower oil and gas prices as well as geopolitical events.

In 2015, the Russian economy contracted by 2.5% due to a 7.8% decline in consumption and an 12.3% decline in gross investment, reflecting the depreciation of the rouble, the continued decrease in international oil and gas prices and the impact of sanctions and geopolitical events. Imports contracted by 25.1% in real terms in 2015, reflecting lower consumption in the domestic economy. The decrease in the dollar value of the Russian Federation's GDP in 2015 was mainly caused by rouble depreciation that resulted from lower oil and gas prices as well as geopolitical events.

In 2016, the Russian economy began to stabilise, contracting by only 0.2%, reflecting a 1.9% decline in consumption and a 1.9% decline in gross investment, which in each case were smaller than the declines recorded in 2015. Fixed assets accumulation increased by 0.8% in 2016, while the rouble exchange rate against the US dollar and the euro stabilised and, in the second half of the year appreciated significantly. Growth was recorded in the sectors of financial services, public administration, defence and mandatory social security and agriculture, while sectors such as trade and manufacturing that had been significantly impacted in 2015 experienced substantially lower declines in 2016. Exports recorded growth of 3.2% in 2016 (after 3.7% growth in the prior year), while the decline in imports fell from 25.1% in 2015 to only 3.6% in 2016.

In 2017 the Russian economy grew by 1.5% reflecting growth of household consumption (by 3.4% in 2017 as compared to a decline of 2.8% in 2016), gross capital formation (by 7.6% in 2017 as compared to a decline of 1.9% in 2016) and exports (by 5.4% in 2017 as compared to growth of 3.2% in 2016).

In October 2017, the Ministry of Economic Development published projected growth rates in real GDP for 2017-2020, which are used by the Ministry of Finance in preparing the annual budget. Each of the estimates of anticipated real GDP growth is based on a different oil price assumption. All of the scenarios are based on certain additional assumptions, including that the Bank of Russia will continue its monetary policy within the inflation targeting regime in order to maintain the inflation rate close to 4%. Under the "base" estimate, which assumes an average price per barrel of Urals oil of $49.9 per barrel in 2017, $43.8 per barrel in 2018 and $41.6 per barrel in 2019, real GDP is estimated to grow by 2.2% per annum in 2018-2020.

See "*Forward-Looking Statements*", "*Risk Factors—Risks Relating to the Russian Federation—The recent decline in crude oil and natural gas prices has adversely affected the revenues of the Russian Federation and a sustained period of low crude oil and/or natural gas prices may have a prolonged or greater adverse effect*" for a description of various external and domestic factors that may cause estimates of real GDP to differ from actual results and "*Public Finance— Federal Budgetary Process—2018 Budget Law*".

GDP and Gross Value Added by Sector

The following table illustrates the Russian Federation's GDP and gross value added ("**GVA**") by economic sector for the periods indicated:

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

	For the year ended 31 December							
	2013		2014		2015		2016	
	%	% change[(3)]	%	% change[(3)]	%	% change[(3)]	%	% change[(3)]
GDP total	**—**	**1.8**	**—**	**0.7**	**—**	**(2.5)**	**—**	**(0.2)**
GVA (in constant prices)	**100.0**	**1.8**	**100.0**	**0.9**	**100.0**	**(1.9)**	**100.0**	**(0.0)**
Agriculture[(4)]	3.4	4.5	3.9	2.0	4.3	2.6	4.4	3.2
Fishery	0.2	5.0	0.2	(6.5)	0.3	1.2	0.3	(2.8)
Mining[(5)]	9.3	0.1	9.1	2.0	9.7	0.1	9.5	2.3
Manufacturing	13.0	0.7	13.3	0.8	14.1	(4.5)	13.5	(0.4)
Electricity, water and gas production and distribution	3.1	(2.3)	2.9	(0.6)	3.0	(1.6)	3.1	1.0
Construction	7.0	(1.5)	6.8	(2.8)	6.3	(2.2)	6.4	(0.8)
Trade[(6)]	16.2	(0.0)	16.2	0.7	15.8	(7.0)	14.7	(5.6)
Hotels and restaurants	0.9	1.9	0.9	(0.6)	0.9	(2.4)	0.9	(4.5)
Transportation and communications	8.0	(0.2)	7.8	(0.2)	8.1	(2.7)	8.3	(0.4)
Financial services	4.5	12.5	4.6	5.4	3.5	(6.3)	4.2	7.2
Operations with real estate, including rent and services	17.8	6.3	17.6	1.4	17.7	1.4	17.9	1.4
Public administration, defence and mandatory social security	8.1	2.6	8.0	1.0	7.8	0.9	8.1	2.9
Education	2.7	(3.4)	2.7	0.4	2.5	(0.7)	2.5	(1.0)
Public health and social services	3.6	0.6	3.9	2.7	3.7	0.7	3.7	(1.2)
Communal and other services	1.6	(0.1)	1.6	(0.2)	1.7	4.0	1.7	(0.1)
Household activities	0.6	1.8	0.6	1.5	0.6	(1.0)	0.7	(2.0)

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat and changes in methodology.

(2) Sectoral figures in this table are calculated pursuant to GVA, 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 GVA, but do not total 100% of GDP for that period. For the same reason, GDP growth rates and GVA growth rates over the same period may also differ.

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

(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.

Effective 1 January 2017 there has been a revision of methodology of the GVA components compilation. The following table sets forth information concerning the Russian Federation's

GDP and GVA by economic sector calculated with application of the new methodology for the periods indicated:

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

	For the year ended 31 December		
	2016	2017	% change[(3)]
	%		
GDP total	—	—	**1.5**
GVA (in constant prices)	**100**	**100**	**1.6**
Agriculture[(4)]	4.7	4.6	1.2
Mining[(5)]	9.5	9.5	1.4
Manufacturing	13.3	13.2	0.4
Electricity, gas production and distribution	2.9	2.8	0.3
Water supply	0.5	0.5	0.2
Construction	6.4	6.3	(0.2)
Trade[(6)]	14.6	14.8	3.1
Transportation and storage	6.9	7.1	3.7
Hotels and restaurants	0.9	0.9	2.2
Communications	2.3	2.4	3.6
Financial services	4.2	4.3	2.5
Operations with real estate, including rent and services	9.8	9.9	2.2
Science and technical activity	5.0	4.9	0.9
Administration	2.5	2.5	2.0
Public administration, defence and mandatory social security	8.1	8.1	1.1
Education	2.6	2.6	(0.1)
Public health and social services	3.7	3.6	(0.2)
Culture and sport	0.9	0.9	5.0
Other services	0.5	0.5	0.4
Household activities	0.7	0.6	(2.0)

Notes:

(1) Sectoral figures in this table are calculated pursuant to GVA, 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 GVA, but do not total 100% of GDP for that period. For the same reason, GDP growth rates and GVA growth rates over the same period may also differ.

(2) Data on the percent period-on-period changes, based on figures for GVA, is available under the new classification from 2017 only.

(3) The data is provided in constant prices in 2016. Percent changes reflect period-on-period changes, based on figures for GVA.

(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.

The sectors of the Russian economy most affected by geopolitical events and the decline in oil prices include trade, which fell by 5.6% in 2016, hospitality (hotels and restaurants), which fell by 4.5% in 2016 and construction, which fell by 0.8% in 2016. In contrast, the

reduction of imports has had a positive impact on the agricultural sector, which grew by 3.2% in 2016. Mining also experienced significant growth in 2016. In contrast, construction activity contracted as a result of decreased public spending on infrastructure, decline in demand and increase in funding costs due to increased interest rates beginning in 2014 and rouble devaluation (construction companies historically relied heavily on foreign currency loans).

In 2017 Russian economy showed improvements in most sectors as compared to 2016: trade increased by 3.1%, transportation and storage increased by 3.7%, hospitality (hotels and restaurants) increased by 2.2%, communications increased by 3.6%. The improvements in the abovementioned sectors were mostly driven by a recovery in both consumer demand (growth of real wages, decrease of unemployment and expansion in consumer lending) and investment demand (partially driven by big infrastructure projects in the transportation sector). Growth of the agriculture sector of the Russian economy slowed, increasing only by 1.2% due to the reduction of prices for agricultural products. Growth of mining sector slowed as well, increasing only by 1.4% due to the voluntary restrictions on oil production undertaken by the Russian Federation under OPEC+ agreements (see "*Russian Federation—International Relations—The Russian Federation's Position in the International Community*").

GDP by Use

The following tables illustrate the Russian Federation's GDP by use for the periods indicated:

Gross Domestic Product by Use[1]

	For the year ended 31 December									
	2013		2014		2015		2016		2017	
	%	% change[2]	%	% change[2]	%	% change[2]	%	% change[2]	%	% change[2]
GDP	**100.0**	**1.8**	**100.0**	**0.7**	**100.0**	**(2.5)**	**100.0**	**(0.2)**	**100.0**	**1.5**
Consumption[3]	**71.5**	**4.1**	**71.4**	**0.9**	**70.1**	**(7.8)**	**71.0**	**(1.9)**	**70.2**	**2.3**
Private	52.6	5.2	53.1	2.0	52.0	(9.4)	52.3	(2.8)	52.1	3.4
Public	18.5	0.9	17.9	(2.1)	17.7	(3.1)	18.3	0.9	17.7	-0.9
Non-profit institutions	0.4	(1.2)	0.4	0.0	0.4	(3.0)	0.4	1.0	0.4	0.4
Gross investment	**23.1**	**(5.6)**	**22.2**	**(6.1)**	**21.9**	**(12.3)**	**22.9**	**(1.9)**	**24.0**	**7.6**
Fixed assets accumulation	21.8	1.3	21.2	(1.8)	20.3	(11.2)	21.4	0.8	21.7	3.6
Inventory accumulation	1.4	n/a	1.0	n/a	1.6	n/a	1.5	n/a	2.4	n/a
Net exports	**5.4**	**n/a**	**6.4**	**n/a**	**8.0**	**n/a**	**5.2**	**n/a**	**5.5**	**n/a**
Exports	25.8	4.6	27.1	0.5	28.6	3.7	25.8	3.2	26.1	5.4
Imports	20.4	3.5	20.6	(7.3)	20.6	(25.1)	20.6	(3.6)	20.6	17.0

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat and changes in methodology. Data labelled "n/a" is not available.

(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 between 2012 and 2013, its slowdown in 2014, its contraction in 2015, its initial stabilisation in 2016 and growth in 2017.

From 2013 through 2017, domestic demand, i.e., consumption and gross investment, accounted for an average of 93.6% of annual GDP and net exports accounted for an average of 6.1% of annual GDP.

From 2013 through 2017, domestic consumption decreased in real terms by 2.8% and as a share of GDP, domestic consumption has increased from 71.5% in 2013 to 70.2% in 2017. Domestic consumption mainly consists of private and public domestic consumption. Between 2013 and 2017, private domestic consumption, which accounted for 52.1% of GDP in 2017, decreased by 2.3%. Over the same period, public domestic consumption, which accounted for 17.7% of GDP in 2017, decreased by 4.3%. In 2017, total domestic consumption increased by 2.3% due to a 3.4% increase in private domestic consumption.

From 2013 through 2017, gross investment decreased by 17.9% in real terms, although gross investments in fixed assets decreasing by 7.8% in real terms. In 2017, overall gross investments increased by 7.6% due to state-supported investments in transport infrastructure and accumulation of inventories. Investment recovery was also driven by a reduction in general macroeconomic uncertainty, easing of financing conditions and considerable amounts of own funds accumulated by the real sector companies.

From 2013 through 2017, the real value of imports decreased by 18.9%, while the real value of exports grew by 18.6%. In 2017, imports increased in real terms by 17.0% mainly due to rouble appreciation and growth in domestic demand. Imports as a share of GDP were flat at the average of 20.6% of GDP in 2013-2017. The increase in the real value of exports was mainly caused by an increase in the price and volume of the Russian Federation's principal exports. In 2017, exports grew by 5.4%, driven mainly by the growth in global demand and increase in dollar-nominated prices of oil and gas. Exports as a share of GDP slightly decreased from 25.8% of GDP in 2013 to 26.1% of GDP in 2017. See "*Balance of Payments and Foreign Trade—Balance of Payments—Current Account and Capital Account*".

In 2017, consumption increased by 2.3%, which was mainly driven by a 3.4% growth in private sector consumption, while gross investment expanded by 7.6% due to increase in fixed assets accumulation. The real value of imports increased by 17.0% due to increase in the purchasing capacity which in turn was driven by accumulated effect of real wages growth and revival in consumer lending, while the real value of exports increased by 5.4% due to a growth in exports of iron ore, coal, machines, aluminium, copper and mineral fertilizers.

Principal Sectors of the Economy

Industry

The Russian Federation is highly industrialised, with a large share of its industrial activity concentrated in manufacturing. The Russian Federation is among the world leaders 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							
	2013		2014		2015		2016	
	%	% change[2]	%	% change[2]	%	% change[2]	%	% change[2]
Industrial Output	**100.0**	**0.4**	**100.0**	**1.7**	**100.0**	**(3.4)**	**100.0**	**1.1**
Extraction	22.7	1.1	22.0	1.4	22.0	0.3	22.0	2.5
Of which								
Fuels	20.1	0.9	19.4	1.4	19.3	0.0	19.1	2.6
Other minerals	2.6	2.3	2.6	1.6	2.7	2.2	2.9	0.8
Manufacturing	66.2	0.5	67.3	2.1	68.4	(5.4)	67.9	0.1
Of which								
Foods	10.5	0.6	11.0	2.5	11.9	2.0	12.2	2.4
Paper products	1.9	(5.2)	1.9	0.4	2.1	(6.3)	2.2	0.8
Coke and petrochemicals	14.9	2.3	15.5	5.7	13.8	0.3	12.9	(2.4)
Chemicals	4.7	5.4	4.8	0.1	5.4	6.3	5.2	5.3
Metallurgy	9.8	0.0	10.4	0.6	11.2	(6.5)	10.6	(2.3)
Machines and equipment	3.3	(3.4)	3.1	(7.8)	3.3	(11.1)	3.1	3.8
Electrical equipment	3.8	(1.0)	3.9	(0.5)	4.3	(7.9)	4.5	(1.0)
Transport vehicles and equipment	7.8	2.2	7.2	8.5	6.1	(8.5)	6.5	(3.0)
Textiles and clothing	0.6	4.3	0.6	(2.5)	0.7	(11.7)	0.7	5.3
Leather and footwear	0.1	(4.4)	0.1	(2.8)	0.1	(11.4)	0.1	5.1
Wood products	0.9	8.0	0.9	(5.3)	1.0	(3.4)	1.0	2.8
Rubber and plastics	1.7	5.9	1.6	7.5	1.8	(3.7)	1.7	5.4
Other non-metal mineral products	3.0	(2.0)	2.8	1.8	2.7	(7.8)	2.4	(6.6)
Other	3.3	(4.6)	3.5	2.7	4.1	(6.0)	5.1	(6.2)
Electricity, water and gas production and distribution	11.1	(2.5)	10.7	(0.1)	9.6	(1.6)	10.0	1.5

Notes:

(1) Figures are based on the value of all goods transferred and services rendered, irrespective of consideration received by producers, within a particular segment during the relevant period, in current prices.

(2) Percent changes in this column are calculated pursuant to production indices and reflect period-on-period changes, with figures adjusted for shadow economic activity. Figures have been retrospectively changed to reflect that, beginning 1 January 2014, 2010 replaces 2008 as the basis year for the calculation of production indices.

Source: Rosstat.

The Russian production sector demonstrated growth during the period from 2012 to 2014 with the industrial output growing by 5.6% in aggregate across the period driven mainly by 7.8% growth in manufacturing in 2012-2014. The growth of manufacturing, in turn, was mainly due to growth in rubber and plastics (28.4%) and transport vehicles and equipment (22.3%). Moreover, petrochemicals (11.5%), chemicals (9.8%) and foods (7.3%) also significantly contributed to the overall growth.

With onset of the crisis, industrial output was curtailed, with a year-over-year decline of 3.4% registered in 2015. The most substantial decline was in the manufacturing segment with an overall decline of 5.4% which affected almost all industries. Among the most affected industries were textiles and clothing which fell by 11.7%, leather and footwear which fell by 11.4% as well as machines and equipment, which fell by 11.1%. At the same time certain industries continued to ramp up production, including chemicals (6.3%) and foods (2.0%).

In 2016, industrial output experienced renewed growth with an increase of 1.1% compared to 2015. However, this growth was primarily caused by an upturn in extraction of fuels (2.6%), while manufacturing industries were essentially flat compared to the previous year (0.1%). Although 2016 witnessed an output increase in most manufacturing industries, with the most robust results demonstrated by rubber and plastics (5.4%) and chemicals (5.3%), in certain major industries, petrochemicals and metallurgy, output fell by 2.4% and 2.3%, respectively.

With effect from 1 January 2017 a new classification of the industry sectors has been adopted and figures from 1 January 2014 have been retrospectively recalculated pursuant to the new classification:

Industrial Output by Sector[(1)(2)]

	For the year ended 31 December				
	2014	2015	2016	2017	
	% change[(3)]	% change[(3)]	% change[(3)]	%	% change[(3)]
Industrial Output	**2.5**	**(0.8)**	**1.3**	**100.0**	**1.0**
Mining and quarrying	1.7	0.7	2.7	24.7	2.0
Of which					
Mining of coal and lignite	3.8	3.3	6.1	2.2	3.5
Extraction of crude petroleum and natural gas	0.3	0.4	2.2	16.6	0.8
Mining of metal ores	4.7	2.1	0.6	2.0	2.5
Other mining and quarrying	(0.4)	3.7	1.5	1.0	5.6
Mining support service activities	13.1	(1.7)	6.6	3.0	7.6
Manufacturing	3.2	(1.3)	0.5	64.3	0.2
Of which					
Manufacture of food products	4.9	3.1	3.1	7.8	5.6
Manufacture of beverages	(5.6)	(0.8)	1.3	1.3	(1.0)
Manufacture of tobacco products	(8.9)	(3.2)	(2.1)	0.4	(24.6)
Manufacture of textiles	(3.0)	0.6	4.6	0.3	7.1
Manufacture of wearing apparel	0.5	(18.8)	7.1	0.2	3.8
Manufacture of leather and related products	(4.1)	(8.2)	4.4	0.1	4.3
Wood and of products of wood and cork, except furniture; articles of straw and plaiting materials	(3.6)	(4.1)	2.8	0.7	2.2
Paper and paper products	3.4	1.6	5.1	1.3	4.7
Printing and recording services	(4.9)	(9.1)	(7.6)	0.3	(5.4)
Coke and refined petroleum products	6.1	0.9	(1.7)	17.2	0.6
Chemicals and chemical products	2.3	5.8	6.3	4.3	4.3
Basic pharmaceutical products and pharmaceutical preparations	(5.4)	8.5	7.0	0.7	12.3
Rubber and plastics products	9.7	(2.0)	6.3	1.3	4.2
Other non-metallic mineral products	1.1	(6.1)	(6.0)	2.0	2.5
Basic metals	7.2	4.0	(1.0)	9.7	(3.6)

Fabricated metal products, except machinery and equipment	4.5	3.5	1.3	2.9	(2.7)
Computer, electronic and optical products	8.9	6.1	0.6	2.0	(7.3)
Electrical equipment.....	(2.1)	(9.5)	0.9	1.4	2.8
Machinery and equipment n.e.c.	(7.9)	(4.7)	(0.7)	1.8	2.5
Motor vehicles, trailers and semi-trailers.....	(11.3)	(23.1)	0.5	4.0	12.9
Other transport equipment.....	16.2	5.4	4.2	3.4	0.6
Manufacture of furniture	(0.2)	(7.2)	(2.7)	0.2	8.7
Other manufacturing.....	5.1	(9.9)	(17.6)	0.2	10.2
Repair and installation services of machinery and equipment.....	(5.6)	(5.7)	(11.4)	1.0	(2.4)
Electricity, gas, steam and air conditioning supply	1.0	(1.0)	1.7	9.8	0.1
Water supply; sewerage, waste management and remediation activities	(2.0)	(4.8)	(0.8)	1.2	(2.8)

Notes:

(1) Figures are based on the value of all goods transferred and services rendered, irrespective of consideration received by producers, within a particular segment during the relevant period, in current prices.

(2) Data on the share of output for each industry sector in the total output are available under the new classification from 2017 only.

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

Source: Rosstat.

In 2017, industrial output grew by 1.0% due mainly to a 2.0% increase in mining and quarrying which was a result of 7.6% growth in mining support service activities. Growth of manufacturing slowed to 0.2% in 2017 due mainly to a 3.6% decline in production of basic metals.

Energy

In 2015, 2016 and 2017, energy (including oil, petroleum products, natural gas, coal, coke, semi-coke and electricity) accounted for 60.5%, 56.2% and 57.8% (by value), respectively, of the Russian Federation's exports of goods. In 2015, oil and petroleum products accounted for 45.2% of total exports, while natural gas accounted for 12.3%, coal for 2.8% and electricity for approximately 0.2%. In 2016, oil and petroleum products accounted for 41.7% of total exports, while natural gas accounted for 11.1%, coal for 3.2% and electricity for approximately 0.2%. In 2017, oil and petroleum products accounted for 42.2% of total exports, while natural gas accounted for 11.5%, coal for 3.8% and electricity for approximately 0.2%. Domestic prices for gas, electricity and crude oil are 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 the Russian Federation's balance of payments are affected to a significant extent by world prices for oil and gas. For example, in 2017 oil and gas extraction and export taxes and levies accounted for 39.6% of total federal budget revenue. See "*Balance of Payments and Foreign Trade*", "*Public Finance*" and "*Risk Factors—Risks Relating to the Russian Federation—The recent decline in crude oil and natural gas prices has adversely affected the revenues of the Russian Federation, a sustained period of low crude oil and/or natural gas prices may have a prolonged or greater adverse effect*".

Oil

From 2013 through 2017, oil output increased by 5.2, reaching 546 million tonnes in 2017. In 2016 and 2017, oil exports to non-CIS countries were 236.3 million tonnes and 234.5 million tonnes, respectively, while exports to the CIS were 18.6 million tonnes and 18.1 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 Russian Federation 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 the Russian Federation'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. Further consolidation occurred during 2005 with the acquisition by Gazprom of a controlling interest (75.68%) in Sibneft (now GazpromNeft). In July 2006, the Russian Federation privatised approximately 15% of its shareholdings in Rosneft as part of the company's initial public offering. Since the wave of privatisation and consolidation activity in the industry during 2002 to 2006, the most significant consolidation within the industry was the acquisition of TNK-BP by Rosneft, completed in March 2013, estimated by Rosneft at the time of the acquisition to make it the world's largest listed oil producer by both production volume and reserves. Among the recent developments in the industry are the purchase by Rosneft of a 50.08% stake in Bashneft in October 2016 and privatisation of a 19.5% stake in Rosneft in January 2017.

In July 2014, an arbitral tribunal constituted under the auspices of the Permanent Court of Arbitration in The Hague issued three awards totalling slightly more than U.S.$50 billion in favour of the former majority shareholders of Yukos against the Russian Federation under the Energy Charter Treaty. The claimants subsequently initiated enforcement proceedings in a number of jurisdictions. In April 2016, the District Court of The Hague annulled the Yukos awards, ruling that the tribunal lacked jurisdiction. In July 2016, the claimants announced that they have appealed the Hague District Court's decision. The Russian Federation filed its Defence of Appeal on 28 November 2017, and the first hearing on the merits is scheduled for June 2018.

Natural Gas

From 2013 through 2017, natural gas output decreased by 2.4%, reaching 639.1 billion cubic metres in 2017. In 2016 and 2017, natural gas exports to non-CIS countries were 164.7 billion cubic metres and 175.9 billion cubic metres, respectively, while exports to the CIS were 34.0 billion cubic metres and 34.3 billion cubic metres, respectively.

The Russian Federation's natural gas industry is dominated by Gazprom, which has an effective monopoly on gas export, and accounts for most of the Russian Federation's natural gas reserves and production. Approximately 38.4% of Gazprom's shares are owned directly by the Russian Federation, although through its ownership of other Gazprom shareholders, the Russian Federation controls a majority stake in the company. Gazprom currently holds production licences with respect to approximately 72% of the Russian Federation's natural gas reserves, and accounts for approximately 2/3 of the Russian Federation's natural gas

production and owns and operates the Unified Gas Supply System, which includes approximately 171,200 kilometres of high pressure pipelines.

In November 2013, Federal Law No. 117-FZ "On gas export" was amended so that, in addition to Gazprom, other holders of gas deposit licences may engage in the export of liquefied natural gas. Prior to this amendment, the Gazprom group enjoyed the exclusive right to export liquefied natural gas outside the Russian Federation. Gazprom continues to have sole rights over the export of gas in its gaseous form.

Coal

As at 31 December 2016, the Russian Federation's proved coal reserves were estimated at 160.4 billion tonnes, including 69.6 billion tonnes of anthracite and bituminous coal reserves and 90.7 billion tonnes of sub-bituminous and lignite coal reserves, according to the BP Statistical Review of World Energy (June 2017). "Proved" reserves for these purposes are those quantities that geological and engineering information indicates with reasonable certainty that can be recovered in the future from known deposits reservoirs under existing economic and operating conditions.

Currently, nearly all of the Russian Federation's coal is extracted by companies in the private sector. From 2013 through 2017, coal production increased by 14.8%, reaching 410.0 million tonnes in 2017. In 2016 and 2017, coal exports amounted to 166.1 million tonnes and 181.4 million tonnes, respectively. Kazakhstan, the United States, Colombia and Ukraine have historically been amongst the primary destinations by volume for the Russian Federation's coal exports.

Electricity

As of 1 January 2017 total Russian generating capacity was 266.5 GW, 70.4% of which was attributable to thermal power plants, 19.1% to hydro power plants and 10.2% to nuclear power plants. In 2017, the Russian Federation's electricity output was 1,091 billion kWh, an increase of 0.1% compared to 2016. Of the total output in 2017, thermal power plants accounted for 700.0 billion kWh (64.2% of total output), hydro-generation for 187 billion kWh (17.2%) and nuclear generation for 203 billion kWh (18.6%).

Electricity is exported to China, Lithuania, Finland, Georgia, Mongolia and certain CIS countries (such as Belarus, Kazakhstan, Ukraine and Azerbaijan). In 2016 and 2017, the total volume of electricity exports amounted to 17.7 billion kWh and 17.0 billion kWh, respectively.

Russian thermal power plants, which are powered by fossil fuels, are owned primarily by wholesale generating companies ("**OGKs**"), regional generating companies ("**TGKs**") and several other energy companies, such as Inter RAO UES and PJSC Irkutskenergo. The OGKs are the largest generators in the wholesale electricity and capacity markets except for PJSC RusHydro ("**RusHydro**") and PJSC Power Engineering and Electrification Mosenergo ("**Mosenergo**"). Each OGK owns plants in different regions in order to limit the possibility of anti-competitive activity. 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.

More than 50% of the installed capacity of hydro power plants is owned by state-controlled RusHydro, with the remainder owned by several TGKs and other regional energy companies.

Rosenergoatom Concern JSC, a wholly State-owned company, operates all of the Russian Federation's nuclear plants.

The Russian Federation's transmission network of high-voltage power lines is operated by the State-controlled Federal Grid Company of Unified Energy System, PJSC ("**Federal Grid Company**"). Most of the country's medium and low-voltage distribution networks are consolidated into 14 inter-regional distribution companies, which are indirectly controlled by the Russian Federation through PJSC "ROSSETI" (formerly OJSC MRSK-Holding) ("**Russian Grids**"). Since 2012, the Government's stake in the Federal Grid Company has also been consolidated into Russian Grids.

The Russian electricity market is divided into wholesale electricity and capacity markets and a retail electricity market. 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. 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 trading 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.

Electricity capacity is sold separately from electricity in the wholesale market. Capacity is sold on the wholesale market pursuant to both regulated and unregulated contracts. Capacity can also be sold (i) pursuant to capacity auctions (including existing capacity), and (ii) under 10-year capacity supply agreements with 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. Regulated contracts in the wholesale electricity and capacity markets are entered into only with respect to the volumes of electricity and capacity that are supplied to households and to specified distributors operating in certain regions within the Russian Federation.

Pursuant to the rules governing the retail electricity market, industrial consumers pay for electricity supplied at non-regulated prices that typically take into account the cost of electricity in the competitive wholesale electricity market, and households pay according to below-market tariffs set by the state regulator.

Agriculture

The agricultural sector consists primarily of agricultural concerns of all sizes, including small- and medium-sized enterprises (estimated to account for approximately 70% of arable land and 52.5% of agricultural output in monetary terms) and private plots, including both private farm collectives and individual farms (estimated to account for 30% of arable land and 48.5% of agricultural output in monetary terms). The Land Code of the Russian Federation and Federal Law No. 101-FZ "On dealings in agricultural land", adopted in 2002, 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, but allows farmland to be leased to foreigners.

In 2016 and 2017 GVA in agriculture increased by 3.2% and 1.2%, respectively. In 2016 and 2017, the grain harvest was 120.7 million tonnes and 134.1 million tonnes, respectively (compared to 104.8 million tonnes in 2015). Foodstuffs and agricultural products amounted to 6.0% and 5.8% of total exports in 2016 and 2017, respectively. The Russian Federation has reduced the import of foodstuffs and agricultural products since 2014, having introduced a temporary ban on the import of certain food products originating in countries that have imposed sanctions on Russian entities and/or individuals, including the United States, all EU countries, Canada and Ukraine. The import ban took effect for an initial one-year period in August 2014 and was extended for an additional year in August 2015 and till 31 December 2017 in June 2016. In June 2017, the ban was further extended until 31 December 2018.

Upon accession to the WTO in August 2012, the Russian Federation agreed to reduce state subsidies to the agricultural sector to U.S.$9 billion through 2013 and to U.S.$4.4 billion by 2018. The Government is still entitled to provide state support to the agricultural sector on the basis of regional support programmes designed to bolster the agricultural sector in regions where special assistance is required.

Construction

The construction sector accounted for 6.4% and 6.3% of GVA in 2016 and 2017, respectively. GVA in the construction sector contracted by 0.8% in 2016 and 0.2% in 2017, reflecting an overall weakening of the Russian economy and lower investment in construction.

Transport and Communications

The Russian Federation 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. GVA in transportation and storage sector, representing 7.1% of total GVA in 2017, increased by 3.7% in 2017 as compared to 2016. GVA in communications, representing 2.4% of total GVA in 2017, increased by 3.6% in 2017 as compared to 2016.

Railways

As of 1 January 2017, there were approximately 86 thousand kilometres of railways in the Russian Federation for general passenger and freight transportation. In 2016 and 2017, railways accounted for approximately 90% of all freight turnover in tonne kilometres (excluding pipeline transport and industrial railway transport) and for approximately 24% of total passenger turnover in passenger kilometres (excluding city electrical transport).

Tariffs for passenger transport are currently subsidised from the federal budget. OJSC Russian Railways ("**Russian Railways**"), which is wholly state owned, 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 the Russian Federation, is the largest

Russian owner, operator and lessor of freight rolling stock and the largest Russian freight rail operator and, through its subsidiary JSC Federal Passenger Company (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) improving 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. The Government has also taken steps toward reducing or partially eliminating cross subsidies, including the creation of the Federal Passenger Company in April 2010, has privatised certain subsidiaries of Russian Railways and has introduced a new system for freight and passenger tariff regulation.

Roads

As of 1 January 2017, there were 1,659 thousand kilometres of roads in the Russian Federation (including both public and non-public roads), 1,162 thousand kilometres of which were paved. Approximately 1,054 thousand kilometres of paved roads are for public use. Approximately 472 thousand kilometres of public paved roads are under regional ownership, 530 thousand kilometres are under municipal ownership and 52 thousand kilometres are under federal control. 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

According to the Federal Agency for Maritime and River Transport of the Russian Federation, as of 1 January 2018, the Russian Federation had 67 seaports. In 2016 and 2017, the volume of freight shipments in Russian seaports amounted to 721.9 million tonnes and 787.0 million tonnes, respectively, compared to 676.7 million tonnes in 2015. As of 1 January 2017, the Russian Federation had 101 thousand kilometres of internal navigable waterways. As of 1 January 2017, there were approximately 56,000 maritime passenger and cargo-passenger transport vessels and approximately 1,400 inland water passenger and cargo-passenger transport vessels.

Air Transport

According to the Federal Air Transport Agency of the Russian Federation ("**Rosaviation**"), as of 17 November 2017, the Russian Federation had 228 airports. The largest international airports are located in Moscow, St. Petersburg, Yekaterinburg and Novosibirsk. In 2017, turnover of passengers travelling by air equalled 258.8 billion passenger kilometres, a 20.0% increase as compared to 2016.

The largest Russian airports are those situated in Moscow, which handled 48.4% of airline passenger throughput in the first half of 2017. Sheremetyevo Airport, Domodedovo Airport and Vnukovo Airport accounted for 21.9%, 16.9% and 9.6%, respectively, of passenger throughput in the first half of 2017. The largest regional air traffic hubs in the Russian Federation include St. Petersburg, Sochi and Simferopol.

As of January 2018, according to Rosaviation, 111 airlines were registered to operate in the Russian Federation. In 2017, the largest airlines in terms of market share were OJSC Aeroflot Russian Airlines, JSC Rossiya Airlines, PJSC Siberia Airlines, JSC Ural Airlines and OJSC Utair Aviation, according to Rosaviation.

In December 2017, the Government approved the federal programme "Development of the Transport System" which also includes the subprogramme "Civil Aviation and Air Navigation Service" (the "**Aviation Programme**") that contemplates further development of Russia's aviation infrastructure, in particular construction and reconstruction of regional airports.

The federal programmes "Social and economic development of Far East and Trans-Baikal for the period through 2018" (the "**2018 Far East Development Programme**") envisages development of airports in the Far East and Trans-Baikal regions of the Russian Federation. According to the 2018 Far East Development Programme, 17 aviation infrastructure projects are targeted to be completed, subject to the provision of financing from the federal budget in the amount of approximately 24.81 billion roubles.

Pipelines

As of 1 January 2017, the Russian Federation had approximately 250,000 kilometres of trunk pipelines, consisting of approximately 179,000 kilometres of natural gas pipelines, approximately 54,000 kilometres of oil pipelines and approximately 17,000 kilometres of oil product pipelines. In 2017, freight turnover by means of pipeline transport totalled 2,614.9 billion ton-kilometres, an increase of 5.1% compared with 2016.

Pipelines from major oil- and gas-producing areas in the Russian Federation are generally connected to pipelines in the CIS and former Soviet bloc countries.

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. Gazprom completed the construction of the Nord Stream pipelines, which extends 1,224 kilometres and connects Vyborg, in the Russian Federation, with Griefswald, in Germany. Nord Stream's first pipeline was launched in November 2011, while a second, parallel pipeline was launched in October 2012. In October 2012, Nord Stream shareholders preliminarily approved the construction of two additional pipelines; construction is expected to be completed by year-end 2019. In 2012, construction began on the South Stream pipeline, which was designed to transport gas underneath the Black Sea bed to Bulgaria and then onward through Serbia, Hungary and Slovenia to Austria. The project was cancelled, however, in December 2014 and initially replaced with a plan to build a pipeline of the same capacity to Turkey and other countries of Southern and South-Eastern Europe. Although the TurkStream was put on hold, in October of 2016 an inter-governmental agreement on the TurkStream project was signed by the Russian Federation and Turkey and was subsequently ratified by both parties. The

agreement provides for the construction of two pipelines across the Black Sea as well as an onshore pipeline for gas transit to Turkey's border with neighbouring countries by year-end 2019. The pipe installation works under the TurkStream project are currently on-going.

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. New pipeline related projects intended to increase the export capacity of the oil industry have also been implemented in recent years. These include the Baltic pipeline system, which connects West Siberia with a major new harbour at St. Petersburg and which was completed in 2006, reaching its targeted annual capacity of 74 million tonnes of crude oil per year. Other programmes currently underway include the upgrading of 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 in the sector from Taishet (Irkutsk region) to Skovorodino (Amur region) and 50 million tonnes in the sector from Skovorodino (Amur region) to Kozmino (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 phase began in January 2010, and was completed in December 2012; by 2016, its capacity had reached 36 million tonnes. A significant portion of the Russian Federation's oil and gas pipeline network has been in operation for nearly 20 years or more, and repair and maintenance costs are accordingly high.

Telecommunications

The value of telecommunication services in 2017 was nearly 1,276.5 billion roubles, an increase of 3.9% compared 2016. Mobile phone services are available across all 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. Licences for the provision of intercity and international telephone services have been issued to a number of service providers, including Rostelecom, Transtelecom, Interregional Transit Telecom, Vimpelcom, Megafon, Sinterra and others.

Strategic Enterprises

Pursuant to presidential decree, there are approximately 108 federal state unitary enterprises and 44 joint stock companies on the list of strategic enterprises. Strategic enterprises include, amongst others, Russian Railways, Aeroflot and Transneft. 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 Russian Federation may retain operating control over these companies through the exercise of a "golden share", and dilution of the Russian Federation's stake in such companies remains subject to approval by the President.

Environment

Environmental protection in the Russian Federation is 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. The Russian Federation's environmental protection programme has focused on replanting forests, constructing spent gas treatment plants, installing water recycling systems and constructing sewage purification plants. The Government is considering a variety of measures to protect the environment, including tax incentives for enterprises using ecologically clean technology.

In November 2004, President Putin signed the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"), which became effective in February 2005. Under the terms of the Kyoto Protocol, the Russian Federation is to maintain its emissions of greenhouse gases at a level no higher than that in 1990. In Doha in December 2012, the Doha Amendment to the Kyoto Protocol II was adopted (the "**Doha Amendment**"). The Doha Amendment includes, *inter alia*, new commitments for parties to the Kyoto Protocol who agreed to take on commitments in a second commitment period from 1 January 2013 to 31 December 2020 and a revised list of greenhouse gases to be reported on by parties in the second commitment period. On December 2012, the amendment was circulated by the United Nations secretariat to all parties to the Kyoto Protocol for further approval and signing procedures. However, President Putin has stated that the Russian Federation does not intend to adhere to the Doha Amendment, and the Russian Federation did not sign up to new targets under the second Kyoto commitment period. The 2015 United Nations Climate Change Conference was held in Paris, France from 30 November to 12 December 2015. The conference negotiated the Paris Agreement, a global agreement on the reduction of climate change, the text of which represented a consensus of the representatives of the 196 parties attending it. The agreement became legally binding in November 2016, within a month after it had been joined by 55 countries which together represent at least 55% of global greenhouse emissions. Although Russia has signed the Paris Agreement and approved the set of measures that need to be adopted to ratify the same, the agreement has not been ratified.

Employment

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

Unemployment (average for the period)

	Unemployed (ILO definition)[1]		Registered unemployed[2]	
	Million	% of economically active population	Million	% of economically active population
2013				
First Quarter	4.4	5.8%	1.1	1.4%
Second Quarter	4.1	5.4%	1.0	1.3%
Third Quarter	4.0	5.2%	0.9	1.2%
Fourth Quarter	4.1	5.5%	0.9	1.2%

Year	4.1	5.5%	1.0	1.3%
2014				
First Quarter	4.1	5.5%	0.9	1.3%
Second Quarter	3.8	5.0%	0.9	1.2%
Third Quarter	3.7	4.9%	0.8	1.1%
Fourth Quarter	3.9	5.2%	0.8	1.1%
Year	3.9	5.2%	0.9	1.2%
2015(3)				
First Quarter	4.4	5.7%	1.0	1.3%
Second Quarter	4.3	5.6%	1.0	1.3%
Third Quarter	4.1	5.3%	1.0	1.2%
Fourth Quarter	4.4	5.7%	1.0	1.2%
Year	4.3	5.6%	1.0	1.3%
2016(3)				
First Quarter	4.5	5.9%	1.0	1.4%
Second Quarter	4.3	5.7%	1.0	1.3%
Third Quarter	4.1	5.3%	0.9	1.2%
Fourth Quarter	4.1	5.4%	0,9	1.1%
Year	4.2	5.5%	1.0	1.2%
2017(3)				
First Quarter	4.2	5.6%	0.9	1.2%
Second Quarter	3.9	5.2%	0.8	1.1%
Third Quarter	3.8	5.0%	0.8	1.0%
Fourth Quarter(4)	3.9	5.1%	0.7	1.0%
Year(4)	4.0	5.2%	0.8	1.1%

Notes:

(1) Figures calculated pursuant to the methodology of the International Labour Organisation. Figures are based on monthly labour force surveys. Persons between the ages of 15 and 72 not working, looking for a job and ready to start work are considered as unemployed.

(2) As registered with unemployment agencies.

(3) Includes data on the Republic of Crimea and the City of Sevastopol.

(4) Preliminary data

Source: Rosstat.

The figures above do not take into account certain "hidden unemployment" resulting from shortened workdays and temporary lay-offs. Based on quarterly averages, workers working reduced hours totalled 927.0 thousand in 2013, 981.4 thousand in 2014, 1,094.0 thousand in 2015, 1,105.4 thousand in 2016 and 981.8 thousand for the first three quarters of 2017 (such figures reflecting part-time employees (including those working part time at the initiative of the employer) and employees who are idle due to reasons outside their control), and workers put on leave without pay equalled 2,323.3 thousand in 2013, 2,446.8 thousand in 2014, 2,498.5 thousand in 2015, 2,509.5 thousand in 2016 and 2,515.8 thousand for the first three quarters of 2017.

Wages and Income

Average monthly wages in 2017 were 39,085 roubles, a nominal increase of 7.2% compared to 2016.

From 1 January 2018, the minimum wage was increased to 9,489 roubles/month or 85.0% of the subsistence level for the working age population for the third quarter of 2017. In February 2018, the State Duma adopted the law proposing to increase the minimum wage to 11,163 roubles starting from 1 May 2018. 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. Each Federation subject has discretion to set the minimum wage in its territory, provided it is not lower than the amount set by the State Duma.

Real disposable income decreased by 3.2% in 2015 (compared to 2014), 5.8 % in 2016 (compared to 2015) and 1.7% in 2017 (compared to 2016). For the first nine months of 2016 and 2017, approximately 13.9% and 13.8%, respectively, of the population had income below the official subsistence level.

Organised labour does not play a prominent role in the Russian economy.

Social Benefits and Expenditure

Total social expenditure (includes expenditure on social policy, education, healthcare, culture, cinematography, media and sport), based on the enlarged budget, amounted to approximately 20.9% GDP in 2016 and 20.3% of GDP in 2017.

Most social expenditure is provided through state extra budgetary funds or by sub-federal authorities. In 2016 and 2017, 55.3% and 54.7%, respectively, of social expenditure was provided by state extra budgetary funds, 33.2% and 33.9%, respectively, was provided by sub-federal authorities. Direct payments from the federal budget accounted for approximately 11.5% and 11.4% of social expenditure in 2016 and 2017, 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 and Sub-Federal Fiscal Relations*" and "*Public Finance—State Extra Budgetary Funds*".

The government undertakes measures to support certain categories of individuals such as retirees, families with more than two children and other individuals with low income.

Pension System

On 25 December 2012, the Government adopted the "Strategy for the Long-term Development of the Russian Federation's Pension System" (the "**Pension Strategy**"), which is still in effect, notwithstanding that certain elements of the Pension Strategy have been subsequently modified. According to the Pension Strategy, the main goals of the Russian Federation's pension system are to guarantee adequate levels of pensions and to ensure the balance and long-term financial stability of the pension system. The Pension Strategy contemplates a set of measures that are scheduled to be implemented in three stages through

2030, several of which have already been passed. Such measures include, among others: (i) the provision of early pensions to employees engaged in hazardous or physically harmful work; (ii) the re-distribution of contributions between funded and insurance pensions so as to increase the share of insurance based pensions; (iii) the introduction of measures designed to give individuals greater freedom of choice in how their pension contributions are allocated; (iv) the development of the corporate pension system; (v) the implementation of measures aimed at incentivising increased contributions by individuals to voluntary pension schemes; (vi) the introduction of measures to incentivise later retirement and a longer employment experience; and (vii) the development of ways in which to improve pension scheme management.

The pension system currently consists of four types of pensions: the insurance pension, funded pension, the State-provided social pension (i.e., civil service and military pensions, pensions for certain other categories of persons and certain other pensions) and a voluntary pension (i.e., contributions to private pension accounts).

The insurance and funded pensions represent the largest components of the pension system. For those born before 1967, all pension contributions are made to the insurance pension. An individual born in or after 1967 may choose between contributing to either the insurance pension or funded pension, provided his employer contributes at least 6% of his annual salary to the pension system. Such individual has five years from the date initial employer contributions are made in order to make this election.

The insurance pension includes retirement pension, disability pension and loss-of-breadwinner pension. The retirement age for purposes of receiving the retirement pension is 60 for men and 55 for women. To receive the retirement pension, an individual must meet certain conditions, including 15 years of employment in a pension-eligible position.

Contributions for financing the funded pension are collected by the Pension Fund and are currently managed by the State Trust Management Company (the "**State Trust Management Company**"), management companies (private trust companies) and private pension funds. In 2014, a moratorium was imposed on new contributions to the funded pensions. As of 1 October 2017, Vnesheconombank managed 43% of pension savings, private pension funds managed 56% of pension savings and private asset management companies managed 1% of pension savings. Permitted investments for funded pension contributions managed by State Trust Management Company include state securities of the Russian Federation and its subjects, bonds of other Russian issuers, mortgage-backed securities, shares of Russian open joint stock companies, securities of international financial institutions, rouble and foreign currency monetary accounts with credit organisations and rouble and foreign currency bank deposits. Private trust companies and private pension funds may invest pension savings in any permitted investments subject to the restrictions stated by the Government and relevant investment policy statements. See "*Public Finance—State Extra Budgetary Funds*" for further discussion of the Pension Fund.

Federal law requires that the size of pensions be adjusted for inflation and growth in average salary levels. In 2014, insurance and funded pensions were subject to indexation on two occasions: in February 2014 and April 2014, when the average labour pension amount was increased by 6.5% and 1.6%, respectively. Social pensions were also subject to indexation in 2014, increasing by 17.1% in April.

In 2015, both insurance and social pensions were indexed: insurance pensions were increased by 11.4% in February 2015, and social pensions were increased by 10.3% in April 2015. In 2016, both insurance and social pensions were indexed: insurance pensions for non-working pensioners were increased by 4.0% in February (to an average monthly labour pension of 13.1 thousand roubles), and social pensions were increased by 4.0% in April (to an average monthly social pension of 8.6 thousand roubles). In 2017, insurance pensions for non-working pensioners increased by 5.4% in February and by 0.4% in April (to an average monthly labour pension of 13.7 thousand roubles); in April 2017, social pensions were also increased by 1.5% (to an average monthly social pension of 8.8 thousand roubles). Additionally, in January 2017, all pensioners received a lump sum payment of 5,000 roubles. Certain other government subsidies and payments to individuals, including payments from the federal budget, certain insurance payments, including from the Mandatory Social Insurance Fund, monthly payments to parents of adopted or disadvantaged children, workers' compensation payments and other social transfers were also increased since 2016 as a result of indexation. In 2018, it is expected that pensions for unemployed pensioners will be increased by 3.7%.

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)(3)]

	For the year ended 31 December				
	2013	2014	2015	2016	2017
	(*billions of U.S. dollars*)				
Current account	**33.4**	**57.5**	**68.8**	**25.5**	**40.2**
Goods and services	**122.3**	**133.7**	**111.5**	**66.4**	**85.6**
Exports	592.0	562.6	393.1	332.4	411.8
Imports	469.7	428.9	281.6	266.0	326.2
Goods	180.6	188.9	148.4	90.3	115.8
Exports	521.8	496.8	341.4	281.8	353.7
Imports	341.3	307.9	193.0	191.6	237.9
Services	(58.3)	(55.3)	(36.9)	(23.8)	(30.2)
Exports	70.1	65.7	51.7	50.6	58.1
Imports	128.4	121.0	88.6	74.4	88.3
Primary income	**(79.6)**	**(68.0)**	**(36.9)**	**(34.6)**	**(38.2)**
Receivable	42.2	47.2	37.3	40.5	n/a
Payable	121.8	115.1	74.2	75.1	n/a
Compensation of employees	(13.2)	(10.1)	(5.1)	(2.2)	(2.9)
Receivable	4.3	4.1	3.5	3.6	n/a
Payable	17.4	14.2	8.6	5.8	n/a
Investment income	(66.5)	(58.0)	(31.8)	(32.5)	(35.3)
Receivable	37.7	42.8	33.7	36.7	41.5
Payable	104.3	100.9	65.5	69.2	76.7
Rent	0.1	0.1	0.0	0.0	0.0
Receivable	0.2	0.2	0.1	0.1	n/a
Payable	0.1	0.1	0.1	0.1	n/a
Secondary income	**(9.3)**	**(8.2)**	**(5.7)**	**(6.3)**	**(7.2)**
Receivable	17.3	17.6	10.0	8.7	n/a
Payable	26.6	25.8	15.7	14.9	n/a
Capital account	**(0.4)**	**(42.0)**	**(0.3)**	**(0.8)**	**(0.3)**
Gross acquisitions / disposals of nonproduced nonfinancial assets	**(0.1)**	**(0.3)**	**0.0**	**0.0**	**n/a**
Capital transfers	**(0.2)**	**(41.7)**	**(0.3)**	**(0.8)**	**n/a**
Receivable	0.4	0.4	0.3	1.0	n/a
Payable	0.6	42.1	0.6	1.8	n/a
Balance from current and capital account	**33.0**	**15.5**	**68.5**	**24.8**	**39.9**
Financial account	**24.1**	**23.5**	**71.5**	**20.2**	**43.6**
Direct investment	**17.3**	**35.1**	**15.2**	**(10.2)**	**n/a**
Net acquisition of financial assets	86.5	57.1	22.1	22.3	n/a
Net incurrence of liabilities	69.2	22.0	6.9	32.5	n/a
Portfolio investment	**11.0**	**39.9**	**26.4**	**(2.4)**	**n/a**

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
Net acquisition of financial assets	11.8	16.7	13.6	0.7	n/a
Net incurrence of liabilities	0.7	(23.2)	(12.9)	3.0	n/a
Financial derivatives	**0.3**	**5.3**	**7.4**	**0.5**	**n/a**
Net acquisition of financial assets	(8.5)	(16.6)	(21.2)	(13.2)	n/a
Net incurrence of liabilities	(8.8)	(21.9)	(28.7)	(13.6)	n/a
Other investment	**17.6**	**50.7**	**20.7**	**24.1**	**n/a**
Net acquisition of financial assets	80.8	24.0	(15.8)	(2.3)	n/a
Other equity	0.7	0.2	1.0	0.9	n/a
Foreign currency	(0.6)	41.8	(19.3)	6.3	n/a
Current accounts and deposits	17.1	(18.8)	(3.0)	(18.7)	n/a
Loans	21.2	(20.2)	(1.2)	6.0	n/a
Insurance, pension, and standardised guarantee schemes	0.6	1.5	(0.3)	0.3	n/a
Trade credits and advances	7.6	6.4	5.2	(1.6)	n/a
Indebtedness on supplies according to intergovernmental agreements	1.1	(1.3)	0.5	1.0	n/a
Non-repatriation of export proceeds and import advances not prepaid in time(3)	26.5	8.6	1.5	0.8	n/a
Other accounts receivable	6.5	5.8	(0.1)	2.7	n/a
Net incurrence of liabilities	63.3	(26.7)	(36.4)	(26.4)	n/a
Other equity	0.0	(0.0)	(0.0)	(0.0)	n/a
Domestic currency	1.8	(1.0)	(0.2)	0.0	n/a
Current accounts and deposits	16.2	(20.1)	(32.6)	(16.4)	n/a
Loans	43.6	(8.9)	(3.0)	(12.3)	n/a
Insurance, pension, and standardised guarantee schemes	0.2	0.7	0.0	(0.1)	n/a
Trade credits and advances	0.2	0.4	(0.6)	0.1	n/a
Other accounts payable	1.3	2.2	(0.1)	2.3	n/a
Special drawing rights	(0.0)	0.0	(0.0)	0.0	n/a
Reserve assets	**(22.1)**	**(107.5)**	**1.7**	**8.2**	**22.6**
Net errors and omissions	**(8.9)**	**8.0**	**2.9**	**(4.6)**	**3.8**

Notes:

(1) Figures in this table are presented as of January 2018 in accordance with the sixth edition of the Balance of Payments (in Neutral Presentation, Main Components) and International Investment Position Manual published by the IMF (**BPM6**). The data in this table reflect the adoption of a new sign convention implemented as part of the transition to BPM6 reporting. Certain data presented in this table may 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 balance of payments accounts.

(3) Includes sham transactions related to trade in goods and services, securities trading, lending and money transfers abroad, which the Bank of Russia believes are aimed at cross-border money-transferring objectives (e.g., money laundering).

Current Account and Capital Account

Russia has registered a current account surplus in each year since 2000.

In 2013, Russia recorded a current account surplus of U.S.$33.4 billion (1.5% of GDP), which was 53.1% lower than the current account surplus in 2012. The decrease in the current account balance was primarily attributable to a decrease in the trade surplus of goods and services from U.S.$145.1 billion in 2012 to U.S.$122.3 billion in 2013 and to an increase in the primary income deficit from U.S.$67.7 billion in 2012 to U.S.$79.6 billion in 2013, due, in turn, to an increase in the investment income deficit. The decrease in the trade surplus of goods and services was mainly due to a decrease in the goods surplus from U.S.$191.7 billion in 2012 to U.S.$180.6 billion in 2013 (due, in turn, to a fall in exports and an increase in imports) and an increase in the services deficit from U.S.$46.6 billion in 2012 to U.S.$58.3 billion in 2013.

In 2014, Russia recorded a current account surplus of U.S.$57.5 billion (2.8% of GDP), which was 72.2% higher than the current account surplus in 2013. The increase in the current account balance was primarily attributable to an increase in the trade surplus of goods and services from U.S.$122.3 billion in 2013 to U.S.$133.7 billion in 2014 and to a decrease in the primary income deficit from U.S.$79.6 billion in 2013 to U.S.$68.0 billion in 2014, due, in turn, to a decrease in the investment income deficit. The increase in the trade surplus of goods and services was mainly due to an increase in the goods surplus from U.S.$180.6 billion in 2013 to U.S.$188.9 billion in 2014, reflecting, in turn, a 9.8% decline in imports and a 4.8% decline in exports.

In 2015, Russia recorded a current account surplus of U.S.$68.8 billion (5.2% of GDP), which was 20.0% higher than the current account surplus in 2014. The increase in the current account balance was primarily attributable to the decrease in the primary income deficit from U.S.$68.0 billion in 2014 to U.S.$36.9 billion in 2015, which, in turn, was caused by a decrease in the value of investment income payable from U.S.$100.9 billion in 2014 to U.S.$65.5 billion in 2015. This decline was driven mainly by two factors: (i) a decrease in external debt outstanding, resulting in lower interest payments on such debt and (ii) an overall decline in corporate profits, resulting in lower dividend payments to non-residents. The trade surplus of goods and services fell from U.S.$133.7 billion in 2014 to U.S.$111.5 billion in 2015 due to a decline in exports from U.S.$562.6 billion in 2014 to U.S.$393.1 billion in 2015, resulting from lower oil and gas prices. Imports declined from U.S.$428.9 billion in 2014 to U.S.$281.6 billion in 2015 due to the depreciation of the rouble and to lower import volumes arising from geopolitical events.

In 2016, Russia recorded a current account surplus of U.S.$25.5 billion (2.0% of GDP), which was 62.9% lower than the current account surplus in 2015. The decline in the current account balance was primarily attributable to the reduction of trade surplus from U.S.$111.5 billion in 2015 to U.S.$66.4 billion in 2016, which, in turn, was caused by a decrease in the exports of goods from U.S.$341.4 billion in 2015 to U.S.$281.8 billion in 2016. This decline was driven mainly by decrease of fuel prices for much of 2016. Imports decreased from U.S.$281.6 billion in 2015 to U.S.$266.0 billion in 2016 due primarily to lower import prices. The primary income deficit fell from U.S.$36.9 billion in 2015 to U.S.$34.6 billion in 2016 due to a decline in the value of compensation of employees payable from U.S.$8.6 billion in 2015 to U.S.$5.8 billion in 2016 as a result of a sharp reduction in the number of short-term migrants employed in the economy of Russia.

In 2017, Russia recorded a current account surplus of U.S.$40.2 billion (2.5% of GDP), which was 57.6% higher compared to U.S.$25.5 billion in 2016. The increase in the current account balance was primarily attributable to the significant increase of the trade surplus from U.S.$66.4 billion in 2016 to U.S.$85.6 billion in 2017, which, in turn, was caused by an

increase in export prices due to positive conditions in commodity markets. Exports increased from U.S.$332.4 billion in 2016 to U.S.$411.8 billion in 2017, while imports grew from U.S.$266.0 billion in 2016 to U.S.$326.2 billion in 2017. The primary income deficit increased from U.S.$34.6 billion in 2016 to U.S.$38.2 billion in 2017 due to an increase of deficits in both compensation of employees and investment income.

Financial Account

Financial Account Deficit

The financial account deficit (excluding reserve assets) increased from U.S.$46.2 billion in 2013 to U.S.$131.0 billion in 2014. This was mainly due to the shift from a net increase in foreign debt and capital inflows in 2013 to the net repayment of foreign debt and net increase in capital outflows in 2014.

The financial account deficit (excluding reserve assets) decreased from U.S.$131.0 billion in 2014 to U.S.$69.8 billion in 2015. This was mainly due to a decrease in the net acquisition of financial assets. Net repayment of foreign debt accelerated in 2015 compared to 2014.

The financial account deficit (excluding reserve assets) decreased from U.S.$69.8 billion in 2015 to U.S.$11.9 billion in 2016. This was mainly due to a sharp reduction in the decrease in the incurrence of liabilities.

The financial account deficit (excluding reserve assets) increased from U.S.$11.9 billion in 2016 to U.S.$21 billion in 2017. This was mainly due to a growth of the net acquisition of financial assets.

Net Incurrence of Liabilities

Net incurrence of liabilities changed from an increase in liabilities to non-residents of U.S.$124.4 billion in 2013 to a decrease in liabilities in liabilities to non-residents of U.S.$49.8 billion in 2014. This change was mainly due to a decline in foreign borrowing activities of Russian entities, attributable, in part, to the imposition of sanctions on certain Russian companies and banks. In 2014, foreign liabilities of government authorities decreased by U.S.$9.4 billion and net external liabilities incurred by the banking sector decreased by U.S.$37.5 billion. The foreign debt of other sectors decreased only by U.S.$0.2 billion, largely due to less onerous requirements for debt repayment (since a substantial share of such foreign debt was in the form of intercompany loans) and support from related foreign companies through direct investment.

Net incurrence of liabilities decreased by U.S.$71.1 billion in 2015 (compared to a decrease of U.S.$49.8 billion in 2014) in part due to the continuing impact of reciprocal sanctions on capital flows. In 2015, foreign liabilities of government authorities decreased by U.S.$7.7 billion, the net external liabilities incurred by the banking sector decreased by U.S.$60.0 billion and the foreign debt of other sectors decreased by U.S.$5.4 billion.

Net incurrence of liabilities decreased by U.S.$4.4 billion in 2016 (compared to a decrease of U.S.$71.1 billion in 2015) in part due to the continuing impact of reciprocal sanctions on capital flows. In 2016, foreign liabilities of government authorities increased by U.S.$4.9 billion, the net external liabilities incurred by the banking sector decreased by U.S.$27.1 billion and the foreign debt of other sectors increased by U.S.$17.6 billion.

The trend in net incurrence of liabilities changed from a decrease by U.S.$4.4 billion in 2016 to an increase by U.S.$0.7 billion in 2017[1] mainly due to a substantial increase in foreign liabilities of government authorities (by U.S.$14.9 billion). In 2017, the net external liabilities incurred by the banking sector continued to decline (decreased by U.S.$31.4 billion) and the foreign debt of other sectors increased by U.S.$15.2 billion.

Net Acquisition/Net Sales of Financial Assets

Net acquisition of financial assets decreased from U.S.$170.6 billion in 2013 to U.S.$81.2 billion in 2014, largely as a result of decreases in direct and other investments. The volume of foreign assets held by government authorities decreased by U.S.$39.4 billion. The external claims of the private sector increased by U.S.$121.9 billion. The volume of sham transactions was U.S.$8.6 billion in 2014. Net capital outflows from the private sector increased from U.S.$60.3 billion in 2013 to U.S.$152.1 billion in 2014, reflecting predominantly outflows from the banking sector as compared to nonfinancial corporations. Reserve assets decreased by U.S.$107.5 billion.

In 2015, net sales of financial assets amounted to U.S.$1.4 billion, compared to the net acquisition of financial assets of U.S.$81.2 billion in 2014. This change was largely a result of a decrease in direct investments and a decrease in other investments reflecting the net repayment of non-residents' debt to Russian companies. The volume of foreign assets held by government authorities increased by U.S.$2.2 billion. The external claims of the private sector decreased by U.S.$3.9 billion. The volume of sham transactions was U.S.$1.5 billion in 2015. Net capital outflows from the private sector decreased from U.S.$152.1 billion in 2014 to U.S.$58.1 billion in 2015. Reserve assets increased by U.S.$1.7 billion, reflecting the transition to a floating exchange rate regime in November 2014.

In 2016, net acquisition of financial assets amounted to U.S.$7.5 billion, compared to the net sales of financial assets of U.S.$1.4 billion in 2015. This change was largely a result of an increase of nonfinancial corporations' assets. The volume of foreign assets held by government authorities increased by U.S.$0.9 billion. The external claims of the private sector increased by U.S.$6.7 billion. The volume of sham transactions was U.S.$0.7 billion in 2016. Net capital outflows from the private sector decreased from U.S.$58.1 billion in 2015 to U.S.$19.8 billion in 2016. Reserve assets increased by U.S.$8.2 billion, reflecting the gradual unwinding of the temporary foreign currency provision to credit institutions by the Bank of Russia in 2014-2015.

In 2017, net acquisition of financial assets amounted to U.S.$21.8 billion[2], compared to the net acquisition of financial assets of U.S.$7.5 billion in 2016. This change was largely due to an increase of financial assets of the banks. The volume of foreign assets held by government authorities increased by U.S.$1.9 billion. The external claims of the private sector increased by U.S.$19.8 billion. The volume of sham transactions was U.S.$0.8 billion in 2017. Net capital outflows from the private sector increased from U.S.$19.8 billion in 2016 to

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[1] In accordance with the estimates of the Balance of Payments in Analytical Presentation which, unlike Neutral Presentation reflected in table "*Balance of Payments of the Russian Federation*", presents certain details of primary components of Balance of Payments (i.e. types of goods, services, agents etc).

[2] In accordance with the estimates of the Balance of Payments in Analytical Presentation which, unlike Neutral Presentation reflected in table "*Balance of Payments of the Russian Federation*", presents certain details of primary components of Balance of Payments (i.e. types of goods, services, agents etc).

U.S.$31.3 billion in 2017. Reserve assets increased by U.S.$22.6 billion. See "*Monetary and Financial System—Monetary Policy—Exchange Rates*".

Foreign Trade

Foreign Trade Regime

The regulatory framework governing the foreign trade of the Russian Federation has undergone significant change in recent years in an effort to simplify customs procedures, bringing them more in line with world practice and generally leading to the lowering of trade barriers. Nevertheless, on several occasions, the Russian Federation has increased import tariffs. For example, 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 addition, the Russian Federation has introduced a ban on the import of certain food products originating in countries that have imposed sanctions on Russian entities and/or individuals, including the United States, all EU countries, Canada and Ukraine. The import ban took effect for an initial period of one year in August 2014 and was extended for an additional year in August 2015; in June 2016, the ban was extended until 31 December 2017, and in June 2017, the ban was further extended until 31 December 2018.

In an effort to integrate into the world economy more deeply, the Russian Federation has pursued both regional free trade agreements and global free trade agreements, launching the Eurasian Economic Union on 1 January 2015 and acceding to the WTO in 2012. See "*Russian Federation—International Relations*" for further discussion of these arrangements.

As a condition of its WTO membership, the Russian Federation was required to liberalise access to its domestic market over the course of an up to 7-year transition period starting from 2012. According to the WTO, by 2020 the simple average final bound tariff rate of the Russian Federation for all goods is expected to be approximately 7.6% (7.1% for non-agricultural goods and 11.0% for agricultural goods). The Russian Federation implements annual tariff reductions in line with its WTO commitments. For instance, in August 2017 tariffs on, among other goods, certain refrigerators, salmon and a variety of apparel products were reduced from 13.6% to 12%, from 4.4% to 3% and from 9.2% to 6.5%, respectively.

Exports are an important source of foreign exchange earnings for Russia. Currently, Russia has various export restrictions in place, although some of the export restrictions have been eliminated upon Russia's accession to the WTO, and remaining restrictions will be eliminated in the future, in accordance with the requirements of Russia's admission to the WTO. The Government has also introduced duties on the export of oil, oil products 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.

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									
	2013		2014		2015		2016		2017	
	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%
Exports										
Machinery, equipment and transport	28.8	5.5	26.4	5.3	25.4	7.4	24.4	8.6	28.1	7.9
Mineral products[4]	375.8	71.5	350.8	70.5	219.2	63.8	169.2	59.2	215.6	60.4
Chemical products and rubber	30.8	5.9	29.2	5.9	25.4	7.4	20.8	7.3	23.9	6.7
Timber, woodpulp and paper products	11.0	2.1	11.7	2.3	9.8	2.9	9.8	3.4	11.8	3.3
Textiles	0.9	0.2	1.1	0.2	0.9	0.3	0.9	0.3	1.1	0.3
Leather and fur products	0.6	0.1	0.4	0.1	0.3	0.1	0.3	0.1	0.3	0.1
Food and agricultural	16.3	3.1	19.0	3.8	16.2	4.7	17.1	6.0	20.7	5.8
Metals, precious stones and articles thereof	55.1	10.5	52.3	10.5	40.8	11.9	37.7	13.2	48.3	13.5
Other	6.6	1.3	7.0	1.4	5.5	1.5	5.5	1.9	7.3	2.1
Total trade	**526.0**	**100.0**	**497.8**	**100.0**	**343.5**	**100.0**	**285.7**	**100.0**	**357.1**	**100.0**
Imports										
Machinery, equipment and transport	152.8	48.5	136.3	47.6	81.9	44.8	86.1	47.2	110.3	48.6
Mineral products[4]	6.9	2.2	7.4	2.6	5.0	2.7	3.2	1.8	4.4	2.0
Chemical products and rubber	50.0	15.9	46.5	16.2	34.0	18.6	33.8	18.6	40.3	17.7
Timber, woodpulp and paper products	6.6	2.1	5.9	2.1	3.6	2.0	3.4	1.9	3.6	1.6
Textiles	18.0	5.7	16.3	5.7	10.8	5.9	11.0	6.0	13.5	6.0
Leather and fur products	1.5	0.5	1.3	0.4	0.8	0.4	0.8	0.4	1.1	0.5
Food and agricultural products	43.3	13.7	39.9	13.9	26.7	14.6	25.0	13.7	28.8	12.7
Metals, precious stones and articles thereof	22.6	7.2	20.5	7.2	12.4	6.7	11.9	6.5	16.2	7.1
Other	13.5	4.3	12.6	4.4	7.7	4.3	7.1	3.9	8.7	3.8
Total trade	**315.3**	**100.0**	**286.7**	**100.0**	**182.9**	**100.0**	**182.3**	**100.0**	**227.0**	**100.0**
Balance										
Machinery, equipment and transport	(123.9)	—	(109.9)	—	(56.5)	—	(61.6)	—	(82.2)	—
Mineral products[4]	368.9	—	343.4	—	214.2	—	165.9	—	211.1	—
Chemical products and rubber	(19.2)	—	(17.3)	—	(8.6)	—	(13.0)	—	(16.3)	—

	For the year ended 31 December									
	2013		2014		2015		2016		2017	
	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%	U.S.$ billion	%
Timber, woodpulp and paper products	4.4	—	5.7	—	6.2	—	6.4	—	8.2	—
Textiles	(17.1)	—	(15.2)	—	(10.0)	—	(10.1)	—	(12.5)	—
Leather and fur products	(0.9)	—	(0.9)	—	(0.5)	—	(0.6)	—	(0.8)	—
Food and agricultural products	(27.0)	—	(20.9)	—	(10.4)	—	(8.0)	—	(8.1)	—
Metals, precious stones and articles thereof	32.4	—	31.8	—	28.4	—	25.8	—	32.1	—
Other	(6.9)	—	(5.7)	—	(2.2)	—	(1.6)	—	(1.4)	—
Total trade	**210.7**	**—**	**211.2**	**—**	**160.6**	**—**	**103.4**	**—**	**130.1**	**—**

Notes:

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

(2) Reflects Customs Service statistics and includes trade with other EEU members: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan and the Kyrgyz Republic.

(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 oil, gas and coal.

Sources: Rosstat, Customs Service.

Exports of mineral products (including oil, gas and coal), metals, precious stones and articles thereof, chemical products and rubber, and machinery, equipment and transport account for the vast majority of Russia's total exports, representing approximately 90% of the value of exports in each of the years between 2013 and 2017. In 2017, exports increased across all sectors in U.S. dollar terms, excluding leather and fur products, with the export of mineral products accounting for the majority of the export growth (from U.S.$169.2 billion in 2016 to U.S.$215.6 billion in 2017) reflecting higher oil and natural gas prices.

Imports of machinery, equipment and transport accounted for over 44% of the value of imports in each of the years between 2013 and 2017. Russia also imports significant amounts of chemical products and rubber (approximately 15-19% of imports in each of the years under review), food and agricultural products (approximately 12-15% of imports in each of the years under review) and metals, precious stones and articles thereof (approximately 6-8% of imports in each of the years under review). In 2017, imports increased across all sectors in U.S. dollar terms, compared to 2016, with the import of machinery, equipment and transport and metals, precious stones and articles accounting for the majority of the import growth (from U.S.$98.0 billion in 2016 to U.S.$126.5 billion in 2017). See "*—Foreign Trade Regime*".

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									
	2013		2014		2015		2016		2017	
	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	**443,017**	**(0.6)**	**433,173**	**(2.2)**	**298,420**	**(31.1)**	**247,944**	**(16.9)**	**309,310**	**24.8**
OECD countries	**337,868**	**0.6**	**316,144**	**(6.4)**	**212,070**	**(32.9)**	**170,071**	**n/a[(4)]**	**208,521**	**22.6**
Germany	36,993	5.7	37,132	0.4	25,351	(31.7)	21,257	(16.2)	25,747	21.1
United Kingdom (Great Britain)	16,382	9.0	11,474	(30.0)	7,475	(34.8)	6,944	(7.1)	8,688	25.1
Netherlands	70,068	(8.9)	68,040	(2.9)	40,848	(40.0)	29,260	(28.4)	35,611	21.7
Switzerland	8,725	(17.1)	3,667	(58.0)	2,611	(28.8)	3,017	15.5	3,852	27.7
Japan	19,663	26.8	19,854	1.0	14,483	(27.1)	9,356	(35.4)	10,501	12.2
USA	10,827	(15.9)	10,583	(2.3)	9,432	(10.9)	9,269	(1.7)	10,700	15.4
Italy	38,680	19.7	35,225	(8.9)	22,294	(36.7)	11,973	(46.3)	13,839	15.6
Finland	13,253	10.4	11,380	(14.1)	7,092	(37.7)	6,539	(7.8)	8,642	32.2
France	8,881	(15.7)	7,578	(14.7)	5,712	(24.6)	4,778	(16.3)	5,829	22.0
Turkey	25,408	(7.3)	24,937	(1.9)	19,287	(22.7)	13,582	(29.6)	18,221	34.2
Latvia[(4)]	—	—	—	—	—	—	4,935	(30.2)	4,804	(2.6)
Other OECD	88,987	1.2	86,274	(3.0)	57,484	(33.4)	49,161	(14.5)	62,086	26.3
Transition economies[(5)]	**41,808**	**(7.9)**	**43,512**	**4.1**	**35,292**	**(18.9)**	**34,725**	**(1.6)**	**47,670**	**37.3**
China	35,159	(1.7)	37,492	6.6	28,601	(23.7)	28,018	(2.0)	38,922	38.9
Other non-CIS countries	**63,340**	**(1.2)**	**73,517**	**16.1**	**51,057**	**(30.6)**	**43,148**	**n/a[(4)]**	**53,191**	**23.1**
Egypt	2,282	(29.0)	4,939	116.4	3,676	(25.6)	3,784	3.0	6,217	64.3
India	4,440	(41.3)	6,343	42.9	5,575	(12.1)	5,312	(4.7)	6,456	21.5
Iran	1,168	(38.5)	1,286	10.1	1,017	(20.9)	1,882	85.0	1,315	(30.1)
Latvia[(4)]	10,421	16.8	12,819	23.0	7,069	(44.9)	—	—	—	—
Lithuania	5,871	8.5	4,720	(19.6)	2,881	(38.9)	2,509	(12.9)	2,850	13.6
Exports to CIS countries	**73,056**	**(7.8)**	**64,186**	**(12.1)**	**45,092**	**(29.7)**	**37,829**	**(16.1)**	**47,773**	**26.3**
Ukraine	23,743	(12.8)	17,061	(28.1)	9,295	(45.5)	6,342	(31.8)	7,943	25.2
Belarus	20,316	(19.1)	19,989	(1.6)	15,417	(22.9)	14,257	(7.5)	18,425	29.2
Kazakhstan	17,591	11.9	14,277	(18.8)	10,788	(24.4)	9,613	(10.9)	12,324	28.2
Uzbekistan.	2,803	20.6	3,121	11.3	2,233	(28.4)	1,965	(12.0)	2,625	33.6
Other CIS	8,603	(3.3)	9,737	13.2	7,359	(24.4)	5,651	(23.2)	6,457	14.3
Total exports	**516,073**	**(1.6)**	**497,359**	**(3.6)**	**343,512**	**(30.9)**	**285,772**	**(16.8)**	**357,083**	**25.0**

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by the Customs Service. Data in this table are presented as of 15 February 2018.

(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) Data labelled "n/a" is not available. Latvia is an OECD member since 2 June 2016, so figures for OECD before 2016 include 34 country members and for 2016 and subsequent periods include 35 country members. Other non-CIS countries figures include Latvia before 2016 and exclude it in 2016 and subsequent periods.

(5) Includes Bulgaria, Romania, Vietnam, Democratic People's Republic of 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									
	2013		2014		2015		2016		2017	
	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	**270,520**	**(0.7)**	**253,775**	**(6.2)**	**161,693**	**(36.3)**	**162,725**	**0.6**	**202,468**	**24.4**
OECD countries	**182,015**	**(3.3)**	**168,202**	**(7.6)**	**100,396**	**(40.3)**	**97,867**	**n/a[(4)]**	**121,207**	**23.8**
Germany	37,468	(2.2)	32,975	(12.0)	20,441	(38.0)	19,453	(4.8)	24,228	24.5
USA	14,686	(4.4)	18,496	25.9	11,454	(38.1)	10,703	(6.6)	12,499	16.8
Japan	13,563	(13.3)	10,908	(19.6)	6,813	(37.5)	6,681	(1,9)	7,761	16.2
Italy	14,212	(5.8	12,729	(10.4)	8,320	(34.6)	7,840	(5.8)	10,101	28.8
Republic of Korea	10,172	(7.1)	9,030	(11.2)	4,560	(49.5)	5,113	12.1	6,933	35.6
Finland	5,397	7.9	4,571	(15.3)	2,671	(41.6)	2,482	(7.1)	3,696	48.9
France	10,740	(22.2)	10,630	(1.0)	5,919	(44.3)	8,490	43.4	9,630	13.4
Poland	8,325	11.4	7,081	(14.9)	4,097	(42.1)	3,959	(3.4)	4,908	24.0
United Kingdom (Great Britain)	8,103	(1.1)	7,809	(3.6)	3,722	(52.3)	3,433	(7.8)	4,048	17.9
Netherlands	5,847	(2.2)	5,294	(9.4)	3,096	(41.5)	3,021	(2.4)	3,893	28.9
Other OECD	53,502	(0.9)	48,678	(9.0)	29,302	(39.8)	26,693	n/a	33,510	25.5
Transition economies[(5)]	**58,475**	**3.6**	**56,046**	**(4.2)**	**38,897**	**(30.6)**	**42,363**	**8.9**	**53,591**	**26.5**
China	53,055	2.8	50,773	(4.3)	34,948	(31.2)	38,105	9.0	48,042	26.1
Other non-CIS countries	**30,030**	**8.4**	**29,527**	**(1.7)**	**22,400**	**(24.1)**	**22,494**	**n/a[(4)]**	**27,669**	**23.0**
Argentina	1,100	(13.0)	1,116	1.5	825	(26.1)	685	(17.0)	679	(0.8)
Brazil	3,416	1.7	3,969	16.2	2,915	(26.6)	2,524	(13.4)	3,198	26.7
India	3,089	1.6	3,172	2.7	2,258	(28.8)	2,398	6.2	2,902	21.1
Malaysia	1,412	(4.0)	1,459	3.3	1,315	(9.8)	1,204	(8.4)	1,546	28.4
Thailand	2,083	5.7	2,231	7.1	1,491	(33.2)	1,147	(23.1)	1,717	49.8
Imports from CIS countries	**38,593**	**(14.1)**	**33,287**	**(13.7)**	**21,210**	**(36.3)**	**19,622**	**(7.5)**	**24,499**	**24.9**
Ukraine	15,578	(13.2)	10,750	(31.0)	5,673	(47.2)	3,892	(31.4)	4,912	26.2
Belarus	14,222	3.5	12,750	(10.4)	9,011	(29.3)	9,714	7.8	11,768	21.2
Kazakhstan	5,978	(40.6)	7,445	(24.5)	4,807	(35.4)	3,636	(24.4)	4,917	35.2
Uzbekistan	1,255	(9.8)	875	(30.3)	602	(31.2)	762	26.5	1,026	34.8
Other CIS	1,559	(12.9)	1,467	(5.9)	1,117	(23.9)	1,619	45.0	1,875	15.8
Total imports	**309,112**	**(2.5)**	**287,063**	**(9.7)**	**182,902**	**(36.3)**	**182,347**	**(0.3)**	**226,966**	**24.5**

Notes:

(1) Certain data presented in this table differ from previously published data due to regular revisions by the Customs Service. Data in this table is presented as of 15 February 2018.

(2) Figures differ from the presentation in "—*Balance of Payment*s" 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) Data labelled "n/a" is not available. Latvia is an OECD member since 2 June 2016, so figures for OECD before 2016 include 34 country members and for 2016 and subsequent periods include 35 country members. Other non-CIS countries figures include Latvia before 2016 and exclude it in 2016 and subsequent periods.

(5) Includes Bulgaria, Romania, Vietnam, Democratic People's Republic of Korea, Mongolia and Cuba, in addition to China.

Sources: Customs Service; Rosstat.

The value of Russian exports decreased by 30.8% from U.S.$516.1 billion in 2013 to U.S.$357.1 billion in 2017, principally due to declines in oil, natural gas and other commodity prices. Russia's primary export markets are OECD countries, which accounted for approximately 60.0% of Russia's total exports (as measured by value) in 2017. The Netherlands, Germany and Turkey are Russia's principal export markets, representing 10.0%, 7.2% and 5.1% of total exports in 2017, respectively. Russia also engages in significant trade with CIS countries, particularly Belarus, Kazakhstan and Ukraine, which accounted for 5.2%, 3.5% and 2.2%, respectively, of Russia's exports in 2017, and with China, which accounted for 10.9% of Russia's exports in 2017. Russian exports to each of its principal trading partners increased in 2017 compared to 2016, with exports to OECD countries, the EU and Ukraine increasing by 22.6%, 22.1% and 25.2%, respectively, mainly due to growth in oil and gas prices.

The value of Russian imports decreased by 26.6% from U.S.$309.1 billion in 2013 to U.S.$227.0 billion in 2017. Russia receives most of its imports from OECD countries (particularly, Germany, the United States, Italy, France and Japan), which accounted for 53.4% of Russia's total import value in 2017. Russia also receives substantial imports from China, which accounted for 21.2% of imports in 2017, and CIS countries (particularly Belarus, Ukraine and Kazakhstan), which collectively accounted for 10.8% of Russian imports in 2017. Russian imports from each of its principal trading partners increased in 2017 compared to 2016, with imports from OECD countries, the EU and Ukraine increasing by 23.8%, 24.4% and 26.2%, respectively, mainly due to the appreciation of the Russian rouble. The value of Russian imports increased in 2017 by 24.5% to U.S.$227.0 billion from U.S.$182.3 billion in 2016, reflecting an increase in imports from all of the Russia's principal import markets.

International Reserves

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

International Reserves[1]

	As of 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
	(*millions of dollars, except as indicated*)				
International reserves excluding gold	469,605	339,371	319,836	317,547	356,095
Special Drawing Rights	8,762	8,246	7,888	6,486	6,883
Reserve position in IMF	4,396	3,398	2,560	3,031	2,706
Foreign exchange	456,447	327,727	309,387	308,031	346,507
Monetary gold (*fine troy ounces, million*)	33.3	38.8	45.5	51.9	59.1
U.S.$ million[2]	39,990	46,089	48,563	60,194	76,647
Total international reserves (including gold)	**509,595**	**385,460**	**368,399**	**377,741**	**432,742**
Import coverage (*months*)	13.0	10.8	15.7	17.0	15.9[3]

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. Data in this table are presented as of 31 December 2017.

(2) At official Bank of Russia reference prices.

(3) Calculated on the basis of an import assessment for 2017 in line with Balance of Payments methodology (BPM6)

Source: Bank of Russia.

Russia's international reserves fell considerably in 2014, in part due to the Bank of Russia's efforts to support the value of the rouble, while reserves declined more modestly in 2015, stabilized in 2016 and grew in 2017.

As of 31 December 2017, total international reserves (including gold) equalled U.S.$432.7 billion, an increase of U.S.$55 billion compared to year-end 2016. The increase in reserves was primarily attributable to an increase in foreign exchange reserves as a result of repayment of funds by Russian banks to the Bank of Russia under FX repo operations and purchases by the Ministry of Finance of foreign currency under new budget rules. Reserves as of 31 December 2017 provided 15.9 months of import coverage, down from 17 months of coverage as of 31 December 2016, reflecting faster growth in imports than in reserves. As of 31 December 2017, Russia's total external debt (public and private) equalled approximately U.S.$529 billion, or 33.1% of GDP, with Russia's international reserves providing approximately 82% coverage. As of 31 December 2016, Russia's foreign exchange and gold reserves were the eighth highest in the world. The Russian Federation's foreign reserves as of 31 December 2017 are free from any encumbrances.

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.

Both the Bank of Russia and the Ministry of Finance currently have international reserves. Reserves of the Ministry of Finance are allocated to the National Wealth Fund. See "*Public Finance—Reserve Fund and National Wealth Fund*" for more information on the National Wealth Fund. The percentage of the Russian Federation's total international 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 the Ministry of Finance during the year. In 2008, for example, the Ministry of Finance held nearly one-half of the country's total international reserves. At year-end 2009, the share of international reserves held by the Ministry of Finance declined to approximately one-third due to Reserve Fund spending to cover the budget deficit, and to the accumulation of reserves at the Bank of Russia. As of 1 January 2017 and 2018, the Ministry of Finance held approximately 16% and 9% respectively, of the country's international reserves, with the remainder held by the Bank of Russia.

The Ministry of Finance currently has in place a currency interventions policy which is subject to change. The volume of the interventions depends on the Urals oil price. When the price per barrel of Urals oil exceeds the base price level (which was $40 per barrel in 2017 and is subject to 2% annual indexation) the Ministry of Finance purchases foreign currency in the amount of excess oil and gas revenues over the expected revenue if the oil price was at the base price level. When the oil price is below the base price level, it sells foreign currency in the amount of the deficit. The interventions are aimed at increasing the stability and predictability of the Russian economy and neutralising the impact of volatility of the energy market on the economic environment and state finance. From 8 February 2017 to 14 March 2018, the Ministry of Finance purchased 1,413.2 billion roubles worth of foreign currency under this policy and intends to purchase 163.7 billion roubles worth of foreign currency by 6 April 2018.

PUBLIC FINANCE

The information and data 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's fiscal position is significantly dependent on the price of oil and gas, effective tax collection and spending in the social sphere, defence and the national economy.

In 2013, Russia recorded an enlarged budget deficit of 1.2% of GDP and a federal budget deficit of 0.4% of GDP, which was mainly attributable to a slowdown in the economy and increased expenditures on defence and law and order. Real GDP growth slowed to 1.8% in 2013, compared to 3.6% in 2012. Expenditures on defence and public order and safety increased from 5.4% of GDP in 2012 to 5.7% of GDP in 2013.

In 2014, Russia recorded an enlarged budget deficit of 1.1% of GDP and a federal budget deficit of 0.4% of GDP. Revenues increased by 11.3% and expenditures increased by 11.2%. Tax revenues increased by 12.1%, while non-tax revenues increased by 10.4%. The increase in expenditures was mainly driven by a 65.6% increase in spending on the national economy.

In 2015, Russia recorded an enlarged budget deficit of 3.4% of GDP and a federal budget deficit of 2.4% of GDP. The federal budget deficit increased in 2015 due to significant declines in import duties and export duties (in turn, attributable to the sharp drop in the oil price) and to a 28.3% increase in defence spending and a 23.5% increase in social policy spending.

In 2016, Russia recorded an enlarged budget deficit of 3.7% of GDP and a federal budget deficit of 3.4% of GDP. The federal budget deficit increased in 2016 due to significant decline in oil and gas revenues (in turn attributable to the sharp drop in the oil price) and to an 18.7% increase in defence spending and a 7.6% increase in social policy spending.

In 2017, Russia recorded an enlarged budget deficit of 1.5% of GDP and a federal budget deficit of 1.4% of GDP. The federal budget deficit decreased in 2017 due to a 26.8% increase in tax revenue as compared to 2016, while the federal budget expenditures remained at the level of 2016 (with a slight increase of 0.02% in 2017).

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				
	2013	**2014**	**2015**	**2016**	**2017**
	(*millions of roubles*)				
Enlarged budget					
Revenue	24,442,686	26,766,080	26,922,010	28,181,540	30,640,020
Expenditure	25,290,909	27,611,666	29,741,503	31,323,679	31,989,128
Surplus (deficit)	(848,224)	(845,586)	(2,819,493)	(3,142,138)	(1,349,108)
Federal budget					

Revenue	13,019,939	14,496,880	13,659,243	13,460,041	15,088,914
Expenditure	13,342,922	14,831,576	15,620,253	16,416,447	16,420,341
Surplus (deficit)	(322,982)	(334,695)	(1,961,010)	(2,956,406)	(1,331,427)
Primary surplus (deficit)[2]	37,319	80,916	(1,442,304)	(2,335,142)	(622,269)
Consolidated sub-federal budgets					
Revenue	8,165,125	8,905,659	9,308,152	9,923,841	10,758,161
Transfers from federal budget[3]	1,487,947	1,606,970	1,603,706	1,567,766	1,690,081
Expenditure	8,806,605	9,353,264	9,479,752	9,936,439	10,810,063
Surplus (deficit)	(641,480)	(447,605)	(171,600)	(12,598)	(51,902)
State extra-budgetary funds[4][5]					
Revenue	9,321,368	9,396,902	10,830,410	11,536,953	12,009,189
Transfers to state extra-budgetary funds from federal budget	2,980,174	2,474,052	3,142,986	3,402,633	3,754,601
Transfers to regional medical insurance funds from Federal Medical Insurance Fund	1,027,591	1,222,841	1,443,825	1,476,515	1,540,219
Expenditure	9,205,123	9,460,187	11,517,301	11,710,087	11,974,969
Surplus (deficit)	116,245	(63,285)	(686,891)	(173,134)	34,221
			(% of GDP)		
Enlarged budget					
Revenue	33.4	33.8	32.3	32.8	33.3
Expenditure	34.6	34.9	35.7	36.5	34.7
Surplus (deficit)	(1.2)	(1.1)	(3.4)	(3.7)	(1.5)
Federal budget					
Revenue	17.8	18.3	16.4	15.7	16.4
Expenditure	18.2	18.7	18.7	19.1	17.8
Surplus (deficit)	(0.4)	(0.4)	(2.4)	(3.4)	(1.4)
Primary surplus (deficit)[2]	0.1	0.1	(1.7)	(2.7)	(0.7)
Consolidated sub-federal budgets					
Revenue	11.2	11.2	11.2	11.6	11.7
Transfers from federal budget[3]	2.0	2.0	1.9	1.8	1.8
Expenditure	12.0	11.8	11.4	11.6	11.7
Surplus (deficit)	(0.9)	(0.6)	(0.2)	0.0	(0.1)
State extra budgetary funds[4][5]					
Revenue	12.7	11.9	13.0	13.4	13.0
Transfers to state extra- budgetary funds from federal budget	4.1	3.1	3.8	4.0	4.1
Transfers to regional medical insurance funds from Federal Medical Insurance Fund	1.4	1.5	1.7	1.7	1.7
Expenditure	12.6	11.9	13.8	13.6	13.0
Surplus (deficit)	0.2	(0.1)	(0.8)	(0.2)	0.0
Memo:					
Nominal GDP (*billions of roubles*)	73,134	79,200	83,387	85,918	92,082

Notes:

(1) Calculated on a cash accounting basis. Certain data presented in this table differ from data made public previously due to revisions made by the Federal Treasury. Figures in this table are presented as of 1 January 2018.

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

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

(4) Includes Pension Fund, Social Insurance Fund, Federal Medical Insurance Fund and regional medical insurance funds.

(5) Figures for revenue and expenditure of Social Insurance Fund in 2017 are preliminary and subject to revision.

Source: Federal Treasury, Rosstat.

Federal Budgetary Process

The Ministry of Finance is centrally involved in each stage of the federal budgetary process, including establishing fiscal policy and debt 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 and the Federal Treasury also monitor and audit the execution of the budget.

Budget Preparation and Adoption

Under Federal Law No. 145-FZ "Budget Code of the Russian Federation" dated 31 July 1998, as amended (the "**Budget Code**"), since 2007, the budget has included figures on a three-year basis, comprising the next fiscal year and two subsequent budget years. In response to volatility in the price of oil and natural gas, on 1 September 2015, the three-year budgetary period was suspended and replaced with single-year budgets. Starting from December 2016, the three-year budgetary period was restored. In December 2017, the budget was adopted for the three-year period of 2018-2020.

Under the Budget Code, the draft budget for the following fiscal year is prepared by the Ministry of Finance and presented, first, to the Government, and then, not later than 1 October of the current fiscal year, to the State Duma, where it proceeds through three readings. In the first reading, the budget's overall macroeconomic framework and its main parameters, including budgeted revenue, deficit (or 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, which are unallocated expenses) to specific purposes according to functional classifications within limits defined after the first reading as well as allocating the inter-budgetary transfers among Federation subjects, approving lending and borrowing programmes and other items.

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 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.

Amendments to the Budget Code

The amendments to the Budget Code made in December 2012, which are effective from 1 January 2013, introduced new rules for the use of oil and gas revenues and the federal budget deficit limit as well as new rules regarding contributions to and the use of the Reserve Fund and the National Wealth Fund (the "**2013 Budget Rule**"). The principal objective of the 2013 Budget Rule was to enhance the Government's ability to execute spending obligations under the federal budget in the event of significant volatility in the oil price.

Pursuant to the 2013 Budget Rule, total budgeted expenses may not exceed the sum of total budgeted revenues (except for excess oil and gas revenues) and the budgeted deficit (calculated on the basis of the base oil price). The budgeted deficit may not exceed 1% of the forecasted GDP contemplated by the budget law for the relevant period. Under the 2013 Budget Rule, the base price of oil for a given fiscal year is calculated based on the average historic price per barrel of Urals oil over the ten preceding fiscal years. When calculating the budget, the excess oil and gas revenues in the relevant fiscal year are determined as the difference between oil and gas revenues calculated on the basis of the forecasted annual average Urals price of oil and oil and gas revenues calculated on the basis of the base oil price for the relevant year. Actual oil and gas revenues realised in a given fiscal year that are in excess of oil and gas revenues calculated using the base price of oil will be credited to the Reserve Fund up to an amount of 7% of forecasted GDP for the year. The amount of the Reserve Fund proceeds that may be used for budget deficit financing will be set according to the federal budget law passed for the relevant fiscal year. If such excess oil and gas revenues that are credited to the Reserve Fund exceed 7% of GDP forecasted for the year, the 2013 Budget Rule provides that the remaining oil and gas revenues be credited to the National Wealth Fund, with up to 50% of such revenues eligible for investment in Russian securities issued for the purpose of financing infrastructure projects.

Based on a Government programme adopted in 2010, which is designed to enhance the effectiveness of the budget process and ensure the long-term stability of the country's budgetary system, a set of amendments were introduced to the Budget Code in May 2013 (the "**May 2013 Amendments**"). The May 2013 Amendments were aimed at further enhancing the efficiency of the budget process and promoting the transition to programme-focused and results-oriented budgeting. Most of the provisions introduced by the May 2013 Amendments were first applied beginning with the 2014 budget process.

The May 2013 Amendments introduced provisions setting out the legislative framework for state and municipal programmes, including the rules for annual evaluation of their efficiency, which replaced the previously existing Budget Code provisions on long-term special purpose programmes. The May 2013 Amendments contemplate the allocation of expenditures in the relevant budget on a programme basis, reflecting the transition to a programme-oriented expenditures structure that aims to link expenditures to the state policy targets and results.

Other amendments contemplated by the May 2013 Amendments include introducing the rules for providing budget credits for funding balances of sub-federal and municipal budget accounts and amending the mechanism for managing balances on budget accounts; fine-tuning the rules that allow for modifying spending limits without legislative amendments; modifying the provisions governing the use in the next financial year of inter-budgetary transfers not used in the current financial year; creating a unified portal for the Russian Federation's budget system; enhancing financial controls over the proper use of budgeted loans and subsidies by their receivers; and modifying the federal budget approval process by,

among other things, increasing the total amount of days for adoption of the federal budget law by the State Duma from 55 to 60 days, while eliminating time limitations for each reading.

The May 2013 Amendments also modified the 2013 Budget Rule to provide that surplus oil and gas revenues or, if insufficient, the funds of the Reserve Fund, may be used to compensate for shortfalls in other federal budget revenues (other than oil and gas revenues), as well as shortfalls in proceeds from the budgeted sources of federal deficit financing in the current financial year. As a consequence, the May 2013 Amendments allow for surplus oil and gas revenues that would have otherwise been credited to the Reserve Fund to instead be used to cover budget shortfalls, with revenues to the Reserve Fund being reduced accordingly.

During 2013, a series of other reforms were introduced that have had a significant impact on Russia's budgetary system, including measures to improve the functioning and attractiveness of Russia's financial markets, particularly the market for state debt instruments. For example, foreign investors now have direct access to the domestic government debt markets through accounts with international depositary and clearing systems. The reforms also include measures to improve the effectiveness, transparency and accountability of the budgetary process, such as the publishing on the Ministry of Finance's website of a "Budget for Citizens" related to the current budgetary planning period. In December 2013, the Government approved a Programme for Improving the Management of the Russian Federation's Public Finances through 2018, which contemplates the preparation and implementation of a restated Budget Code and improvement of relevant law enforcement practice.

Beginning in 2014, the execution of budgetary policies has faced challenges as a consequence of a changed economic environment. The Government has sought to respond to these challenges with a suite of policy initiatives. It has taken measures to recapitalise the banking system and has increased the ceiling for state guarantees of household deposits, both of which have helped to strengthen public confidence in the banking system. It has also introduced a set of anti-inflationary measures into the budget policy, particularly, the decision not to index salaries and certain social benefits to account for higher inflation caused by depreciation of the rouble.

Due to the significant reduction in oil prices since the second half of 2014, the rules for the use of oil and gas revenues and contributions to the Reserve Fund and National Wealth Fund set out in the Budget Code were suspended on 1 February 2016, and temporary rules were introduced. Under these temporary rules oil and gas revenues as well as assets from the Reserve Fund and National Wealth Fund are used to finance federal budget expenditures.

In 2014, the budget laws were changed in order to streamline the procedure for introducing certain amendments to the budget without having to formally amend the budget law, to clarify the rules outlining how sub-federal and local budgets are structured and to improve the ways in which state programmes are taken into consideration when engaging in budgetary planning. Improving interbudgetary relations among federal, regional and local authorities became a top priority in 2014, with a particular focus on ensuring that top expenditure commitments are met on all levels (including through greater federal financing of sub-federal budgets).

New rules governing interbudgetary transfers were also introduced. In April 2014, the Government adopted a programme, to be overseen by the Ministry of Finance, on creating conditions for the effective and responsible management of regional and municipal budgets. This programme contemplates provision of financial assistance to sub-federal budgets (including in the form of subsidies and budget credits) for the purposes of equalising financial opportunities across the regions, supporting regional programmes and improving the cost effectiveness and quality of management of regional and municipal finance, including through the consolidation of certain subsidies in order to increase their impact.

During 2015, the focus of budgetary planning continued to be on measures to mitigate the impact of a changed economic environment on the economy's most susceptible sectors and on the country's most vulnerable population. In 2015, the budgetary planning period was reduced, such that draft budget laws would be produced on a single-year, rather than three-year, basis. The 2013 Budget Rule as it relates to setting total federal government expenditures was suspended, and rules for resolving budgetary disputes among the executive, legislative and judicial branches were introduced.

During 2016, appropriations were allocated not only between government programmes and sub-programmes but also between the priority areas within government programmes, thereby enhancing the link between appropriations and need and improving the ability to track whether budgetary goals and targets are met.

The state of regional and local budgets remained a top priority in implementing budgetary policy in 2015 and 2016. In particular, the federal government issued loans to Federation subjects in order to finance a share of their fiscal deficits and to assist them in repaying certain of their liabilities. The budgetary planning period was increased by the 2017 budget law (the "**2017 Budget Law**"), such that draft budget laws would be again produced on a three-year, basis.

The amendments to the Budget Code introduced by Federal Law No. 262-FZ "On Amendments to the Budget Code of the Russian Federation as Regards the Use of Oil and Gas Revenues of the Federal Budget" on 29 July 2017 enacted new budget rules (the "**New Budget Rules**"). The New Budget Rules envisage "transitional" mechanism for 2018, according to which the aggregate federal budget expenditures in 2018 cannot exceed the aggregate amount of (i) the federal budget revenues (less oil and gas revenues calculated on the basis of the projected oil price, natural gas export price and projected U.S. dollar to rouble exchange rate), (ii) oil and gas revenues calculated on the basis of the base oil price, base natural gas export price and projected U.S. dollar to rouble exchange rate, and (iii) projected public debt service costs, increased by the amount equal to 1% of GDP projected for 2018. The base oil price was set at U.S.$40 for 2017 and shall, starting from 2018, be subject to annual 2% indexation. Starting from 2019, the increase in federal budget expenditures by the amount of 1% from projected GDP will cease.

Budget Execution

The Ministry of Finance is responsible for 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 external borrowing and other sources of deficit financing. Subject to the 5% threshold discussed below, approval of the State Duma is required if the budget plan exceeds the nominal level of expenditure or borrowing.

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 5% if the amount initially allocated proves to be insufficient. Increases of over 5% 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 2013 budget law was amended twice in 2013. The original 2013 budget law (the "**Original 2013 Budget Law**") envisaged a fiscal deficit of 521 billion roubles, or 0.8% of GDP, and a primary deficit of 96 billion roubles, or 0.1% of GDP. The 2013 budget law, as amended for the final time in December 2013 (the "**Amended 2013 Budget Law**") envisaged a fiscal deficit of 481 billion roubles, or 0.7% of GDP. Federal budget revenues in 2013 amounted to 17.8% of GDP, lower in relative terms than the budgeted estimates of 19.3% of GDP according to the Original 2013 Budget Law and 19.4% of GDP according to the Amended 2013 Budget Law. Total expenditure in 2013 was 18.2% of GDP, lower in relative terms than the budgeted estimate of 20.1% of GDP under the Original 2013 Budget Law and Amended 2013 Budget Law. The year ended with an actual federal deficit of 0.4% of GDP. Oil and gas revenues transferred to the Reserve Fund in 2013 totalled 713.5 billion roubles, or 1.0% of GDP. No federal budget revenues were transferred to the National Wealth Fund in 2013. No proceeds from the Reserve Fund were used in 2013, while proceeds from the National Wealth Fund in the amount of 5.9 billion roubles were allocated to the co-financing of funded pensions. In 2013, the budgeted oil price assumption for the Original 2013 Budget Law was U.S.$97 per barrel (U.S.$107 per barrel under the Amended 2013 Budget Law), and the breakeven oil price was U.S.$107.9 per barrel.

The 2014 budget law was amended four times in 2014. The original 2014 budget law (the "**Original 2014 Budget Law**") envisaged a fiscal deficit of 390 billion roubles, or 0.5% of GDP, and a primary deficit of 63 billion roubles, or 0.1% of GDP. The 2014 budget law, as amended for the final time in December 2014 (the "**Amended 2014 Budget Law**") envisaged a fiscal proficit of 279 billion roubles, or 0.4% of GDP. Federal budget revenues in 2014 amounted to 18.3% of GDP, lower in relative terms than the budgeted estimates of 18.5% of GDP according to the Original 2014 Budget Law and 19.9% of GDP according to the Amended 2014 Budget Law. Total expenditure in 2014 was 18.7% of GDP, lower in relative terms than the budgeted estimates of 19.0% of GDP under the Original 2014 Budget Law and 19.5% of GDP under the Amended 2014 Budget Law. The year ended with an actual federal deficit of 0.4% of GDP. Oil and gas revenues transferred to the Reserve Fund in 2014 totalled 217.1 billion roubles, or 0.3% of GDP. No federal budget revenues were transferred to the National Wealth Fund in 2014. No proceeds from the Reserve Fund were used in 2014, while proceeds from the National Wealth Fund in the amount of 12.4 billion roubles were allocated to the co-financing of funded pensions. In 2014, the budgeted oil price assumption for the Original 2014 Budget Law was U.S.$101 per barrel (U.S.$104 per barrel under the Amended 2014 Budget Law), and the breakeven oil price was U.S.$97.6 per barrel.

The 2015 budget law was amended three times in 2015. The original 2015 budget law (the "**Original 2015 Budget Law**") envisaged a fiscal deficit of 431 billion roubles, or 0.6% of

GDP, and a primary surplus of 19 billion roubles, or 0.2% of GDP. The 2015 budget law, as amended for the final time in November 2015 (the "**Amended 2015 Budget Law**") envisaged a fiscal deficit of 2,166 billion roubles, or 2.9% of GDP. Federal budget revenues in 2015 amounted to 16.4% of GDP, lower in relative terms than the budgeted estimates of 19.5% of GDP according to the Original 2015 Budget Law and 18.0% of GDP according to the Amended 2015 Budget Law. Total expenditure in 2015 was 18.7% of GDP, lower in relative terms than the budgeted estimates of 20.0% of GDP under the Original 2015 Budget Law and 21.0% of GDP under the Amended 2015 Budget Law. The year ended with an actual federal deficit of 2.4% of GDP. Oil and gas revenues transferred to the Reserve Fund in 2015 totalled 402.2 billion roubles, or 0.5% of GDP. No federal budget revenues were transferred to the National Wealth Fund in 2015. 2,622.9 billion roubles were used from the Reserve Fund in 2015, while proceeds from the National Wealth Fund in the amount of 9.4 billion roubles were allocated to the co-financing of funded pensions. In 2015, the budgeted oil price assumption for the Original 2015 Budget Law was U.S.$100 per barrel (U.S.$53 per barrel under the Amended 2015 Budget Law). No breakeven oil price in dollars was established as part of the 2015 budget.

The 2016 budget law was amended once in 2016. The original 2016 budget law (the "**Original 2016 Budget Law**") envisaged a fiscal deficit of 2,360 billion roubles, or 3.0% of GDP, and a primary deficit of 1,714 billion roubles, or 2.2% of GDP. The 2016 budget law, as amended for the final time in November 2016 (the "**Amended 2016 Budget Law**") envisaged a fiscal deficit of 3,034 billion roubles, or 3.7% of GDP. Federal budget revenues in 2016 amounted to 15.7% of GDP, lower in relative terms than the budgeted estimates of 17.5% of GDP according to the Original 2016 Budget Law and 16.1% of GDP according to the Amended 2016 Budget Law. Total expenditure in 2016 was 19.1% of GDP, lower in relative terms than the budgeted estimates of 20.5% of GDP under the Original 2016 Budget Law and 19.8% of GDP under the Amended 2016 Budget Law. The year ended with an actual federal deficit of 3.4% of GDP. No federal budget revenues were transferred to the Reserve Fund and National Wealth Fund in 2016. 2,137 billion roubles were used from the Reserve Fund in 2016, while proceeds from the National Wealth Fund in the amount of 6.8 billion roubles were allocated to the co-financing of funded pensions. In 2016, the budgeted oil price assumption for the Original 2016 Budget Law was U.S.$50 per barrel (U.S.$41 per barrel under the Amended 2016 Budget Law). No breakeven oil price in dollars was established as part of the 2016 budget.

The 2017 budget law was amended twice in 2017. The original 2017 budget law (the "**Original 2017 Budget Law**") envisaged a fiscal deficit of 2,753 billion roubles, or 3.2% of GDP, and a primary deficit of 2,025 billion roubles, or 2.3% of GDP. The 2017 budget law, as amended for the final time in November 2017 (the "**Amended 2017 Budget Law**") envisaged a fiscal deficit of 2,008 billion roubles, or 2.2% of GDP. Federal budget revenues in 2017 amounted to 16.4% of GDP, higher in relative terms than the budgeted estimates of 15.5% of GDP according to the Original 2017 Budget Law and 16.0% of GDP according to the Amended 2017 Budget Law. Total expenditure in 2017 was 17.8% of GDP, lower in relative terms than the budgeted estimates of 18.7% of GDP under the Original 2017 Budget Law and 18.1% of GDP under the Amended 2017 Budget Law. The year ended with an actual federal deficit of 1.4% of GDP. No federal budget revenues were transferred to the Reserve Fund and National Wealth Fund in 2017. In 2017, 1,000.4 billion roubles of budget deficit were financed from the Reserve Fund and on 1 February 2018 the Reserve Fund was liquidated. Proceeds from the National Wealth Fund in the amount of 5.5 billion roubles were allocated to the co-financing of funded pensions and proceeds in the amount of 616.7 billion

roubles were used to finance the Pension Fund deficit. In 2017, the budgeted oil price assumption for the Original 2017 Budget Law was U.S.$40 per barrel (U.S.$49.9 per barrel under the Amended 2017 Budget Law).

2018 Budget Law

The 2018 budget law and the planning period of 2019-2020 (the "**2018 Budget Law**") envisages revenue of 15,257.8 billion roubles, or 15.7% of GDP and total expenditure of 16,529.2 billion roubles, or 17.0% of GDP. Debt service costs in 2018 are expected to account for 0.8% of GDP under the 2018 Budget Law. The 2018 Budget Law provides for a fiscal deficit of 1,271.4 billion roubles in 2018, or 1.3% of GDP, and a primary deficit of 447.0 billion roubles, or 0.5% of GDP. According to the 2018 Budget Law, the Government intends to seek domestic financing of 1,422.6 billion roubles, or 1.5% of GDP, in 2018. External financing in 2018 is budgeted to be 151.2 billion roubles less than repayments. In 2018, the Government expects to finance the federal deficit mainly through proceeds from the National Wealth Fund and domestic borrowing. The Government's initial macroeconomic assumptions for 2018 include an average price of Urals oil of U.S.$43.8 per barrel.

The following table sets forth the main parameters of the 2018 Budget Law with respect to 2018 and forecast for 2019-2020:

	2018		2019		2020	
	(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[1]	15,257.8	15.7	15,554.6	15.1	16,285.4	14.8
Tax revenue	11,188.1	11.5	11,482.4	11.1	12,090.7	11.0
Profit tax	806.1	0.8	825.2	0.8	884.7	0.8
Taxes on domestically produced goods and services	4,292.7	4.4	4,588.0	4.4	4,933.5	4.5
VAT	3,330.9	3.4	3,558.7	3.4	3,880.1	3.5
Excises	961.8	1.0	1,029.3	1.0	1,053.4	1.0
Taxes on imported goods and services	2,386.2	2.4	2,500.1	2.4	2,575.9	2.3
VAT	2,294.0	2.4	2,402.3	2.3	2,473.8	2.2
Excises	92.2	0.1	97.8	0.1	102.1	0.1
Natural resource taxes[2]	3,610.7	3.7	3,476.5	3.4	3,603.7	3.3
Other taxes	92.4	0.1	92.6	0.1	92.8	0.1
Non-tax revenue	4,069.7	4.2	4,072.2	3.9	4,194.7	3.8
Customs duties	2,521.2	2.6	2,426.9	2.4	2,493.8	2.3
Other non-tax revenue	1,548.5	1.6	1,645.3	1.6	1,701.0	1.5
Total expenditure	16,529.2	17.0	16,373.7	15.9	17,155.3	15.6
Debt service	824.3	0.8	819.1	0.8	869.8	0.8
Domestic debt service	600.5	0.6	670.1	0.6	720.4	0.7
External debt service	223.8	0.2	149.0	0.1	149.4	0.1
Non-interest expenditure	15,704.9	16.1	15,554.6	15.1	15,856.7	14.4
General public services	1,303.0	1.3	1,243.2	1.2	1,235.2	1.1
Public order and safety	2,049.9	2.1	2,095.2	2.0	2,153.4	2.0
Defence	2,768.8	2.8	2,790.7	2.7	2,844.6	2.6
National economy	2,377.0	2.4	2,357.2	2.3	2,333.1	2.1
Housing and community amenities	145.1	0.1	118.0	0.1	110.5	0.1
Environmental protection	90.2	0.1	98.1	0.1	101.2	0.1
Education	686.0	0.7	669.8	0.6	686.7	0.6
Culture, cinematography	97.9	0.1	94.6	0.1	86.7	0.1
Healthcare	475.8	0.5	443.1	0.4	514.9	0.5

	2018		2019		2020	
	(billions of roubles, unless otherwise noted)	(% of GDP)	(billions of roubles, unless otherwise noted)	(% of GDP)	(billions of roubles, unless otherwise noted)	(% of GDP)
Social policy	4,707.6	4.8	4,742.5	4.6	4,874.0	4.4
Sport	60.4	0.1	38.1	0.0	39.4	0.0
Media	83.3	0.1	68.2	0.1	68.3	0.1
General purpose interbudgetary transfers to subfederal and local budgets	860.0	0.9	795.9	0.8	808.7	0.7
Conditionally approved expenditure	—	—	—	—	428.9	0.4
Fiscal surplus (deficit)	(1,271.4)	(1.3)	(819.1)	(0.8)	(869.8)	(0.8)
External financing (including IMF)(3)	(151.2)	(0.2)	(21.8)	(0.0)	(261.5)	(0.2)
Domestic financing(4)	1,422.6	1.5	841.0	0.8	1131.3	1.0
Primary surplus (deficit)	(447.0)	(0.5)	0.0	0.0	0.0	0.0
Memo:						
GDP	97,462.0	—	103,228.0	—	110,237.0	—
CPI (December on December, %)	4.0	—	4.0	—	4.0	—
Average exchange rate (*rouble/U.S.$*)	64.7	—	66.9	—	68.0	—
Average oil price, Urals (*U.S.$/barrel*)	43.8	—	41.6	—	42.4	—

Notes:

(1) Total revenue includes budgeted forecasts for non-oil and gas revenues of 9,778.2 billion roubles, 10,307.1 billion roubles and 10,845.0 billion roubles for 2018, 2019 and 2020, respectively.

(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) Net external borrowing (excluding redemption of loans) is expected to be negative 31.3 billion roubles, 23.0 billion roubles and negative 167.0 billion roubles for 2018, 2019, 2020, respectively.

(4) Net domestic borrowing (excluding redemption of loans) is expected to equal 817.0 billion roubles, 782.6 billion roubles and 1,211.7 billion roubles for 2018, 2019 and 2020, respectively.

Source: Ministry of Finance.

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				
	2013	**2014**	**2015**	**2016**	**2017**
			(*millions of roubles*)		
Total revenue	**13,019,939**	**14,496,880**	**13,659,243**	**13,460,041**	**15,088,914**
Tax revenue	7,063,813	7,921,214	8,590,560	8,734,199	11,071,290
Profit taxes	352,213	411,316	491,380	491,023	762,404
VAT	3,539,013	3,931,657	4,233,568	4,570,961	5,137,149
Domestic VAT	1,868,209	2,181,420	2,448,348	2,657,395	3,069,928
Import VAT	1,670,804	1,750,237	1,785,220	1,913,566	2,067,221
Excise taxes	524,409	592,380	581,864	694,243	987,806
Natural resource taxes	2,554,817	2,884,618	3,181,153	2,882,960	4,090,327
Other tax revenue	93,360	101,242	102,595	95,012	93,605
Non-tax revenue	**5,956,127**	**6,575,666**	**5,068,683**	**4,725,841**	**4,017,624**
Customs duties	4,738,222	5,245,646	3,342,920	2,613,478	2,546,079
Import duties	680,209	648,642	562,553	559,411	577,768
Export duties	4,058,013	4,597,004	2,780,367	2,054,067	1,968,312
Other non-tax revenue	1,217,905	1,330,020	1,725,763	2,112,363	1,471,544
			(*% of GDP*)		
Total revenue	**17.8**	**18.3**	**16.4**	**15.7**	**16.4**
Tax revenue	**9.7**	**10.0**	**10.3**	**10.2**	**12.0**
Profit taxes	0.5	0.5	0.6	0.6	0.8
VAT	4.8	5.0	5.1	5.3	5.6
Domestic VAT	2.6	2.8	2.9	3.1	3.3
Import VAT	2.3	2.2	2.1	2.2	2.2
Excise taxes	0.7	0.7	0.7	0.8	1.1
Natural resource taxes	3.5	3.6	3.8	3.4	4.4
Other tax revenue	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	**8.1**	**8.3**	**6.1**	**5.5**	**4.4**
Customs duties	6.5	6.6	4.0	3.0	2.8
Import duties	0.9	0.8	0.7	0.7	0.6
Export duties	5.5	5.8	3.3	2.4	2.1
Other non-tax revenue	1.7	1.7	2.1	2.5	1.6
			(*% of total revenue*)		
Tax revenue	**54.3**	**54.6**	**62.9**	**64.9**	**73.4**
Profit taxes	2.7	2.8	3.6	3.6	5.1
VAT	27.2	27.1	31.0	34.0	34.0
Domestic VAT	14.3	15.0	17.9	19.7	20.3
Import VAT	12.8	12.1	13.1	14.2	13.7
Excise taxes	4.0	4.1	4.3	5.2	6.5
Natural resource taxes	19.6	19.9	23.3	21.4	27.1
Other tax revenue	0.7	0.7	0.8	0.7	0.6

Non-tax revenue	**45.7**	**45.4**	**37.1**	**35.1**	**26.6**
Customs duties	36.4	36.2	24.5	19.4	16.9
Import duties	5.2	4.5	4.1	4.2	3.8
Export duties	31.2	31.7	20.4	15.3	13.0
Other non-tax revenue	9.4	9.2	12.6	15.7	9.8
GDP (*billions of roubles*)	**73,134**	**79,200**	**83,387**	**85,918**	**92,082**

Note:

(1) Figures in this table are presented as of 1 January 2018.

Source: Federal Treasury, Rosstat.

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**").

VAT is the largest source of tax-generated federal budget revenue, accounting for 27.2%, 27.1%, 31.0%, 34.0% and 34.0% of total cash revenue in 2013, 2014, 2015, 2016 and 2017, respectively. The increase in VAT collection in 2016 was primarily due to the implementation of a new electronic information system that significantly improved collections. 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 other items are exempt from VAT.

The natural resource 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 natural resource taxes are allocated between the federal budget and the sub-federal budgets. For example, 100% of the revenue from the diamond extraction tax is allocated to the regional budgets, whereas 100% of the revenue from the natural gas extraction tax and 100% of the revenues from the oil and gas condensate extraction tax are transferred to the federal budget. Taxes on extraction in respect of certain types of mineral resources are adjusted in accordance with their international prices. In the case of crude oil, it is calculated at a specific rate in roubles per tonne depending on the current international oil price, the dollar/rouble exchange rate and certain technical adjustments. For natural gas, the tax is set at a specified rate (as determined pursuant to a formula set out in the law) in roubles per thousand cubic metres of gas produced, and certain technical adjustments. See "*—Russian Tax System*" below. Natural resource taxes accounted for 19.6%, 19.9%, 23.3%, 21.4% and 27.1% of total federal budget revenue in 2013, 2014, 2015, 2016 and 2017, respectively. The share of natural resource taxes in total federal budget revenue increased in 2017 as compared to 2016 due to an increase in oil prices and the ongoing tax reform in the oil industry. See "*—Russian Tax System*" below.

The corporate profit tax base rate is 20.0%. Corporate profit tax accounted for 2.7%, 2.8%, 3.6%, 3.6% and 5.1% of total federal budget cash revenue in 2013, 2014, 2015, 2016 and 2017, respectively. See "—*Russian Tax System*".

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 as a share of federal budget revenue decreased to 31.2% in 2013 (from 31.9% in 2012), slightly increased to 31.7% in 2014, and decreased to 20.4% in 2015, to 15.3% in 2016 and to 13.0% in 2017. The downward trend in export duties in 2015 and 2016 was mainly driven by changes in the structure of oil-products export duties rates and by a decline in oil prices. The decrease in export duties in 2017 was due to the ongoing tax reform in the oil industry. See "—*Russian Tax System*".

Import duties are also an important source of federal budget receipts and amounted to 5.2%, 4.5%, 4.1%, 4.2% and 3.8% of federal budget revenue in 2013, 2014, 2015, 2016 and 2017, respectively. The decrease in import duties as a share of GDP in 2013-2017 was primarily driven by a decrease in the weighted average import tariff rate in connection with Russia's entry into the WTO.

Federal budget revenue also includes other non-tax revenue, such as revenue from foreign trade activities (excluding customs duties), proceeds from the granting of licences for the use of natural resources, revenue from the use of state property, including Bank of Russia profit transfers, payments for government services and various other administrative payments. Other non-tax revenue constituted 9.4%, 9.2%, 12.6%, 15.7% and 9.8% of federal budget revenue in 2013, 2014, 2015, 2016 and 2017, respectively. The increase in other non-tax revenue as a share of federal budget revenues in 2016 was mainly attributable to a significant increase in revenue from the use of state property. The decrease in other non-tax revenue as a share of federal budget revenues in 2017 was mainly due to a decrease in revenue from the use of state property.

Revenue Performance

In each of the years from 2013 through 2014, federal budget revenue was higher than originally budgeted in absolute terms, but lower than originally budgeted as a share of GDP (in part due to adjustments in the methodology for calculating GDP). In 2015 and 2016, federal budget revenue was lower than originally budgeted both in absolute terms and as a share of GDP. In 2017, federal budget revenue was higher than originally budgeted both in absolute terms and as a share of GDP and amounted to 15,089 billion roubles.

In 2013, federal budget revenue amounted to 17.8% of GDP, as compared to the originally budgeted target of 19.3% of GDP. In absolute terms, federal tax revenue increased by 1.3% in 2013 compared to 2012. Revenue from customs duties decreased by 1.9% due to a 1.0% decline in export duties and a 6.8% decline in import duties.

In 2014, federal budget revenue amounted to 18.3% of GDP, as compared to the originally budgeted target of 18.5% of GDP. In absolute terms, federal tax revenue increased by 11.3% in 2014 compared to 2013, driven by increases in almost all major types of federal proceeds, particularly a 16.8% increase in proceeds from VAT and a 12.9% increase in proceeds from

natural resource taxes Revenue from customs duties rose by 11.6% due to a 14.3% increase in export duties and a 4.6% decline in import duties.

In 2015, federal budget revenue amounted to 16.4% of GDP, as compared to the originally budgeted target of 19.5% of GDP. In absolute terms, federal tax revenue decreased by 5.8% in 2015 compared to 2014. Revenue from customs duties decreased by 36.9% due to a 40.0% decline in export duties and a 14.2% decline in import duties.

In 2016, federal budget revenue amounted to 15.7% of GDP, as compared to the originally budgeted target of 17.5% of GDP. In absolute terms, federal tax revenue decreased by 1.5% in 2016 compared to 2015. Revenue from customs duties decreased by 21.5% due to a 26.1% decline in export duties and a 1.9% decline in import duties. The revenue decrease was also driven by a 9.4% decline in proceeds from natural resource taxes due to the decrease in oil prices.

In 2017, federal budget revenue amounted to 16.4% of GDP, as compared to the originally budgeted target of 15.5% of GDP. In absolute terms, federal budget revenue increased by 12.1% in 2017 compared to 2016, driven mostly by 23.3% increase in proceeds from oil and gas revenues due to the increase in oil prices and by increases in proceeds from almost all major types of federal non-oil taxes. Revenue from export duties decreased by 4.2% in 2017 compared to 2016 mainly due to the ongoing tax reform in the oil industry (see "—*Russian Tax System*").

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 2013, tax arrears amounted to 1.1% of GDP as overall economic conditions improved. As of 31 December 2017, tax arrears increased in absolute terms to 1,079 billion roubles and as a share of GDP to 1.2% of GDP.

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				
	2013	**2014**	**2015**	**2016**	**2017**
	(*millions of roubles*)				
Total expenditure	**13,342,922**	**14,831,576**	**15,620,253**	**16,416,447**	**16,420,341**
Debt service	360,301	415,611	518,706	621,264	709,157
Of which					
Domestic debt service	280,575	312,288	358,280	458,951	527,608
External debt service	79,726	103,324	160,426	162,313	181,549
Non-interest expenditure	12,982,621	14,415,965	15,101,547	15,795,183	15,711,183
General public services	850,726	935,738	1,117,635	1,095,588	1,162,454
Public order and safety	2,061,602	2,086,173	1,965,618	1,898,663	1,918,026
Defence	2,103,579	2,479,074	3,181,367	3,775,348	2,852,273
National economy	1,849,302	3,062,913	2,324,244	2,302,095	2,460,059
Housing and community amenities	177,509	119,609	144,120	72,237	119,480

Environmental protection	24,258	46,366	49,659	63,084	92,358
Education	672,278	638,269	610,597	597,824	614,960
Culture, cinematography	94,844	97,832	89,924	87,327	89,688
Healthcare	501,979	535,535	515,985	506,337	439,849
Social policy	3,833,130	3,452,369	4,265,294	4,588,482	4,991,988
Sport	68,001	71,164	72,961	59,552	96,131
Media	77,316	74,832	82,110	76,608	83,211
General purpose interbudgetary transfers to subfederal and local budgets	668,096	816,090	682,033	672,038	790,706
			(% of GDP)		
Total expenditure	**18.2**	**18.7**	**18.7**	**19.1**	**17.8**
Debt service	0.5	0.5	0.6	0.7	0.8
Of which					
Domestic debt service	0.4	0.4	0.4	0.5	0.6
External debt service	0.1	0.1	0.2	0.2	0.2
Non-interest expenditure	17.8	18.2	18.1	18.4	17.1
General public services	1.2	1.2	1.3	1.3	1.3
Public order and safety	2.8	2.6	2.4	2.2	2.1
Defense	2.9	3.1	3.8	4.4	3.1
National economy	2.5	3.9	2.8	2.7	2.7
Housing and community amenities	0.2	0.2	0.2	0.1	0.1
Environmental protection	0.0	0.1	0.1	0.1	0.1
Education	0.9	0.8	0.7	0.7	0.7
Culture, cinematography	0.1	0.1	0.1	0.1	0.1
Healthcare	0.7	0.7	0.6	0.6	0.5
Social policy	5.2	4.4	5.1	5.3	5.4
Sport	0.1	0.1	0.1	0.1	0.1
Media	0.1	0.1	0.1	0.1	0.1
General purpose interbudgetary transfers to subfederal and local budgets	0.9	1.0	0.8	0.8	0.9
			(*% of total expenditure*)		
Debt service	2.7	2.8	3.3	3.8	4.3
Of which					
Domestic debt service	2.1	2.1	2.3	2.8	3.2
External debt service	0.6	0.7	1.0	1.0	1.1
Non-interest expenditure	97.3	97.2	96.7	96.2	95.7
General public services	6.4	6.3	7.2	6.7	7.1
Public order and safety	15.5	14.1	12.6	11.6	11.7
Defense	15.8	16.7	20.4	23.0	17.4
National economy	13.9	20.7	14.9	14.0	15.0
Housing and community amenities	1.3	0.8	0.9	0.4	0.7
Environmental protection	0.2	0.3	0.3	0.4	0.6
Education	5.0	4.3	3.9	3.6	3.7
Culture, cinematography	0.7	0.7	0.6	0.5	0.5
Healthcare	3.8	3.6	3.3	3.1	2.7
Social policy	28.7	23.3	27.3	28.0	30.4
Sport	0.5	0.5	0.5	0.4	0.6

Media	0.6	0.5	0.5	0.5	0.5
General purpose interbudgetary transfers to subfederal and local budgets	5.0	5.5	4.4	4.1	4.8
GDP (*billions of roubles*)	**73,134**	**79,200**	**83,387**	**85,918**	**92,082**

Note:

(1) Figures in this table are presented as of 1 January 2018.

*Source: F*ederal Treasury, Rosstat

In 2013, total federal budget expenditure decreased to 18.2% from 18.9% in 2012 as a share of GDP, despite increasing by 3.5% in absolute terms. The nominal increase in expenditure was mainly due to a 16.1% increase in defence spending, an 11.9% increase in public order and safety spending, a 11.3% increase in education expenditure and a 12.6% increase in expenditure on debt servicing. Expenditure on the national economy, healthcare and housing decreased in 2013 by 6.1%, 18.2 and 22.4%, respectively.

In 2014, total federal budget expenditure increased to 18.7% from 18.2% in 2013 as a share of GDP, and by 11.2% in nominal terms, driven mostly by a 65.6% increase in spending on the national economy, a 17.9% increase in defence spending and a 15.4% increase in expenditure on debt servicing, due to the depreciation of the rouble (which increased the rouble equivalent of the currency debt). The significant growth in spending on the national economy was mainly due to the recapitalisation of State Corporation "Deposit Insurance Agency" (the "**Deposit Insurance Agency**") (implemented as a federal loan of 1,000 billion roubles). Expenditure on housing and social policy decreased in 2014 by 32.6% and 9.9%, respectively.

In 2015, total federal budget expenditure remained 18.7% as a share of GDP and increased by 5.3% in absolute terms. The increase in expenditure was mainly due to a 28.4% growth in defence spending, a 23.5% increase in social policy spending, an 19.4% increase in expenditure on general public services and a 24.8% increase in expenditure on debt servicing (primarily external debt servicing as a result of the depreciation of the rouble). Spending on the national economy decreased by 24.1% in 2015 as compared to 2014, but in fact it returned to the normal level of 2.8% of GDP after the increase in 2014 explained above. Spending on public order and safety decreased in 2015 by 5.8%.

In 2016, total federal budget expenditure increased to 19.1% from 18.7% as a share of GDP and by 5.1% in absolute terms. The increase in expenditure was mainly due to an 18.7% growth in defence spending, a 7.6% increase in social policy spending and a 19.8% increase in expenditure on debt service. Spending on the national economy decreased by 1.0% in 2016 as compared to 2015. Spending on public order and safety decreased in 2016 by 3.4%.

In 2017, total federal budget expenditure decreased to 17.8% from 19.1% as a share of GDP and remained in absolute terms at the level of 2016 (with a slight increase of 0.02%), as the 24.5% decrease in defence spending largely offset the increase in other expenditure line items.

Debt service, which includes only payments in respect of discount and interest on the Government debt (as set forth under "*Public Debt and Related Matters—Overview*") remained roughly constant in 2013-2017 at 0.5-0.8% of GDP. As a share of total expenditure,

debt service was 2.7%, 2.8%, 3.3%, 3.8% and 4.3% in 2013, 2014, 2015, 2016 and 2017, respectively. The increase in debt service in 2013-2017 reflected an increase in public debt and, for 2015 and 2016, an increase in the borrowing costs. This trend continued in 2017, with debt servicing expenditures equalling 4.3% of the total budget expenditure in 2017 as compared to 3.8% in of 2016 mainly due to an increase in domestic borrowing.

Reserve Fund and National Wealth Fund

The Government has established two funds, the Reserve Fund and the National Wealth Fund, to which oil-related revenues above those used for budget assumptions are contributed.

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 consisted of proceeds generated from export customs duties on oil, oil products and gas as well as from taxes levied on the extraction of hydrocarbons. Prior to 1 January 2013, proceeds in the Reserve Fund could not exceed 10% of Russia's GDP forecast for the particular year. This figure was reduced to 7% in accordance with the 2013 Budget Rule discussed in "— *Federal Budgetary Process — Amendments to the Budget Code*". The Reserve Fund was invested solely in foreign reserves and allocated to accounts with the Bank of Russia; the interest rate on these accounts is based on the performance of highly-rated foreign sovereign bond indices.

The National Wealth Fund was created to support Russia's pension system. Assets of the National Wealth Fund may be invested in foreign currency accounts with the Bank of Russia, and, subject to certain conditions, in a range of assets, including rouble-denominated assets, debt and equity securities of both Russian and foreign entities (which also include, according to the May 2013 Amendments discussed in "— *Federal Budgetary Process — Amendments to the Budget Code*", Russian securities linked to implementation of self-sustaining infrastructure projects) and deposits with banks, such as Vnesheconombank. The National Wealth Fund assets may be deposited with Vnesheconombank in roubles, U.S. dollars, euro and pound sterling. No more than 955 billion roubles may be deposited in Vnesheconombank, and no more than the lesser of (i) 40% of the assets of the National Wealth Fund and (ii) 1,738 billion roubles may be invested in rouble assets.

In 2013, the federal budget recorded a deficit of 0.4% of GDP. In 2013, redemption of external debt amounted to 0.1% of GDP, gross foreign borrowing was 0.3% of GDP and net domestic borrowing equalled 0.5% of GDP. In 2013, no money was spent from the Reserve Fund, while 5.9 billion roubles were spent from the National Wealth Fund; as of 1 January 2014, the balances of the Reserve Fund and the National Wealth Fund were 2,859.7 billion roubles and 2,900.6 billion roubles, respectively. The increase in proceeds of the Reserve Fund in 2013 was primarily due to proceeds from oil and gas revenues and a 260.6 billion rouble revaluation due to depreciation of the rouble against the dollar. The increase in proceeds of the National Wealth Fund was due to a 216.0 billion rouble exchange rate gain.

In 2014, the federal budget recorded a deficit of 0.4% of GDP. In 2014, the Russian Federation did not issue Eurobonds, redemption of external debt amounted to 0.1% of GDP and net domestic borrowing equalled 1.3% of GDP. In 2014, no money was spent from the Reserve Fund, while 12.4 billion roubles were spent from the National Wealth Fund; as of 1 January 2015, the balances of the Reserve Fund and the National Wealth Fund were 4,945.5 billion roubles and 4,388.1 billion roubles, respectively. The increase in proceeds of the

Reserve Fund in 2014 was due to proceeds from oil and gas revenues (217.1 billion roubles) and to a revaluation due to depreciation of the rouble against the dollar (1,868.7 billion roubles). The increase in proceeds of the National Wealth Fund was due to a 1,499.9 billion rouble exchange rate gain.

In 2015, the federal budget recorded a deficit of 2.4% of GDP. In 2015, the Russian Federation did not issue Eurobonds, redemption of external debt amounted to 0.2% of GDP and net domestic borrowing equalled 0.02% of GDP. In 2015, 2,622.9 billion roubles from the Reserve Fund were used to finance the federal budget deficit and 9.4 billion roubles from the National Wealth Fund were used to co-finance voluntary pension savings. As of 1 January 2016, the balances of the Reserve Fund and the National Wealth Fund were 3,640.6 billion roubles and 5,227.2 billion roubles, respectively. The increase in proceeds of the Reserve Fund in 2015 was due to proceeds from oil and gas revenues (402.2 billion roubles) and a revaluation due to depreciation of the rouble against the dollar (915.7 billion rouble). The increase in proceeds of the National Wealth Fund was due to a 848.5 billion rouble exchange rate gain.

In 2016, the federal budget recorded a deficit of 3.4% of GDP. In 2016, redemption of external debt amounted to 0.1% of GDP and gross foreign borrowing amounted to 0.2% of GDP. Net domestic borrowing equalled 0.6% of GDP. In 2016, 2,136.9 billion roubles from the Reserve Fund were used to finance the federal budget deficit and 6.8 billion roubles from the National Wealth Fund were used to co-finance voluntary pension savings. As of 1 January 2017, the balances of the Reserve Fund and the National Wealth Fund were 972.1 billion roubles and 4,359.2 billion roubles, respectively. The reduction of the Reserve Fund and the National Wealth Fund was also attributable to 531.5 billion rouble and 861.3 billion rouble revaluation, respectively, due to strengthening of the rouble against the dollar as of year-end.

Due to the significant declines in oil prices since the second half of 2014, the rules for the use of oil and gas revenues and contributions to the Reserve Fund and National Wealth Fund set out in the Budget Code were suspended on 1 February 2016, and temporary rules were introduced. Under these temporary rules, oil and gas revenues as well as assets from the Reserve Fund and National Wealth Fund were used to finance federal budget expenditures.

In 2017, the federal budget recorded a deficit of 1.4% of GDP. In 2017, redemption of external debt amounted to 0.4% of GDP and gross foreign borrowing amounted to 0.4% of GDP. Net domestic borrowing equalled 1.2% of GDP. In 2017, 1,000.4 billion roubles from the Reserve Fund were used to finance the federal budget deficit. Proceeds from the National Wealth Fund in the amount of 5.5 billion roubles were used to co-finance voluntary pension savings and in the amount of 616.7 billion roubles were used to finance the Pension Fund deficit. As of 1 January 2018, the balance of the Reserve Fund was 0.0 billion roubles and in February 2018 it was liquidated. The balance of the National Wealth Fund as of 1 January 2018 was 3,752.9 billion roubles. The increase in proceeds of the Reserve Fund and the National Wealth Fund in 2017 was due to 28.3 billion rouble and 16.0 billion rouble exchange rate gain, respectively.

The first set of amendments made with respect to the 2017 Budget Law in July 2017 (the "**First Amended 2017 Budget Law**") laid out a clear and well-defined limit on primary budget expenses defined as expected non-oil revenues plus base oil revenues. To further promote economic stability and reduce domestic economy exposure to oil price volatility, the First Amended 2017 Budget Law envisaged that if real oil revenues were greater than base

revenue, the difference would be used to replenish the Reserve Fund and, accordingly, if real oil revenues were less than base revenue, the difference would be withdrawn from the Reserve Fund. In February 2018, the Reserve Fund was liquidated and starting from February 2018, the abovementioned difference in the oil revenue is transferred to or, as the case may be, withdrawn from the National Wealth Fund. The First Amended 2017 Budget Law targeted zero primary deficit at base oil price which according to current economic and budget forecast will be achieved in 2019. The same targets are envisaged by the 2018 Budget Law. To implement the aforementioned provisions of the First Amended 2017 Budget Law, the Budget Code was amended in order to implement a "transitional" mechanism from February 2017 to the end of 2018. During the "transitional" period, the maximum budget expenditure may be increased by the amount of 1% of projected GDP. See "— *Federal Budgetary Process — Amendments to the Budget Code*".

The New Budget Rules synchronised the Budget Code with then applicable First Amended 2017 Budget Law and set a limit on the aggregate federal budget expenditures. See "— *Federal Budgetary Process—Amendments to the Budget Code*". The New Budget Rules also provided for the merger of the Reserve Fund into the National Wealth Fund with the transfer of all funds of the Reserve Fund to the National Wealth Fund. However, in 2017 all of the funds of the Reserve Fund were spent and the Reserve Fund was liquidated in February 2018.

The National Wealth Fund balances equalled 3,752.9 billion roubles (including 2,204.5 billion roubles, or 58.7% of its assets, held in foreign currency accounts with the Bank of Russia) as of 1 January 2018.

Proceeds from the sale of shares and other participation interests owned by the Russian Federation, or privatisation proceeds, which are treated as a source of deficit financing, accounted for 0.06% of GDP in 2013, 0.04% of GDP in 2014, 0.01% of GDP in 2015, 0.5% of GDP in 2016 and 0.02% of GDP in 2017.

Federal and 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. Sub-federal and local governments are allocated proceeds from, among others, the following federal taxes: 100% of personal income tax, a share of profit tax (generally a rate of 17%, as discussed in "—*Russian Tax System*" below), 100% of excise taxes on alcohol production, including wine and beer (with the exception of products exceeding 9% alcohol by volume that are not wine or beer and certain other products, in which case 50% of excise taxes are allocated to sub-federal governments), 50% of excise taxes on ethyl alcohol from foodstuffs and on certain other products containing alcohol, 57.1% in 2018 (58.1% in 2019 and 58.2% in 2020) of excise taxes on gasoline, diesel fuel and motor oils, 100% of widespread mineral deposits and diamond extraction taxes, 60% of certain other mineral extraction taxes (excluding oil, natural gas and gas condensate) and 100% of proceeds from special tax regimes. Taxes imposed directly by the sub-federal subjects 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.

All of the revenue from the natural gas extraction tax and from the hydrocarbon extraction tax are transferred to the federal budget.

In 2013, revenue of the consolidated sub-federal budgets amounted to 8.2 trillion roubles, a 1.2% increase compared to 2012. Federal financial aid accounted for 18.2% of overall consolidated sub-federal budget revenue (compared to 17.9% in 2012). In 2014, revenue of the consolidated sub-federal budgets amounted to 8.9 trillion roubles, a 9.1% increase compared to 2013, mainly attributable to increases in both tax and non-tax revenue in sub-federal budgets. Federal financial aid accounted for 18.0% of overall revenue of the consolidated sub-federal budgets in 2014 (compared to 18.2% in 2013). In 2015, revenue of the consolidated sub-federal budgets amounted to 9.3 trillion roubles, a 4.5% increase compared to 2014, mainly attributable to increases in property taxes, profit and personal income taxes. Federal financial aid decreased to 17.2% of overall revenue of the consolidated sub-federal budgets in 2015 (compared to 18.0% in 2014). In 2016, revenue of the consolidated sub-federal budgets amounted to 9.9 trillion roubles, a 6.6% increase compared to 2015, mainly attributable to increases in profit and personal income taxes, and excise taxes. Federal financial aid decreased to 15.8% of overall revenue of the consolidated sub-federal budgets in 2016 (compared to 17.2% in 2015). In 2017, revenue of the consolidated sub-federal budgets amounted to 10.8 trillion roubles, representing a 8.4% increase as compared to 2016 which was mainly attributable to a 10.9% increase in profit tax and a 7.7% increase in personal income tax.

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

Since its establishment in 1994, the Fund for Regional Support ("**Fund for Regional Support**") has been a primary source of federal financial support to regional governments. Through the Fund for Regional Support, 397.0 billion roubles, 418.8 billion roubles, 439.8 billion roubles, 487.7 billion roubles, 513.7 billion roubles and 614.5 billion roubles in 2012, 2013, 2014, 2015, 2016 and 2017, respectively, were transferred to the regions. As a result of these subsidies, the gap in financial means between the wealthiest Federation subjects and the poorest has narrowed.

Financial support is provided to regional budgets to help finance obligations arising under various social laws, such as the Federal Law No. 181-FZ "On Social Protection of the Handicapped" dated 24 November 1995, as well as to finance regional expenses incurred in connection with the performance of obligations delegated to the Federation subjects by the federal government. In 2012, 2013, 2014, 2015, 2016 and 2017, federal subsidies in support of such spending obligations amounted to 284.2 billion roubles, 273.7 billion roubles, 308.2 billion roubles, 336.6 billion roubles, 334.3 billion roubles and 326.1[3] billion roubles, respectively.

Regional budgets also receive support for co-financing expenditures on health care, culture, education and salaries of public sector employees, as well as subsidies for housing and public utilities. Such federal support amounted 570.9 billion roubles, 515.6 billion roubles, 409.9

[3] This data is subject to readjustments in the future.

billion roubles, 400.2 billion roubles, 356.5 billion roubles and 419.8[4] billion roubles in 2012, 2013, 2014, 2015, 2016 and 2017, respectively.

Social expenditures (includes expenditure on social policy, education, healthcare, culture, cinematography, media and sport) by regional and local authorities are substantial (approximately 7.5%, 7.4%, 7.5%, 7.1%, 7.1% and 7.7%[5] of GDP in 2012, 2013, 2014, 2015, 2016 and 2017, respectively). Sub-federal governments financed 24.9% of education expenditures and 7.8% of health care expenditures in 2017. Sub-federal spending on the national economy and housing, amounted to 3.7%, 3.6%, 3.4%, 3.3%, 3.4% and 3.7%[6] of GDP in 2012, 2013, 2014, 2015, 2016 and 2017, respectively.

Significant progress has been made in the Russian Federation in the area of federal/sub-federal fiscal relations. Interbudgetary transfers from the federal budget to sub-federal budgets are distributed using unified methods based on objective parameters that reflect funding needs. In particular, a process for distributing subsidies has been developed in order to adjust the budget capacity of sub-federal budgets, and common methodologies have been developed in order to provide subsidies from the federal budget to sub-federal budgets and to ensure their effective application. The budget legislation sets out various budgeting process frameworks on the sub-federal and municipal levels based on the share of interbudgetary transfers in the revenue of the sub-federal and municipal budgets.

State Extra Budgetary Funds

At present, the state extra-budgetary funds are the Pension Fund (expenditures of 6,378.5 billion roubles, 6,190.1 billion roubles, 7,670.3 billion roubles, 7,829.7 billion roubles and 8,319.5 billion roubles in 2013, 2014, 2015, 2016 and 2017, respectively), the Social Insurance Fund of the Russian Federation (the "**Social Insurance Fund**") (expenditures of 531.2 billion roubles, 566.2 billion roubles, 546.2 billion roubles, 612.1 billion roubles and 664.9 billion roubles in 2012, 2013, 2014, 2015 and 2016, respectively) and the Federal Medical Insurance Fund of the Russian Federation (the "**Federal Medical Insurance Fund**") (expenditures of 1,048.7 billion roubles, 1,268.7 billion roubles, 1,638.8 billion roubles, 1,590.2 billion roubles and 1,655.0 billion roubles in 2013, 2014, 2015, 2016 and 2017, respectively).

Nearly all employer-funded social contributions are transferred directly to state extra-budgetary funds. In 2012, employers made direct payments of 30% of the first 512,000 roubles (increased to 568,000 roubles for 2013 and 624,000 roubles for 2014) of each employee's annual salary and 10% of the remaining salary amount. In 2015, employers made direct payments of 30% of the first 670,000 roubles of each employee's annual salary, 27.1% of an employee's annual salary between 670,000 and 711,000 roubles and 15.1% of the remaining salary amount. In 2016, employers made direct payments of 30% of the first 718,000 roubles of each employee's annual salary, 27.1% of an employee's annual salary between 718,000 and 796,000 roubles and 15.1% of the remaining salary amount. In 2017, employers made direct payments of 30% of the first 755,000 roubles of each employee's annual salary, 27.1% of an employee's annual salary between 755,000 and 876,000 roubles and 15.1% of the remaining salary amount.

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[4] This data is subject to readjustments in the future.

[5] This data is subject to readjustments in the future.

[6] This data is subject to readjustments in the future.

State extra-budgetary funds recorded an overall surplus of 0.2% of GDP in 2013, overall deficits of 0.1% of GDP in 2014, 0.8% of GDP in 2015 and 0.2% of GDP in 2016, and overall surplus of 0.05% of GDP in 2017.

The Pension Fund ran overall surpluses of 0.01% of GDP in 2013 and overall deficits of 0.04% of GDP in 2014, 0.7% of GDP in 2015, 0.2% of GDP in 2016 and 0.06% of GDP in 2017 (including transfers to the Pension Fund from the federal budget). Interbudgetary transfers from the federal budget to the Pension Fund for mandatory pension insurance amounted to 942.8 billion roubles in 2013 (1.3% of GDP), 336.3 billion roubles in 2014 (0.4% of GDP), 814.2 billion roubles in 2015 (1.0% of GDP), 988.6 billion roubles in 2016 (1.2% of GDP) and 932.7 billion roubles in 2017 (1.0% of GDP). In 2013, the federal budget also allocated 5.4 billion roubles (0.01% of GDP) to cover the deficit in the Social Insurance Fund. In 2014-2017 there were no transfers for the purposes of covering the deficit of the Social Insurance Fund from the federal budget.

In 2018 and planning period for 2019 and 2020, the law on the budget of the Pension Fund envisages revenue of 8,333.3 billion roubles, 8,621.0 billion roubles and 8,935.4 billion roubles, or 8.6% of GDP, 8.4% of GDP, 8.1% of GDP, and expenditure of 8,439.9 billion roubles, 8,694.8 billion roubles, 8,980.0 billion roubles, or 8.7% of GDP, 8.4% of GDP, 8.1% of GDP, respectively. Pension Fund expenditures increase arise from demographic and other factors.

Russian Tax System

Russia imposes a personal income tax rate of 13%, with certain exceptions. Certain types of income, such as interest income from bank deposits in excess of prescribed limits are subject to a 35% tax rate, and dividends are taxed at 13%. With respect to non-residents, the personal income tax rate is 30%, except for dividend income, which is taxed at 15%, and income from certain types of labour activities, which is taxed at 13%.

The profit tax rate is 20%. During 2017-2020 such rate shall be allocated between the federal and the regional budgets as follows: 3% is allocated to the federal budget (1% of which is allocated to support the most deprived regions) and 17% to the regional budgets. The regional authorities, at their discretion, may lower the regional portion of the profit tax rate from 17% to 12.5%. During recent years, the number of permitted profit related tax deductions was expanded, for example introducing a deduction for research and development expenses. In addition, a deductible amortisation premium of 10% or 30% on new capital assets (depending on the asset) was introduced. Since 2017 the 10-year losses carry-forward limitation period has been abolished, however, during the tax years 2017-2020 taxpayers are limited in their right to utilise losses of previous periods by the amount corresponding to 50% of their taxable profit. As a general rule, profit tax is calculated using an accrual method, a cash method is also available for certain categories of taxpayers.

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

VAT is set at 18%, with the exception of operations involving the sale of certain goods, works and services, for which VAT is applied at 0% or 10% rates. "Input" VAT may be deducted or refunded as soon as an invoice is received, instead of after payment for the purchased goods, works and services has been made. 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. In 2018 certain types of movable property are also subject to property tax at a maximum rate of 1.1%. This lower rate replaced an exemption that was introduced back in 2013. Property tax revenue is allocated to sub-federal budgets, and regional authorities may set lower rates or introduce exemptions 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. Local land taxes are determined municipality-by-municipality and are calculated on a cadastral value base, with a maximum general rate of 1.5%.

Tax on oil, oil products and natural gas

Russia imposes a royalty tax on natural resource extraction. The natural resource extraction tax on oil is calculated at a fixed rate that is adjusted based on international oil prices and the rouble exchange rate. The base rate for the natural resource extraction tax on oil was 470 roubles per tonne in 2013, 493 roubles per tonne in 2014, 766 roubles per tonne in 2015, and 857 roubles per tonne in 2016. Starting from 1 January 2017, the base rate is set as 919 roubles per tonne.

The base rate for the natural resource extraction tax on gas condensate was 590 roubles per tonne in 2013, 647 roubles per tonne in 2014. For organisations that own property that is part of the unified system of gas supply, the base rate for the natural resource extraction tax on natural gas was 582 roubles per thousand cubic metres of gas for the first half of 2013 and 622 roubles per thousand cubic metres of gas for the second half of 2013; the base rate for the first half of 2014 was 700 roubles per thousand cubic metres. For independent producers of natural gas, the base rate is calculated as a coefficient of the base rate in effect for organisations that are part of the unified natural gas supply system, such coefficients equalling 0.4555 and 0.646 in the first and second half of 2013, respectively, and 0.673 in the first half of 2014.

Since 1 July 2014 the procedure for calculating the natural resource extraction taxes on gas condensate and natural gas has been significantly modified. The base rate was set at 42 roubles per tonne for gas condensate and 35 roubles per thousand cubic metres for natural gas; for both natural gas and gas condensate, the base rate is multiplied by coefficients that reflect price parameters, transportation costs, complexity of production and other certain economic parameters.

In 2011, the Government introduced a new tax regime for the oil industry that is designed, in part, to reduce dependence on crude oil exports and to stimulate domestic oil refining. Under this tax regime, the export duty rates on crude oil and oil products were lowered, while the oil and gas condensate extraction tax rates were increased. The maximum rate for the export duty on crude oil was reduced to 45% for each of 2015 and 2016 (from 57% for 2015 and 55% for 2016 according to previous plans). Starting from 1 January 2017, the rate is set as 30%. The reforms also provide for a reduction in the export duty rate on light oil products (including gasoline) and an increase in the export duty rate on dark oil products.

Export duties on oil are determined on a monthly basis by the Ministry of Economic Development based on the average price of Urals oil on the world oil markets (the

Mediterranean and Rotterdam oil markets) and are currently assessed in the following manner. For average market oil prices of up to U.S.$109.50 per tonne, the 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, in 2016, when the average market price exceeds U.S.$182.50 per tonne, the export duty is assessed at up 42% of the difference between the market price and U.S.$182.50 plus U.S.$29.20 (starting from 2017, this rate is set at up to 30% of the difference between the average market price and U.S.182.50 plus U.S.$29.20). In 2015, 2016 and 2017 the average export duty on oil was U.S.$120.3, U.S.$75.6 and U.S.$86.7 per tonne, respectively.

The export duty on natural gas is 30% of its customs value. Export duties on light oil products (other than gasoline) and lube oil were lowered to 48% of the crude oil export duty since 1 January 2015, to 40% of the crude oil export duty since 1 January 2016 and to 30% of the crude oil export duty from 1 January 2017. The export duty rate on naphtha was reduced from 90% of the crude oil export duty to 85% since 1 January 2015, to 71% since 1 January 2016 and to 55% from 1 January 2017. The export duty rate on gasoline was reduced from 90% of the crude oil export duty to 78% since 1 January 2015, 61% since 1 January 2016 and 30% since 1 January 2017. The export duty rate on fuel oil and bitumen was increased from 66% of the crude oil export duty to 76% since 1 January 2015, 82% since 1 January 2016 and 100% from 1 January 2017.

MONETARY AND FINANCIAL SYSTEM

The Bank of Russia

The Bank of Russia is the Russian Federation's central bank. It is an independent entity with specific powers and responsibilities set forth by the Constitution and Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (the Bank of Russia)" dated 10 July 2002, as amended (the "**Law on the Bank of Russia**"). Pursuant to 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 the Russian Federation's banking system and ensuring the stability and development of Russia's financial markets and national 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 draft federal laws and regulations 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's Governor (the "**Governor**"), who is also the chair of the Bank of Russia's Board of Directors (the "**Board of Directors**"), is nominated by the President and confirmed by the State Duma. The Governor is appointed for a five-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, among others, a conflict of interest, violation of a federal law relating to the activities of the Bank of Russia or the commission of a crime. Elvira Nabiullina has been the Governor since June 2013, and in June 2017 the State Duma appointed her for another five-year term. Members of the Board of Directors are nominated by the Governor in consultation with the President and confirmed by the State Duma. Board members serve five-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, among its other functions, develops and pursues common state monetary policy in coordination with the Government, has monopoly authority over the printing and circulation of money, acts as a lender of last resort to Russian credit institutions, regulates the banking sector, adopts rules for and oversees the national settlement system, establishes rules for conducting banking operations, services all budget accounts at all levels of the Russian budget system (unless the law states otherwise), effectively manages Bank of Russia's official gold and foreign currency reserves, approves the registration of all credit institutions, licenses their banking operations and supervises banking activities of credit institutions and banking groups. Since 1 September 2013, the Bank of Russia also has primary responsibility for regulating the securities markets, having assumed the authority previously exercised by the Federal Service for Financial Markets (the "**FSFM**"). Chief among these new responsibilities is the registration of new securities issuances.

The Bank of Russia also establishes accounting and record keeping standards and rules for the preparation and presentation of accounting (financial) statements, statistical reports and other information prescribed by federal law, and the preparation of certain macroeconomic statistics relating to the Russian Federation.

The Bank of Russia sets standards for banks and banking groups with respect to capital adequacy, liquidity, loan loss provisions and exposure to individual creditors and shareholders and other insiders, including limits on loans and guarantees to shareholders of credit organisations. The Bank of Russia monitors compliance by commercial banks with its regulations through a reporting system and periodic inspections and requests for information and enforces its regulations through a variety of measures, including the power to issue warnings, impose prohibitions or 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 shares of a credit institution requires notice to the Bank of Russia, and (with certain exceptions) any direct or indirect acquisition of more than 10% of shares requires prior Bank of Russia approval.

The Bank of Russia is also responsible for regulating the financial market activities of non-credit financial institutions, such as professional securities market participants, investment funds, clearing agents, non-state pension funds, microfinance enterprises, rating agencies and various consumer cooperatives, amongst others.

Monetary Policy

Inflation and Money Supply

Russia has historically experienced periods of high inflation, although the 12-month rolling inflation rate remained below 10% from late 2009 until late 2014. In response to a host of factors, particularly a decline in oil and natural gas prices and market reactions to geopolitical events, the rouble experienced significant depreciation against major world currencies in the second half of 2014, continuing into 2015 and the first part of 2016, and inflation has increased. The rouble subsequently strengthened in the latter part of 2016 as a result of an improving economic situation and, at the end of the year, higher oil and gas prices. Inflation slowed in 2016 compared to prior years. In 2017 the rouble continued strengthening which, combined with other factors, led to a decrease in inflation rate.

In 2013, M2 (defined as total cash in circulation (outside banks) and balances in roubles on accounts of resident non-financial organisations, financial organisations (excluding credit organisations) and individuals) grew by 14.7% (compared to 12.2% in 2012). A softening of domestic demand, together with the absence of monetary pressures on inflation, contributed to an overall slowdown in inflation during 2013, despite a short-term increase in food prices towards the end of the year. CPI fell to 6.5% (from 6.6% in 2012), and PPI fell to 3.7% (from 5.1% in 2012). Core inflation during 2013 remained stable.

In 2014, M2 grew by 1.5% (compared to 14.7% in 2013). Inflation increased significantly in 2014, with CPI increasing to 11.4% and PPI increasing to 5.9%, reflecting in large part the depreciation of the rouble.

In 2015, M2 grew by 11.3% (compared to 1.5% in 2014). CPI reached its 12-month peak of 16.9% in March 2015 as a result of depreciation of the rouble as well as higher food prices. By year-end 2015, CPI had increased to 12.9%, while PPI increased to 10.7%. In order to contain inflationary pressures, the Bank of Russia has conducted a relatively tighter monetary policy and the Government froze state-employee wages and slowed the rate at which social benefits are indexed, all of which helped to anchor inflationary expectations in the economy.

These steps to slow inflation were supported by a relatively modest indexation of natural monopoly tariffs (2-5% in 2015, compared to 6-8% in 2014).

In 2016, M2 grew by 9.2% (compared to 11.3% in 2015). By year-end 2016, CPI had decreased to 5.4%, while PPI decreased to 7.5%, reflecting the stabilisation of the rouble exchange rate and oil prices, relatively tight monetary policy, freezing of the state-employee wages by the Government and the slowdown of the rate at which social benefits are indexed. The slowdown of inflation was further supported by a relatively modest indexation (relative to inflation) of natural monopoly tariffs in 2015-2016 compared to the preceding years.

In 2017, M2 grew by 10.5% (compared to 9.2% in 2016). By year-end 2017, CPI had decreased to 2.5%, while PPI increased to 8.4%. The CPI decrease was due to restrictive monetary policy, deflation in prices for agricultural products and rouble appreciation. The PPI increase was mainly due to the increase in prices for hydrocarbon raw materials.

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

Inflation: Consumer and Producer Prices

	CPI	PPI
	(% change, end of period)	
2012	6.6	5.1
2013	6.5	3.7
2014	11.4	5.9
2015	12.9	10.7
2016	5.4	7.5
2017	2.5	8.4

Source: Rosstat.

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

Monetary Survey[1]

	As of 1 January					
	2013	2014	2015	2016	2017	2018
	(*millions of roubles, except ratio*)					
Net foreign assets	17,314,401	18,180,013	25,250,924	33,143,426	27,374,507	29,558,279
Claims on non-residents	23,722,395	25,527,739	35,404,134	43,482,156	35,246,381	36,271,232
Liabilities to non-residents	6,407,994	7,347,727	10,153,209	10,338,730	7,872,271	6,712,953
Domestic claims	26,579,432	32,234,091	37,400,216	44,010,918	50,184,043	54,301,105
Net claims on general government	(5,201,566)	(5,006,738)	(8,339,577)	(5,802,235)	(2,504,477)	(3,129,499)
Claims on general government	3,229,670	3,888,851	4,200,004	5,562,942	6,173,746	6,028,923
Liabilities to general	8,431,235	8,895,588	12,539,581	11,365,177	8,678,224	9,158,421

government						
Claims on other sectors.....	31,780,997	37,240,829	45,739,794	49,813,153	52,688,521	57,430,604
Other financial institutions....	1,488,888	1,746,790	2,850,541	3,689,858	6,710,940	8,597,248
Public nonfinancial organisations.....	385,231	442,866	538,389	578,245	615,993	641,967
Other nonfinancial organisations.....	21,493,887	24,255,997	30,106,233	34,009,275	33,605,838	35,022,870
Households	8,412,992	10,795,176	12,244,631	11,535,775	11,755,749	13,168,519
Broad money.....	32,205,704	37,368,703	42,909,569	51,370,088	50,903,313	54,665,870
Currency in circulation(2)	6,430,063	6,985,568	7,171,470	7,239,146	7,714,777	8,446,033
Transferable deposits(3)	7,263,965	8,526,331	8,169,953	9,276,432	9,927,641	11,062,712
Other financial institutions....	323,582	531,453	441,178	532,817	549,030	654,526
Public nonfinancial organisations.....	541,263	691,133	526,410	563,966	596,838	613,440
Other nonfinancial organisations.....	3,816,546	4,289,923	4,439,577	4,908,919	5,087,336	5,228,841
Households	2,582,574	3,013,822	2,762,787	3,270,730	3,694,438	4,565,905
Other deposits	18,279,068	21,500,937	27,100,916	34,278,176	32,772,900	34,767,377
Other financial institutions....	1,183,258	1,290,668	1,420,247	1,641,885	1,597,164	1,535,310
Public nonfinancial organisations.....	204,214	167,939	282,551	400,449	375,924	410,140
Other nonfinancial organisations.....	5,341,851	6,357,613	10,020,784	12,857,856	10,648,240	11,617,417
Households	11,549,745	13,684,716	15,377,334	19,377,937	20,151,572	21,204,511
Deposits not included in broad money	588,902	902,062	2,230,810	2,877,477	842,805	1,430,820
Securities not included in broad money	887,375	1,055,296	1,142,872	1,293,557	1,026,339	1,847,239
Shares and other equity.....	8,752,973	9,916,207	15,654,776	19,346,391	17,617,004	17,501,358
Other items (net)	1,458,879	1,171,836	740,113	2,266,831	7,169,089	8,414,097
Other liabilities	5,295,615	6,010,838	10,469,220	12,171,852	15,129,858	16,931,945
Other assets.....	3,487,355	4,350,190	8,575,913	8,810,829	5,354,441	5,315,678
Consolidation adjustment	(349,381)	(488,812)	(1,153,194)	(1,094,192)	(2,606,328)	(3,202,170)
Memo:						
Monetary base (broad definition)(4)	9,852,818	10,503,880	11,331,954	11,043,822	11,882,666	14,701,500
Money supply (M2) (national definition)(5)	27,164,609	31,155,606	31,615,729	35,179,707	38,417,974	42,440,500
Velocity of M2(6).....	2.80	2.60	2.63	2.59	2.41	2.34

Notes:

(1) Certain data presented in this table differ from previously published data due to regular updates and revisions. Data are presented in accordance with the IMF's "Monetary and Financial Statistics Manual" (IMF, 2000). Data in this table are presented as of 1 January 2018.

(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 the average annual series of M2 (calculated as the average of monthly data) and nominal GDP for the corresponding year.

Source: Bank of Russia.

Effective 1 January 2017 there has been a revision of methodology of money supply components compilation. The following table sets forth information concerning the Russian Federation's money supply calculated using the new methodology as of the dates indicated:

Monetary Survey[1]

	As of 1 January			
	2015	**2016**	**2017**	**2018**
	(*millions of roubles, except ratio*)			
Net foreign assets	25,250,924	33,143,426	27,374,507	29,558,279
Claims on non-residents	35,404,134	43,482,156	35,246,381	36,271,232
Liabilities to non-residents	10,153,209	10,338,730	7,872,271	6,712,953
Domestic claims	37,400,216	44,010,918	50,184,043	54,301,105
Net claims on general government	(8,339,577)	(5,802,235)	(2,504,477)	(3,129,499)
Claims on general government	4,200,004	5,562,942	6,173,746	6,028,923
Liabilities to general government	12,539,581	11,365,177	8,678,224	9,158,421
Claims on other sectors	45,739,794	49,813,153	52,688,521	57,430,604
Other financial institutions	2,850,541	3,689,858	6,710,940	8,597,248
Public nonfinancial organisations	538,389	578,245	615,993	641,967
Other nonfinancial organisations	30,106,233	34,009,275	33,605,838	35,022,870
Households	12,244,631	11,535,775	11,755,749	13,168,519
Broad money	42,909,569	51,370,088	50,903,313	54,665,870
Currency in circulation[2]	7,171,470	7,239,146	7,714,777	8,446,033
Transferable deposits[3]	8,169,953	9,276,432	9,927,641	11,062,712
Other financial institutions	441,178	532,817	549,030	654,526
Public nonfinancial organisations	526,410	563,966	596,838	613,440
Other nonfinancial organisations	4,439,577	4,908,919	5,087,336	5,228,841
Households	2,762,787	3,270,730	3,694,438	4,565,905
Other deposits	27,100,916	34,278,176	32,772,900	34,767,377
Other financial institutions	1,420,247	1,641,885	1,597,164	1,535,310
Public nonfinancial organisations	282,551	400,449	375,924	410,140
Other nonfinancial organisations	10,020,784	12,857,856	10,648,240	11,617,417
Households	15,377,334	19,377,937	20,151,572	21,204,511
Deposits not included in broad money	2,230,810	2,877,477	842,805	1,430,820
Securities not included in broad money	1,142,872	1,293,557	1,026,339	1,847,239
Shares and other equity	15,654,776	19,346,391	17,617,004	17,501,358
Other items (net)	740,113	2,266,831	7,169,089	8,414,097
Other liabilities	10,469,220	12,171,852	15,129,858	16,931,945
Other assets	8,575,913	8,810,829	5,354,441	5,315,678
Consolidation adjustment	(1,153,194)	(1,094,192)	(2,606,328)	(3,202,170)
Memo:				
Monetary base (broad definition)[4]	11,331,954	11,043,822	11,882,666	14,701,500
Money supply (M2) (national definition)[5]	31,615,729	35,179,707	38,417,974	42,440,500
Velocity of M2[6]	2.63	2.59	2.41	2.34

Notes:

(1) Data are presented in accordance with the IMF's "Monetary and Financial Statistics Manual" (IMF, 2000), Monetary and Financial Statistics Manual and Compilation Guide (IMF, 2016). Data calculated with the use of the revised methodology of money supply components compilation are available from the year 2015 only and are presented as of 1 January 2018.

(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 the average annual series of M2 (calculated as the average of monthly data) and nominal GDP for the corresponding year.

Source: Bank of Russia.

Instruments of Monetary Policy and Interest Rates

The Bank of Russia uses monetary policy instruments in an effort to maintain overnight, money market rates within the borders of the interest rate corridor and to keep such rates as close as possible to the key rate.

The primary instruments of monetary policy employed by the Bank of Russia are open-market operations (including, most importantly, repo and deposit auctions, forex swap operations, loans secured by non-marketable assets auctions as well as the purchase and sale of government securities in the secondary market), standing facilities and bank reserve requirements.

The Bank of Russia regulates liquidity within the banking system mainly through a variety of interest rate instruments designed to provide or absorb liquidity, chiefly, auction-based one-week repo auctions for providing liquidity and one-week deposit auctions for absorbing liquidity. Since September 2013, the interest rates on one-week repo auctions and one-week deposit auctions have served as the Bank of Russia's key policy rates. The Bank of Russia also uses a variety of other auction operations of a shorter duration when minor adjustments to liquidity are warranted. The Bank of Russia's monetary policy is based, in part, on the need to ensure that credit organisations have sufficient liquidity for meeting reserve requirements and conducting payment operations.

The Bank of Russia's interest rate band is used to limit the volatility of interest rates. The upper limit of the corridor is the overnight credit rate on refinancing operations secured by a wide range of assets, including securities, loans, promissory notes, guarantees, gold and international currency. The lower limit of the corridor is the overnight deposit rate. The borders of the interest rate band are symmetrical with respect to the key rate and shift automatically in line with movements in the key rate. Money market rates fluctuate within the bounds of the corridor; the width of the corridor is currently 2 percentage points.

In the Bank of Russia Monetary Policy Guidelines for 2018-2020 issued in November 2017 the Bank of Russia proclaimed the main objective of monetary policy under the Bank of Russia's inflation targeting strategy is to keep inflation at around 4%, while its operational goal is to bring overnight money market rates closer to the Bank of Russia's key rate. The

Bank of Russia expects that a liquidity surplus in the banking sector will remain over the next three years. Its volume is expected to increase from 1.8-2.3 trillion roubles at the end of 2017 to 2-3 trillion roubles at the end of 2020. In the context of a liquidity surplus, the Bank of Russia continues to carry out deposit auctions on a regular basis, maintaining the interbank loan segment rate near the key rate. Along with deposit auctions, the Bank of Russia will absorb the most sustainable part of the excess liquidity using its own three-month coupon bonds ("**OBRs**"). The first issuance of the OBRs in August 2017 amounted to approximately 150 billion roubles, while the second issuance in November 2017 amounted to approximately 220 billion roubles.

Though less frequently used as a tool to regulate liquidity, the Bank of Russia also carries out auctions of 3-month credits, bearing floating interest rates and secured by non-market assets, and refinancing operations, such as fixed-rate credits secured by non-market assets or guarantees for up to one year. The use of these instruments helps to promote the functioning of the money market. The Bank of Russia also purchases and sells securities, although this instrument is used only in rare circumstances and in small volumes.

Anti-Crisis Measures Taken in 2014-2015

In response to the fall in the oil price, the depreciation of the rouble and other external factors, the Russian Federation introduced a series of temporary, anti-crisis measures designed to protect the stability of the financial sector. These measures include: (i) recapitalization of credit institutions for the total amount of 1.4 trillion roubles including 400 billion roubles from National Welfare Fund, and allocation of 1 trillion roubles to the Deposit Insurance Agency; (ii) the enhancement of depositor protections; (iii) changes in the regulations including temporary moratorium on recognition of negative revaluation of securities portfolios of credit institutions and non-bank financial organisations in order to decrease market participants' sensitivity to market risk, and temporary right to use fixed exchange rates when calculating prudential requirements for operations in foreign currencies (these changes were introduced temporarily and ceased to be in force on 30 December 2015); (iv) the introduction of a foreign exchange repo mechanism to provide foreign exchange funding to credit institutions secured by both marketable and non-marketable assets (which dampened the impact of sanctions and low energy prices on the financial system and real economy). For the year 2017 the Bank of Russia lowered the limit for forex funding from U.S.$50 billion to U.S.$25 billion. For the year 2018 the limit was lowered to U.S.$15 billion. The use of foreign exchange repos reached its peak in the fourth quarter of 2014 and the first quarter of 2015 as substantial amounts of private sector external debt repayments came due. Since the middle of 2015, the outstanding balance of foreign exchange repos has declined significantly, and from 2 November 2017 amount of funds to be repaid by credit institutions became zero.

Starting from 1 September 2017, the Bank of Russia has put in place certain mechanisms for providing emergency liquidity assistance if needed, which replaced the recapitalisation measures that had been in place previously. In 2017, the new measures were implemented by the Bank of Russia with respect to three major private banks in Russia: PJSC Bank "Financial Corporation Otkritiye" ("**Otkritiye**"), B&N Bank ("**B&N Bank**") and Promsvyazbank PJSC ("**Promsvyazbank**"). The measures included the recapitalisation of these banks and involved the provision of approximately 1 trillion roubles in emergency liquidity assistance. See "*—Banking—Structure of the Banking Industry*".

Current Policy

The Bank of Russia implements monetary policy within the framework of an inflation targeting regime, a key priority of which is price stability. The Bank of Russia is targeting an inflation rate of 4% in 2018-2020, maintaining it at around that level for the mid-term. "—*Monetary Policy Guidelines for 2018 through 2020*".

As the Russian economy recovered from the global financial crisis, the Bank of Russia gradually reduced its use of anti-crisis measures that had the effect of expanding liquidity and in the second quarter of 2009 began to lower interest rates. Since 2009, the Bank of Russia has continued to implement measures designed to gradually increase the flexibility of the rouble and prepare for the transition to a free floating exchange rate regime. Price stability, i.e., inflation targeting through the use of an interest rate based policy remains the Bank of Russia's key priority. In November 2014, the Bank of Russia moved to a free floating exchange rate regime, a transition that was scheduled to occur at the beginning of 2015, but was accelerated in response to rouble volatility in the second half of 2014.

The Bank of Russia considers revisions to interest rates on a regular basis. Based on macroeconomic data, the Bank of Russia assesses the adequacy of current interest rates associated with interbank operations in light of key macroeconomic risks, in particular the risk that medium-term inflation will exceed targeted limits and risks affecting stable economic growth. The Bank of Russia then approves changes to interest rates as necessary to implement its inflation targeting policy.

In 2013, the Bank of Russia did not change its interest rates on core instruments used to expand liquidity, although it did lower interest rates on certain refinancing operations for periods greater than one month. On 13 September 2013, the Bank of Russia announced as its key rate the rate on one-week repo and deposit operations, which was set at 5.5%. The Bank of Russia intends to use its key rate as a means to give the market a better understanding of the economic rationale underlying the Bank of Russia's policy decisions. As of the same date, the Bank of Russia set the overnight credit rate, i.e., the upper limit of the interest rate corridor, at 6.5% and the overnight deposit rate, i.e., the lower limit of the corridor, at 4.5%. Any change to the key rate automatically leads to a symmetrical adjustment in the upper and lower limits of the interest rate corridor. The Bank of Russia has announced that it believes a two percentage point wide corridor is ideal for limiting interest rate volatility, while maintaining an active market for interbank transfers. On 3 March 2014, the Bank of Russia increased its key rate to 7.0% in an effort to counter inflationary pressures and preserve financial stability amid heightened volatility on the financial markets. During 2014, the Bank of Russia increased the key rate six times, with the rate peaking at 17% on 16 December 2014. In 2015, the key rate was lowered on two occasions: on 2 February 2015, to 15%, and on 3 August 2015, to 11%. The rate was further lowered to 10.5% on 14 June 2016, to 10.0% on 19 September 2016, to 9.75% on 27 March 2017, to 9.25% on 2 May 2017, to 9.0% on 19 June 2017, to 8.5% on 18 September 2017, to 8.25% on 30 October 2017 and to 7.75% on 18 December 2017. On 9 February 2018, the Bank of Russia decreased the key rate further to 7.5%.

Beginning 1 January 2016, the refinancing rate is set equal to the key rate as of the respective date and will no longer be determined independently.

Exchange Rates

From October 2010 until November 2014, the Bank of Russia pursued a managed floating exchange rate regime, which was designed to limit excessive rouble volatility without imposing quantitative targets or fixed limits on the exchange rate. On 10 November 2014, in response to volatility of the rouble, the Bank of Russia adopted a free floating exchange rate regime, a move that had originally been scheduled to occur in January 2015.

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[(2)]	**End of Period[(1)]**	**Average[(2)]**	**End of Period[(1)]**
2013	31.82	32.73	42.27	44.97
2014	37.97	56.26	50.46	68.34
2015	60.66	72.88	67.43	79.70
2016	66.90	60.66	74.06	63.81
2017	58.33	57.60	65.78	68.87

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 average monthly exchange rates for the period.

Source: Bank of Russia.

In February 2005, the Bank of Russia adopted a dual-currency basket, consisting of the dollar and euro, as an operating benchmark and began using movements in the rouble value of the dual-currency basket as a reference point for its exchange rate policy. The basket was initially set at €0.1 and U.S.$0.9, gradually moving to €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 dual-currency basket with the borders of this operational band designed to adjust automatically depending on the volume of Bank of Russia interventions. The floating operational band remained in effect until November 2014, when the Bank of Russia allowed the rouble to float freely against foreign currencies.

The Russian Federation's overall net private sector capital outflows in 2013 totalled U.S.$59.7 billion. In 2013, the rouble depreciated by 2.4% against the dollar and by 5.5% against the euro in nominal terms. In real terms, the rouble appreciated by 2.7% against the dollar and by 0.8% against the euro. The real effective exchange rate of the rouble appreciated by 1.2%. During 2013, the value of the dual-currency basket increased by 9.9% and reached 38.24 roubles as of 1 January 2014. Throughout 2013, the Bank of Russia continued to implement measures designed to enhance the flexibility of the exchange rate regime. Such measures included the widening of the floating dual-currency operational band by reducing the scale and frequency of currency interventions.

In the beginning of 2014, however, the rouble began to weaken against the dollar and euro at an accelerated rate, a dynamic caused by multiple factors including: (i) weakening investor interest in emerging markets, prompted by expectations that the U.S. Federal Reserve would taper its quantitative easing policy and by improvements in the economies of certain

developed countries, such as the United States; (ii) a slowdown in growth in the Russian economy; and (iii) heightened political tensions as a result of geopolitical events. In these conditions, during the course of 2014, the Bank of Russia increased the scale and frequency of its currency interventions in an effort to limit sharp movements in the rouble. Beginning in the third quarter of 2014, the rouble experienced greater downward pressure caused mainly by lower oil prices and the impact of geopolitical events, which in turn restricted the ability of Russian corporations and banks to raise financing on the international markets, thereby increasing domestic demand for foreign currencies. The Bank of Russia adopted several measures in response. On several occasions, it increased its key rate, reaching a maximum of 17.0% in December 2014. It also spent approximately U.S.$42,208.0 million in foreign currency reserves between September and December of 2014. In November 2014, the Bank of Russia abandoned its operational band and allowed the rouble to freely float against foreign currencies, a move that had been originally scheduled to take place in January 2015. Despite the transition to a freely floating rouble, the Bank of Russia continued to defend the rouble in December 2014, intervening on several occasions in the foreign currency markets.

The Russian Federation's overall net private sector capital outflows in 2014 totalled U.S.$153.0 billion. The significant increase in outflows was caused to a large extent by the imposition of economic sanctions against certain Russian entities and individuals. These sanctions effectively closed the external debt markets to Russian corporate entities, making it very difficult for entities to refinance their existing corporate debt; as a result, outflows surged in part to pay off private sector external debt. In 2014, the rouble depreciated by 40.6% against the dollar and by 34.1% against the euro in nominal terms. In real terms, the rouble depreciated by 34.4% against the dollar and by 26.7% against the euro. The real effective exchange rate of the rouble depreciated by 27.4%. During 2014, the rouble depreciated by 37.5% against the dual-currency basket.

The Russian Federation's overall net private sector capital outflows in 2015 totalled U.S.$57.5 billion. Such outflows were mainly financed out of the current account despite the significant decline oil prices. In 2015, the rouble depreciated by 20.5% against the dollar and by 9.9% against the euro in nominal terms. In real terms, the rouble depreciated by 10.6% against the dollar and appreciated by 1.7% against the euro. The real effective exchange rate of the rouble appreciated by 0.9%. During 2015, the rouble depreciated by 15.3% against the dual-currency basket. The series of temporary measures taken by the Government and Bank of Russia to mitigate the effects of market volatility, including the recapitalisation of the banking sector, bolstered confidence in the financial markets and set depreciation expectations, which contributed to the slowdown in capital outflows in 2015.

The Russian Federation's overall net private sector capital outflows in 2016 totalled U.S.$19.2 billion. Such outflows were mainly financed out of the current account despite the significant decline in oil prices. In 2016, the rouble appreciated by 12.0% against the dollar and by 15.6% against the euro in nominal terms. In real terms, the rouble appreciated by 15.6% against the dollar and appreciated by 20.3% against the euro. The real effective exchange rate of the rouble appreciated by 20.4%. During 2016, the rouble appreciated by 13.0% against the dual-currency basket. The increase in oil prices had a favourable effect on the appreciation of the rouble, which occurred mainly in the latter part of the year. There have been no currency interventions since August 2015, signalling that rouble volatility diminished in the specified period.

Overall net private sector capital outflows in 2017 totalled U.S.$31.3 billion. In contrast to 2016, such outflows were mainly caused by banking sector transfers to reduce external

liabilities. In 2017, the rouble appreciated by 14.7% against the dollar and by 12.6% against the euro in nominal terms. In real terms, during the same period, the rouble appreciated by 16.3% against the dollar and by 14.9% against the euro. The real effective exchange rate of the rouble appreciated by 15.9%. In 2017, the rouble appreciated by 12.0% against the dual-currency basket mainly due to growth in oil prices.

Monetary Policy Guidelines for 2018 through 2020

According to the Bank of Russia's Guidelines for 2018 through 2020 (the "**Bank of Russia 2018-2020 Guidelines**"), the key monetary policy objective of the Bank of Russia over the next three years is to anchor consumer price growth near 4% and to make its monetary policy credible. According to the Bank of Russia 2018-2020 Guidelines, after 2017, the Bank of Russia will not set specific dates or time periods when the delivery on the inflation target is to be estimated. Instead, it will seek to permanently anchor annual inflation near 4%. Should the factors emerge which pose a threat of a considerable and continuous inflation deviation from the target, the Bank of Russia will take measures to sustain consumer price growth at around 4%, including changing its key rate.

In implementing its monetary policy, the Bank of Russia follows an inflation targeting strategy based on the following principles: (i) the main objective of monetary policy is price stability, (ii) the inflation target is specified and declared, (iii) monetary policy influences the economy largely through interest rates under the floating exchange rate regime, (iv) monetary policy decisions are taken based on the analysis of a wide range of macroeconomic indicators and their forecast, and (v) setting clear benchmarks for households and businesses, including through increased information transparency. Under the baseline scenario the Bank of Russia expects CPI to remain flat around 4.0% for the period of 2018-2020. This is expected to be achieved as a result of maintaining of a balanced approach of the Bank of Russia to decision-making based on the evaluation of the balance of risks. Such approach implies that the Bank of Russia takes into account the effect of the key rate on the stability of the financial and real sectors of the economy, and seeks to contribute to the creation of conditions for sustainable economic growth unaccompanied by an accumulation of risks and imbalances. The inflation target is set taking into account the specifics of the Russian economy, which include the development of competition and market institutions, production effectiveness and diversification, consumption structure and price volatility in certain groups of goods and services.

At the same time the Ministry of Finance currently under the new budget rules implements currency interventions, the volume of which depends on the Urals oil price. See "*—Balance of Payments and Foreign Trade—International Reserves*".

The Bank of Russia will also look into resuming foreign currency purchases in the FX market to replenish the international reserves to U.S.$500 billion. Such operations would be carried out in such a manner so as to avoid considerable disruption to the domestic financial market and deliver on the price stability objective. These operations are consistent with the floating exchange rate regime the Bank of Russia adheres to, given that they are not aimed at maintaining particular rouble exchange rate.

The Bank of Russia continues to conduct regular interviews and press conferences and to issue press releases and other reports (often in English) informing the public of its most important policy decisions and their consequences. This is intended to increase transparency and, in particular, to manage inflation expectations.

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 most banking operations. Under Russian law, 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 active credit institutions licensed to conduct banking operations in the Russian Federation has generally decreased in recent years due mainly to a decrease in the number of credit institutions that meet the required amount of share capital prescribed by law and to an increase in the number of banking licences revoked. Of the 561 credit institutions with banking licences as of 1 January 2018, 517 were banks and 44 were non-bank credit institutions, 189 held general licences and 358 held foreign exchange licences. As of 1 January 2018, active credit institutions licensed to conduct banking operations included 66 wholly foreign owned organisations and an additional 19 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 2018, there were 890 branches of operating credit institutions in the Russian Federation. As of 1 January 2018, 48 branches of operating credit institutions belonged to 100% foreign owned banks in the Russian Federation.

In 2014, the United States and EU imposed bans on providing financing over 90 days and 30 days, respectively, to a number of Russian entities, including several of the largest banks (VTB, Gazprombank and Sberbank). According to regular Bank of Russia's surveys most of these banks have liquid assets in dollar and euro sufficient to cover their liabilities in these currencies.

Between 2013 and 2017, total assets of the Russian banking sector expanded by approximately 1.7 times. As of 1 January 2018, the four largest Russian banks held approximately 52.3% of total banking sector assets, compared to 43.9% as of 1 January 2013. As of 1 January 2018, client funds constituted approximately 63.0% of the liabilities of the banking sector, whereas loans, deposits and other issued debt, such as loans to banks and overdue debt, constituted 68.1% of the sector's assets. In 2017, banking sector profits decreased due to growth of new loan loss provisions.

As a result of an increase in commercial bank borrowings from the Bank of Russia, the banking sector became a net debtor of the Bank of Russia and total borrowings equalled 1.5 trillion roubles as of 1 January 2012 and 3.1 trillion roubles as of 1 January 2013. Overall banking sector profits (as accounted for under Russian Accounting Standards) decreased from 1,011.9 billion in 2012 to 993.6 billion in 2013. The quality of loans issued by Russian banks improved slightly in 2012 and 2013, with the percentage share of total credit under loans classified as problem loans or worse equalling 6.6% as of 1 January 2012 and 6.0% as of 1 January 2013. Despite this improvement, overdue claims on loans, deposits and other placements increased from 1,133 billion roubles as of 1 January 2012 and 1,257.4 billion roubles as of 1 January 2013. Loan loss provisions equalled 6.9% as of 1 January 2012 and 6.2% as of 1 January 2013.

As of 1 January 2014, 2015, 2016 and 2017 the banking sector was a net debtor of the Bank of Russia, with liabilities of the banking sector to the Bank of Russia equalling 4.4 trillion roubles, 9.3 trillion roubles, 5.4 trillion roubles and 2.7 trillion roubles, respectively. These figures exceeded 10% of banking sector liabilities as of 1 January 2015, substantially exceeding the amount of banking sector claims on the Bank of Russia. However, due to Reserve Fund spending, during 2016 the banking sector returned to a liquidity surplus, and this trend continued in 2017. As of 1 January 2017, despite 3.1 trillion roubles of gross liabilities to the Bank of Russia, the banking sector was already a net creditor of the Bank of Russia. In general, in 2017, the banking sector has moved to a stable structural surplus of liquidity, which achieved an amount of 2.6 trillion roubles as of 1 January 2018.

In 2014, overall banking sector profits (as accounted for under Russian Accounting Standards) fell to 589.1 billion roubles, a decline of 40.7% compared to 2013. In 2015, overall banking sector profits fell to 192.0 billion roubles due to an increase in loan loss provisions resulting from deteriorating loan quality. In 2016, overall banking sector profits increased to 930 billion roubles due to a decrease in loan loss provisions. In 2017, overall banking sector profits decreased to 790 billion roubles due to a growth of loan loss provisions.

The total value of loans classified as problem loans or worse equalled 6.0% of total loans as of 1 January 2014, 6.7% of total loans as of 1 January 2015, 8.3% of total loans as of 1 January 2016, 9.4% of total loans as of 1 January 2017 and 10.0% of total loans as of 1 January 2018. Overdue claims on loans, deposits and other placements increased by 11.2% in 2013, by 41.5% in 2014, by 54.0% in 2015, but decreased by 5.1% in 2016, before increasing again by 3.5% as of 1 January 2018 (reaching 2,993.5 billion roubles as of 1 January 2018). Loan loss provisions equalled 5.9%, 6.5%, 7.8%, 8.5% and 9.2% of total loans as of 1 January 2014, 2015, 2016, 2017 and 2018, respectively.

As of 1 December 2017, the Russian banking sector's capital adequacy ratio equalled 11.6% (down from 13.7% as of 1 January 2013). Total capital in the Russian banking sector has increased in recent years, from 6,112.9 billion roubles as of 1 January 2013 to 9,454.6 billion roubles as of 1 January 2018.

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

	1 January[1]					1 December
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(%)			
Capital Adequacy Risk						
Ratio of own funds (capital) to risk-weighted assets[2]	14.7	13.7	13.5	12.5	12.7	11.6
Credit Risk						
Share of problem loans and bad loans in total loans[3]	6.6	6.0	6.0	6.7	8.3	10.0
Loan loss provisions as a share of total loans	6.9	6.2	5.9	6.5	7.8	9.2
Ratio of shareholder loans to own funds[4]	1.4	1.5	1.1	2.6	2.8	4.8
Ratio of claims on insiders to own funds	0.7	0.7	0.7	0.7	0.6	0.4
Liquidity Risk						

Ratio of liquid assets to total assets[5]	23.9	23.2	20.5	22.0	24.6	22.4
Market Risk[6]	**49.7**	**47.3**	**45.6**	**36.0**	**44.0**	**46.0**
Of which						
Interest rate risk[7]	33.8	36.0	37.8	28.6	34.4	35.8
Equity position risk[8].....	12.9	6.0	3.3	3.7	3.3	2.6
Foreign exchange risk[9].....	3.0	5.4	4.5	3.7	6.3	4.9
**Return on Assets[10]..... **	**2.4**	**2.3**	**1.9**	**0.9**	**0.3**	**1.3**
**Return on Equity[11]..... **	**17.6**	**18.2**	**15.2**	**7.9**	**2.3**	**10.6**

Notes:

(1) Data in this table is presented as of 1 July 2017.

(2) 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 February 2014, the risk coefficients are set in accordance with the Simplified Standardised Approach to credit risk within the framework of Basel III.

(3) A problem loan is defined as a loan where non-performance or improper performance of a borrower's obligations causes depreciation of the loan with expected write-off of 51% to 100%. A bad loan is defined as a loan that cannot be repaid due to a borrower's inability or refusal to perform its obligations, resulting in full write-off of the loan.

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

(5) Liquid assets are those financial assets that banks can receive, sell and/or claim within 30 calendar days for the purpose of receiving cash funds during the specified period.

(6) 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.

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

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

(9) The market risk on positions in foreign currencies and precious metals.

(10) Calculated as the ratio of financial results (before tax) of credit institutions over the previous 12 months to the average amount of assets of credit institutions over the same period.

(11) Calculated as the ratio of financial results (before tax) of credit institutions over the previous 12 months to the average amount of own funds (capital) of credit institutions over the same period.

Source: Bank of Russia.

In order to maintain fair competition in the banking sector during the issuance of consumer loans and to strengthen the legal basis for the protection of borrowers' rights, Federal Law No. 353-FZ "On Consumer Credit (Loan)" dated 21 December 2013 (the "**Federal Consumer Law**") was adopted. The Federal Consumer Law secures the rights of borrowers of consumer loans.

In order to reduce the costs of banks associated with managing credit risks and risks related to pledges of movable property, a register of notices of pledges over movable property was established on 1 July 2014, based on a unified notarial information system, which allows interested parties to access information about pledged moveable property. This register is accessible on the website of the Federal Notarial Chambers on a 24/7 basis.

In order to reduce the costs involved in bank's assessment of borrower credit quality, amendments were made to Russian laws on credit histories that considerably expand the contents of credit histories and the list of sources used in the establishment of credit histories.

Measures have been taken to consolidate Russian statutory rules on bankruptcy, including bankruptcy of credit organisations, and to bring them in line with the generally accepted rules and principles of international law. The Bank of Russia, Limited liability company "Management company of the Fund of consolidation of the banking sector" (the "**Management Company**") acting on behalf of the Bank of Russia and the Deposit Insurance Agency have a vested right to carry out financial rehabilitation of banks on a permanent basis and to take measures to prevent a bank's bankruptcy by rendering financial assistance to a bank or persons who acquire its shares (participation interests in the charter capital) or financial units of the fund set up by the Management Company (the "**Fund**") to manage the shares (participation interests in the charter capital) of distressed banks, as well as by rendering financial assistance in the form of contribution to the bank's charter capital at the expense of the Bank of Russia, the Fund or the Deposit Insurance Agency. Such measures are intended to raise efficiency and to ensure further practical implementation of mechanisms of financial rehabilitation of credit organisations, which mechanisms are currently one of the most important and efficient measures to prevent banks' bankruptcy in the Russian Federation. In addition, the consolidation and improvement of the statutory rules on bankruptcy of credit organisations was conducted with the aim to considerably increase the level of protection of the banking system and creditors of credit organisations, including depositors.

In August 2017 the Bank of Russia announced the implementation of certain measures aimed at improving the financial stability of a systemically important private bank Otkritiye. Such measures included recapitalising the bank and the Bank of Russia becoming a major investor in Otkritiye. This was the first instance when a bail-out was conducted by the Bank of Russia at the expense of the recently set up Fund. The Bank of Russia did not impose a moratorium on the satisfaction of the creditors' claims or conversion of the creditors' claims into equity (bail-in). On 11 December 2017 the Bank of Russia consolidated 99.9% shares of Otkritiye and elected the new board directors of the bank on 21 December 2017, resulting in resignation of the Fund as temporary administrator of Otkritiye. Otkritiye continues operations in the ordinary course. The Bank of Russia commenced the implementation of similar measures in relation to B&N Bank and Promsvyazbank (two other major private banks in Russia) in September 2017 and December 2017, respectively.

Pursuant to Federal Law No. 177-FZ "On the Insurance of Household Deposits in Banks of the Russian Federation" dated 23 December 2003, 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 mandatory 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. The mandatory deposit insurance fund insures the full repayment of deposits up to 1,400,000 roubles per individual per bank.

Banking Supervision and Regulation

Russian banks are subject to prudential regulations developed on the basis of best international practices intended to protect the interests of both depositors and creditors. The

Bank of Russia is responsible for supervising and regulating operations of credit institutions in accordance with the Law on the Bank of Russia and implements policies aimed at increasing the stability of credit institutions and the financial system as a whole.

Russia is committed to implementing the requirements set out under Basel III. To this end, since April 2013, Russian banks have begun reporting own funds and capital adequacy ratios as prescribed by Basel III. With effect from 1 January 2014, the Bank of Russia introduced a series of Basel III capital adequacy requirements, which include more stringent requirements for monitoring and maintaining the quality and adequacy of bank capital. As part of the Basel III reforms, core tier 1 capital ratios and tier 1 capital ratios for credit institutions are set at 4.5% and 6%, respectively. The 8% total capital ratio is retained as a minimum requirement and is also expected to be used as capital adequacy eligibility criteria for the purpose of banks' participation in the deposit insurance system. Capital adequacy limits under Basel II have also been adjusted; in particular, the ratio applicable to operational risk has changed from 10 to 12.5.

As of December 2015 risk-based capital regulations in Russia were assessed as compliant with the minimum Basel capital standards (for all components) under Regulatory Consistency Assessment Program.

In addition, for 2017, the Bank of Russia has set a minimum liquidity coverage ratio of 80% for credit institutions deemed systemically important. Starting 1 January 2018 such ratio was increased to 90% and is expected to increase to 100% on 1 January 2019. Since 2018, a net stable funding ratio was introduced for systemically important banks. Such ratio is set as 100%. Systemically important banks include Sberbank, VTB Bank, Gazprombank and Alfa Bank; as of 31 December 2017, such banks accounted for more than 60% of the Russian banking sector's assets. In line with Basel III, the Bank of Russia has also set a countercyclical capital buffer rate for Russian credit institutions at zero per cent of risk weighted assets from 30 March 2017. The Bank of Russia is constantly developing the mandatory ratios. New ratios are introduced from time to time and the existing ones are subject to possible revisions in the future.

As part of its efforts to bring the regulatory assessment of unsecured consumer lending risks in line with real risk exposures and to prevent the accumulation of excessive consumer lending risks in the banking system, the following steps have been taken by the Bank of Russia:

- a 100% provisioning requirement has been introduced in respect of unsecured consumer loans where such loans are more than 360 days overdue;
- stricter capital coverage requirements have been introduced for unsecured high-cost consumer credits provided after 1 July 2013;
- minimum loan loss provisions have been increased in respect of unsecured consumer loans provided after 1 April 2014; and
- the Bank of Russia introduced a new scale of risk indices with respect to unsecured consumer loans provided after 1 March 2017.

The Bank of Russia regularly monitors credit institutions' compliance with mandatory ratios. Where regulatory requirements are breached by credit institutions, the Bank of Russia may

sanction or fine noncompliant credit institutions in accordance with the Law on the Bank of Russia.

The National Payment System Law

Federal Law No. 161-FZ "On the National Payment System" dated 27 June 2011, as amended (the "**National Payment System Law**"), generally came into force on 29 September 2011. The National Payment System Law provides for legal and organisational principles of the national payment system, establishes the procedure for rendering of payment services, including transfers of monetary funds, use of electronic means of payment, as well as sets forth requirements for organisation and operation of payment systems and the procedure for monitoring and supervision over the national payment system. The National Payment System Law provides that only credit organisations may carry out transfers of electronic monetary funds. Credit organisations may enter into agreements with other organisations, under which the latter may render to the credit organisations operational and clearing services for the transfer of electronic monetary funds. Under the National Payment System Law, the Bank of Russia is vested with additional functions of monitoring and supervision over the national payment system.

In response to Visa and Master Card terminating service of the cards of certain Russian banks, there have been a number of amendments to the National Payment System Law aimed at ensuring stability, effectiveness and availability of the transfer of funds services. In particular, the national system of the payment cards (the "**NSPC**") has been introduced. The main objectives of NSPC are creation of an operational and clearing centre for processing domestic operations with the use of the cards of the international payment systems as well as issue and promotion of the national payment card "Mir". Pursuant the recent amendments to the National Payment System Law credit organisations have to ensure from 1 July 2017 that the national payment instruments such as bank card "Mir" are accepted in the technical devises of the credit organisations, including ATM machines (as well as in the devices of the entities with which such credit organisations have agreements on payment settlement of the transactions with the use of bank card). From 1 July 2018 credit organizations will have to transfer payments financed from the budgetary funds (e.g. wages of the public sector workers and military serviceman, educational allowance of the student) to the national payment cards only and will also have to issue only national payment instruments for the purpose of making such payments.

In addition to implementation and development of the NSPC, another set of amendments to the National Payment System Law introduced a restriction on any transfer of funds without opening a bank account from the Russian Federation to the countries that imposed restrictions on the payment systems whose operators are registered by the Bank of Russia (except where the relevant operator of the payment system or operator of services of payment infrastructure is directly or indirectly controlled by a Russian legal entity).

Foreign Exchange Regulations

The Russian Federation has adopted Article 8 of the IMF's Articles of Agreement with respect to current account convertibility and has met all obligations imposed thereunder.

The regulation of currency operations in the Russian Federation is governed by Federal Law No. 173-FZ "On currency regulation and control" dated 10 December 2003 (the "**Currency Law**"), which envisages full convertibility of the rouble, subject to certain exceptions. For

example, under the law, several restrictions may still be imposed to prevent a significant reduction in the Russian Federation's gold or foreign currency reserves or severe fluctuations in the currency and to support the stability of the Russian Federation's balance of payments. As another example, 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 conduct currency operations between one another without limitation and open bank accounts in the Russian Federation 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 (who are not Russian state officials, their spouses or their children under 18) may open accounts without limitation in banks located outside the Russian Federation, 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 the Russian Federation'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**") and St. Petersburg Currency Exchange. In December 2011, MICEX merged with the Russian Trading System ("**RTS**") to create MICEX RTS, now called the "**Moscow Exchange**". The largest shareholder of the Moscow Exchange is the Bank of Russia; commercial banks are also significant shareholders. Only Russian credit institutions, certain Russian entities, state corporations, certain non-resident banks, international organisations, the Bank of Russia and clearing organisations (in each case, subject to criteria specified in the admission rules of the Moscow Exchange) may trade on the FX Market section of the Moscow Exchange. The Bank of Russia buys and sells currencies through the Moscow Exchange to implement its exchange rate policy.

The major currency traded on the Moscow Exchange is the dollar, accounting for approximately 83.9% of total turnover (excluding currency swap operations) (as of 1 February 2018); the other major currency traded on the Moscow Exchange is the euro, with approximately 13.5% of total turnover (as of 1 February 2018).

Capital Markets

Government Securities

The Russian domestic market for rouble-denominated government securities comprises federal government rouble-denominated bonds and rouble-denominated bonds of sub-federal entities. The federal government rouble-denominated securities consist of medium-term and long-term bonds ("**OFZs**"), state savings bonds ("**GSOs**") and federal government domestic bonds placed in the international capital markets ("**OVOZs**"). OFZs are initially issued on the securities market of the Moscow Exchange or via closed subscription. See "—Foreign Exchange Market" above. Secondary trading of OFZs takes place on the Moscow Exchange and may also take place on other exchanges. OFZs are issued in certified form with centralised record keeping and are held in book-entry form. As of 1 January 2018, internal public debt of the Russian Federation in the form of state securities was approximately 7,247.1 billion roubles (U.S.$125.8 billion, based on the 1 January 2018 exchange rate), including 6,779.6 billion roubles (U.S.$117.70 billion) of OFZs, 377.6 billion roubles

(U.S.$6.56 billion) of GSOs and 90 billion roubles (U.S.$1.56 billion) of OVOZs. For a detailed description of the various government domestic debt instruments, see "*Public Debt and Related Matters—Domestic Public Debt—Government Domestic Public Debt Service*".

The market for federal government securities (OFZs and rouble-denominated, sovereign Eurobonds) has been increasingly liberalised. As a result of amendments to the Russian securities legislation in 2011 and 2012, OFZs are now cleared and settled centrally through a non-banking credit organisation joint stock company, NSD, in its capacity as the Central Depository (as defined below). OFZs and rouble-denominated, sovereign Eurobonds are also eligible for clearing and settlement through international clearing systems, including, since February 2013, the principal European clearing systems. For more information on developments in the Russian securities legislation, see "*—Regulation of the Capital Markets*" below.

Sub-federal entities may also issue rouble-denominated bonds. As of 1 January 2018, there were 136 outstanding rouble-denominated bond issuances by 52 constituent entities of the Russian Federation and municipalities, with an aggregate principal amount of 569.6 billion roubles (U.S.$9.9 billion, based on the 1 January 2018 exchange rate). Of this aggregate principal amount, 548.5 billion roubles (U.S.$9.5 billion) were issued by constituent entities of the Russian Federation, including 34.3 billion roubles (U.S$0.6 billion) by the city of Moscow, and 21.1 billion roubles (U.S.$0.4 billion) were issued by municipal entities.

Corporate Securities

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 the Russian Federation, including the Moscow Exchange, formed by the merger of RTS and MICEX 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 2016, the average daily stock turnover of secondary trading of corporate securities (shares and corporate bonds) on MICEX was U.S.$0.8 billion (at the average annual exchange rate of 66.90 roubles per U.S. dollar). In 2017, such turnover was U.S.$0.9 billion (at the average exchange rate for the period of 58.33 roubles per U.S. dollar). As of 6 February 2018, the MICEX Index was 2,238.2 (an increase of 0.2% from 30 December 2016), and the RTS Index was 1,232.7 (an increase of 7.0% from 30 December 2016). In 2016, secondary trading volumes of shares on the Moscow Exchange (excluding repo transactions) fell to 9.2 trillion roubles, a decline of 1.5% compared to 2015. In 2017, secondary trading volumes of shares on the Moscow Exchange (excluding repo transactions) amounted to 9.2 trillion roubles (a decline of 0.5% from 2016). Secondary trading of corporate bonds on the Moscow Exchange (excluding repo transactions) increased by 4.8% in 2015 compared to 2014, before declining by 6.5% in 2016 compared to 2015 and declining by 4.7% in the 2017 as compared to 2016.

The total market capitalisation of companies listed on the Main Market sector of the Moscow Exchange as of 1 January 2018 was U.S.$623 billion, compared to U.S.$622 billion, U.S.$394 billion and U.S.$406 billion as of 1 January 2017, 2016 and 2015, respectively.

The Russian corporate bond market has been a fast-growing segment of the Russian financial markets. The outstanding volume of corporate bonds amounted to 4,166 billion roubles (U.S.$137.2 billion) at year-end 2012, increasing to 9,438 billion roubles (U.S.$155.6 billion)

and 11,424 billion roubles (U.S$198.3 billion) as of 31 December 2016 and 2017, respectively. The average daily turnover of Russian corporate bonds on MICEX was U.S.$0.27 billion in 2016 and U.S.$ 0.30 billion in 2017.

Regulation of the Capital Markets

The Bank of Russia's Service for the Financial Markets has primary responsibility for regulating the Russian securities market, having assumed since September 2013 the functions previously conducted by the FSFM. 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. The Bank of Russia also oversees Government-issued 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).

On 7 December 2011, the Russian President signed the Federal Law No. 414-FZ "On the Central Depository" (the "**Central Depository Law**") and Federal Law No. 415-FZ "On amendments to various legislative acts of the Russian Federation in connection with the adoption of the Federal Law "On the Central Depository" (together with the Central Depository Law, the "**Central Depository Laws**"). The Central Depository Laws introduced the concept of a central securities depository (the "**Central Depository**"), and on 6 November 2012 NSD obtained the status of the Central Depository. With effect from 1 July 2012, the Central Depository Laws introduced the possibility for foreign institutions acting in the interests of third parties to hold securities for such third parties without themselves being recognised as the owners of the securities. In particular, a foreign company acting as a nominee holder in the interest of third parties (a so-called foreign nominee) which is incorporated in an eligible country (as set forth in the Central Depository Laws) and is, under the laws of such country, authorised to record rights and effect transfers of rights to any securities (i.e., foreign custodians, foreign central depositaries or foreign clearing systems) is able to open a foreign nominee depo account with a Russian custodian. A foreign institution that is an international centralised system for the purposes of recording rights to or settling transactions with securities, or a foreign central depository and/or settlement depository, can open such foreign nominee depo account only with the Central Depository, provided that such foreign institution has been included in the list of eligible institutions. According to the list adopted by the Bank of Russia in June 2016, 88 foreign companies have been designated as "eligible institutions", including the principal European clearing systems. Eligible institutions are entitled to hold Russian sovereign, sub-federal and municipal bonds, Russian corporate bonds and foreign securities on their foreign nominee depo accounts with the Central Depository. Starting from 1 July 2014, they are also authorised to hold other types of securities deposited with the Central Depository, including Russian equities.

Anti-Money Laundering Legislation

The Russian Federation is a member of the Financial Action Task Force ("**FATF**"). The basic Russian anti-money laundering law is the Federal Law No. 115-FZ "On Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism" dated 7 August 2001, as amended (the "**Anti-Money Laundering Law**"). The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in the Russian Federation to be implemented by individuals and organisations, including Russian credit institutions, involved in transactions with money and certain

property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to, inter alia: (1) establish and maintain systems of internal control ensuring that they and their clients are in compliance with Russian anti-money laundering legislation; (2) collect and update certain information about their clients and their clients' representatives and/or beneficiaries; (3) control certain client transactions; (4) report certain client transactions to the relevant Russian authorities; and (5) block the accounts of companies and individuals engaging in extremist or terrorist activity. The Federal Service on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the Bank of Russia, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the Bank of Russia to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above. Failure of a bank or its officers to comply with the requirements of the Anti-Money Laundering Law may result in the revocation of a bank's licence to operate and criminal penalties for individuals.

Insurance

The Ministry of Finance develops government policy and the regulatory framework for the insurance industry. The Bank of Russia oversees compliance with the insurance laws and also issues regulations governing the activities of insurance, reinsurance and mutual insurance companies and insurance brokers. The Federal Anti-Monopoly Service of the Russian Federation oversees compliance of the insurance industry with Russian antitrust legislation. The Federal Supervision Agency for Customer Protection and Human Welfare of the Russian Federation develops government policy and the regulatory framework for consumer protection.

Both compulsory and voluntary forms of insurance are available in the Russian Federation. Russian legislation provides for the following main forms of mandatory insurance:

(i) mandatory civil liability insurance for owners of vehicles;

(ii) mandatory civil liability insurance for carriers in case of damage to life, health and property of passengers;

(iii) mandatory civil liability insurance for the owner of a hazardous facility for injury as a result of accidents in at a hazardous facility.

Foreign investors involved in the insurance sector are subject to various restrictions, including the following:

(iv) they may not act as foreign insurance brokers in the territory of the Russian Federation (with the exception of intermediary activities as re-insurance brokers and instances provided for by Russian legislation);

(v) foreign participation in the aggregate capital of Russian insurance companies may not exceed 50%;

(vi) those insurers who are subsidiaries of foreign investors (parent companies) or who have more than 49% foreign participation in their authorized capital may not provide life, health and property insurance services using the funds allocated for such purposes from the respective budget to federal executive bodies as policyholders,

insurance services for the purposes of state procurement, or insurance of ownership interests of state and municipal organizations.

As at 31 December 2017, there were 309 insurers listed at the state registry of the insurance entities (a 15% decrease as compared to 2016) comprising 226 insurance companies (a 12% decreases as compared to 2016), 12 mutual insurance companies and 71 insurance brokers (a 26% decrease as compared to 2016).

Although the total number if insurance entities decreased, the gross premium written ("**GWA**") for the nine month of 2017 amounted to 962.4 billion roubles (a 9 % increase as compared to the same period of 2016) with the share of voluntary insurance of 80.4%, or 773.6 billion roubles. Obligatory insurance premiums comprised 19.6% of the GWA, or 188.8 billion roubles, for the nine month of 2017. In the nine month of 2017 the number of insurance policies issued increased by 9.8 % as compared to the same period of 2016 and constituted 134.5 million policies. In the nine months of 2017 the main market driver was life insurance (excluding pension insurance). In the nine months of 2017, GPW in life insurance segment increased by 56.9% as compared to the same period of 2016. The gross amount of claims paid under all types of insurance in the nine months of 2017 amounted to 386.02 billion roubles with the share of voluntary insurance of 226.3 billion roubles, or 58.6 % of the gross amount of claims, and obligatory insurance of 159.7 billion roubles, or 41.4 % of the gross amount of claims.

PUBLIC DEBT AND RELATED MATTERS

Overview

As of 31 December 2017, the Russian Federation's total public debt, consisting of domestic public debt and external public debt of the Russian Federation (each as defined below), was U.S.$200.7 billion (12.6% of GDP) as compared to U.S.$183.2 billion (12.9% of GDP) as of 31 December 2016, U.S.$150.3 billion (13.1 % of GDP) as of 31 December 2015, U.S.$183.1 billion (13.0% of GDP) as of 31 December 2014 and U.S.$230.6 billion (10.3% of GDP) as of 31 December 2013, in each case in nominal terms.

The Russian Federation's domestic public debt, consisting of rouble-denominated debt of the federal government and guarantees issued by the federal government, equalled 7.8% of GDP in 2013, 9.1% of GDP in 2014, 8.8% of GDP in 2015, 9.3% of GDP in 2016 and 9.4% of GDP in 2017, respectively. External public debt, consisting of foreign-currency debt of the federal government and guarantees issued by the federal government (including all loans contracted or guaranteed by the federal government, by Vnesheconombank and by other entities legally authorised to borrow on behalf of the government of the former Soviet Union, but excluding undisbursed commitments and public or private sector borrowings not guaranteed by the federal government), equalled 2.5% of GDP in 2013, 3.9% of GDP in 2014, 4.4% of GDP in 2015, 3.6% of GDP in 2016 and 3.1% of GDP in 2017, respectively. The Government expects that the relative share of domestic and external public debt in the overall public debt profile will not change materially over the next three years and that domestic debt capital markets will continue to provide a key source of capital in the medium term.

Total external debt (defined by the Bank of Russia as public sector and private sector rouble- and foreign currency-denominated debt held by non-residents) amounted to approximately U.S.$599.9 billion (42.6% of GDP) as of 31 December 2014, U.S.$519.1 billion (45.4% of GDP) as of 31 December 2015 and U.S.$514.1 billion (36.3% of GDP) as of 31 December 2016. Approximately 50.8%, 51.8% and 49.5% of the amounts as of 31 December 2014, 2015 and 2016, respectively, were attributable to public sector obligations (including obligations of federal and regional governments, the Bank of Russia and companies majority owned or otherwise controlled by the federal or regional governments or the Bank of Russia).

The Ministry of Finance continues to pursue the following key objectives in relation to government's public debt policy: (i) maintaining a low debt burden as a crucial competitive advantage for the Russian Federation; (ii) continuing the development of the domestic capital market into a stable source for funding budgetary needs; (iii) diversifying the range of debt instruments offered while ensuring an optimal balance between yield and duration; (iv) maintaining a pro-active approach to debt management to promote benchmark issues and build a liquid yield curve to facilitate corporate issuance, including liability management operations; (v) supporting the development of OFZ derivatives; (vi) monitoring corporate external borrowings; and (vii) improving mechanisms for providing state guarantees as support. The Government is also considering OFZ issuances in other currencies as well as studying options for increasing retail investor holdings of Government securities.

The continued development of the domestic debt market remains a key priority of the Government. The Government believes that demand for OFZs is sustained by (i) demand from local banks that continue to act as anchor investors in the OFZ market, which they use for refinancing operations with the Bank of Russia; (ii) pension savings under management of

the State Trust Management Company invested in OFZs; and (iii) increased demand from foreign investors after liberalisation of the market for OFZs.

The Government has implemented several measures to develop the domestic debt market, including: (i) the introduction of centralised registration of securities in the Russian Federation through the Central Depository; (ii) the opening up of OFZs to over-the-counter trading, without the participation of trading systems and brokers, designed to simplify investor access and reduce transaction costs; (iii) the establishment of direct access to the Russian federal government securities market for foreign investors, through accounts with international depositories and international clearing organisations which may open foreign nominee accounts with the Central Depository; (iv) the introduction of new instruments, such as floating rate and inflation-linked OFZs, to reduce price volatility and decrease borrowing costs; (v) introduction of T+1 settlement to support trading of OFZ futures and other derivatives; and (vi) the successful exchange of illiquid OFZ into benchmark ones.

Although the Government is focused on continuing to develop domestic debt capital markets as a source of funding, it has maintained a significant presence in international capital markets, including the issuance of a U.S.$1 billion Eurobond with a 10-year tenor and a U.S.$2 billion Eurobond with a 30-year tenor in June 2017, and subsequent tap issuance of US$1.4 billion and US$2.5 billion, respectively, in September 2017 as part of a liability management transaction, a U.S.$1.75 billion Eurobond with a 10-year tenor in May 2016 and subsequent tap issuance of U.S.$1.25 billion in September 2016, a four-tranche Eurobond in September 2013 (consisting of a single €750 million tranche and three dollar tranches totalling U.S.$6 billion, including a U.S.$1.5 billion bond with a 30-year tenor) and a U.S.$7 billion three tranche Eurobond in April 2012. These were among the largest international sovereign debt issuances by an emerging markets sovereign since 2009. The 2018 Budget Law calls for gross external public borrowings of up to U.S.$7.0 billion in the current year, of which U.S.$4.0 billion is for liability management operations. As part of its borrowing strategy going forward, the Government intends to maintain its presence in international capital markets and continue to develop a benchmark yield curve.

The Government believes that the provision of state guarantees will continue to play a significant role in its overall domestic debt policy and intends to improve the management of state guarantees as a means of support, focusing on appropriate sharing of risks between the state and parties to a transaction or project supported by a state guarantee. In 2017, 20 state guarantees were granted, totalling 101.3 billion roubles (compared to a total of 1,200.5 billion roubles in state guarantees granted in 2016). State guarantees in the amount of 133.8 million roubles were paid out in 2016. No state guarantees were required to be paid out in 2017. State guarantees in the amount of up to 356.4 billion roubles and U.S.$21.2 billion are expected to be granted in 2018.

According to the 2018 Budget Law, the maximum total government debt of the Russian Federation shall not exceed 15.5%, 15.8% and 16.0% of GDP in 2018, 2019 and 2020, respectively; the maximum gross domestic borrowing shall not exceed 1.4 trillion roubles, 1.5 trillion roubles and 1.8 trillion roubles in 2018, 2019 and 2020, respectively; and the maximum gross external borrowing for the period of 2018-2020 shall not exceed U.S.$7.0 billion (including U.S.$ 4.0 billion for liability management transactions) annually.

External Public Debt

As of 31 December 2017, the Russian Federation's total external public debt (including guarantees) amounted to approximately U.S.$49.8 billion, representing a decrease from U.S.$51.2 billion as of 31 December 2016. As of 31 December 2015, 2014 and 2013, the Russian Federation's total external public debt (including guarantees) amounted to approximately U.S.$50.0 billion, U.S.$54.4 billion and U.S.$55.8 billion, respectively. These figures exclude rouble-denominated Eurobonds, or OVOZs, which are counted as domestic public debt rather than external public debt. As a share of GDP, external public debt amounted to 2.5% of GDP in 2013, 3.9% of GDP in 2014, 4.4% of GDP in 2015, 3.6% of GDP in 2016 and 3.1% of GDP in 2017. External public debt comprised approximately 24.2%, 29.7%, 33.3%, 28.0% and 24.8% of total public debt as of 31 December 2013, 2014, 2015, 2016 and 2017, respectively.

The following table sets forth information with respect to the Russian Federation's external public debt as of the indicated dates:

External Public Debt Stock of the Russian Federation by Creditor

	As of 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
	(*U.S.$ billion*)				
Total external public debt (excluding state guarantees)	44.4	42.3	38.1	39.5	39.5
Multilateral creditors	1.6	1.2	1.0	0.8	0.7
World Bank	1.2	0.9	0.7	0.6	0.6
Other	0.4	0.3	0.2	0.2	0.1
Eurobonds	40.7	39.3	35.9	37.6	38.2
2015 3.625% Eurobond	2.0	2.0	—	—	—
2017 3.25% Eurobond	2.0	2.0	2.0	2.0	—
2018 11% Eurobond	3.5	3.5	3.5	3.5	3.5
2019 3.5% Eurobond	1.5	1.5	1.5	1.5	1.5
2020 5% Eurobond	3.5	3.5	3.5	3.5	3.5
2020 3.625% Eurobond	1.0	0.9	0.8	0.8	0.9
2022 4.50% Eurobond	2.0	2.0	2.0	2.0	2.0
2023 4.875% Eurobond	3.0	3.0	3.0	3.0	3.0
2026 4.75% Eurobond	—	—	—	3.0	3.0
2027 4.25% Eurobond	—	—	—	—	2.4
2028 12.75% Eurobond	2.5	2.5	2.5	2.5	2.5
2030 7.5% Eurobond	15.2	13.9	12.6	11.4	6.9
2042 5.625% Eurobond	3.0	3.0	3.0	3.0	3.0
2043 5.875% Eurobond	1.5	1.5	1.5	1.5	1.5
2047 5.25% Eurobond	—	—	—	—	4.5
Official creditors	2.1	1.8	1.2	1.0	0.6
of which COMECON, China and former Yugoslavia[1]	1.0	0.9	0.4	0.4	0.0
State guarantees	11.4	12.1	11.9	11.7	10.4
Total external public debt (including state guarantees)	**55.8**	**54.4**	**50.0**	**51.2**	**49.8**

Notes:

(1) Includes Soviet-era debts owed to the former member countries of the CMEA (as defined below) for which the Russian Federation assumed responsibility. Debts to the former member countries of CMEA relate to the 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.

Sources: Ministry of Finance; Vnesheconombank.

External Debt Restructuring

Beginning in the early 1990s the Russian Federation undertook a series of debt reschedulings as part of the transition from the Soviet period. Further restructurings occurred after the financial crisis of 1998. While much of the rescheduled debt has since been repaid, certain instruments remain outstanding. For this reason, the key features of the reschedulings are described below.

Paris Club

In January 1992, the Government concluded an initial annual rescheduling agreement with the Paris Club of official creditors, followed by further reschedulings in 1993, 1994, 1995, 1996 and 1999.

In May 2005, the Government reached an agreement with the Paris Club under which approximately
U.S.$15 billion of the debt rescheduled under the 1996 and 1999 rescheduling agreements was prepaid at face value. All of the Russian Federation'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 ("**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 interest payment obligations (net of a cash down-payment) were restructured into U.S.$6.7 billion principal amount of U.S.$ floating rate interest notes due 2002 to 2015 ("**IANs**").

In 2000, the Russian Federation agreed on the financial and legal terms of a further restructuring with London Club creditors, pursuant to which Vnesheconombank's obligations were to be exchanged for Russian sovereign Eurobonds maturing in 2010 and 2030, as well as a substantial write-off of the aggregate principal amount. In August 2000, U.S.$18.2 billion of 2030 Bonds and U.S.$2.8 billion of 2010 Bonds were issued for the purpose of exchange for PRINs and IANs.

In 2009, holders of PRINs and IANs who had not participated in the previous exchanges were offered the opportunity to settle the remaining obligations under these PRINs and IANs. Completion of these settlements in December 2009 finalised the process of settlement of debt owed to London Club creditors.

On 24 October 2012, the Government adopted a resolution to write off external public debt relating to holders of London Club indebtedness who had not called for payment or agreed to the terms of settlement of the relevant obligations.

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 Russian Federation agreed to be responsible (the "**FTO claims**") on terms broadly comparable to the terms previously offered to PRIN and IAN holders. Three exchange offers were completed: in December 2002, November 2006 and December 2009. In December 2012, further claims were exchanged for cash.

As a result of these exchanges, 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 eligible 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 Russian Federation assumed responsibility for Soviet-era debts owed to the former member countries of the Council for Mutual Economic Assistance ("**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. A substantial portion of this debt was repaid in the form of goods and services, with the balance 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.

In 1993, the federal 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 issued in a total of seven series, with maturities ranging between one and 15 years; the last MinFin Series VII was repaid in 2011.

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. Following consultations with representative investor groups, the Government made a proposal in November 1999 to exchange all Series III MinFins for either new dollar denominated government bonds or rouble denominated OFZs. Between 2000 and 2005, the Ministry of Finance received applications for the exchange of substantially all of the outstanding Series III MinFins, of which approximately 72% were exchanged for dollar instruments and the remaining 28% were exchanged for OFZs. Additional claims in respect of Series III MinFins 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 Borrowings

Since the dissolution of the Soviet Union, the Ministry of Finance has borrowed externally on behalf of the Russian Federation in respect of certain multilateral facilities, through bond issues and through certain medium and short-term financings. All other previous external borrowings of the Russian Federation were implemented through Vnesheconombank, Vneshtorgbank (the Russian Federation's foreign trade bank), or Roseximbank (the Russian Federation's export-import bank), which were all authorised on a case-by-case basis to borrow externally under the guarantee of the Russian Federation and are responsible for recording and monitoring these borrowings. Borrowings by these banks under the Russian Federation's guarantee are included in the external public debt statistics of the Russian Federation.

The provision of state guarantees is strictly regulated by the budget law of the Russian Federation. State guarantees are provided solely on the basis of a Government resolution or international agreement, the Budget Code and federal budget laws, together with their implementing resolutions, for a particular year and particular target period.

The Russian Federation has fully serviced all of the debt due on borrowings contracted by the federal government since 1 January 1992.

External Public Debt Service Projection

The following table sets forth a projection of the Russian Federation's contractual external public debt service by type of creditor from 2018 through 2025, including principal and interest payable on all external public debt outstanding as of 31 December 2017, on the basis of the exchange rates and interest rates prevailing as of that date.

This table does not reflect the external public debt service on the Offered Bonds offered hereby.

External Debt Service Projections by Type of Creditor[(1)]

	2018	2019	2020	2021	2022	2023	2024	2025
				(U.S.$ billion)				
Principal	**4.60**	**2.90**	**5.76**	**1.04**	**3.00**	**3.68**	**0.67**	**0.22**
Multilateral creditors	0.19	0.16	0.12	0.09	0.05	0.03	0.02	0.01
Bonds	4.34	2.67	5.57	0.88	2.88	3.58	0.58	0.15
Official creditors	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Interest	**2.46**	**1.98**	**1.77**	**1.57**	**1.45**	**1.35**	**1.15**	**1.12**
Multilateral creditors	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Bonds	2.44	1.96	1.76	1.56	1.45	1.34	1.15	1.11
Official creditors	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00
Total	**7.06**	**4.88**	**7.53**	**2.61**	**4.45**	**5.03**	**1.82**	**1.34**

Note:

(1) External public debt service projections are made on the basis of the amount of the government's external public debt as of 31 December 2017 and account for the external public debt maturing after 2025, including payments on the new bonds issued in September 2017.

Sources: Ministry of Finance; Vnesheconombank.

Domestic Public Debt

Domestic Public Debt of the Russian Federation[1]

	As of 31 December					
	2012	2013	2014	2015	2016	2017
			(*billions of roubles*)			
Total	**4,977.9**	**5,722.2**	**7,241.2**	**7,307.6**	**8,003.5**	**8,689.6**
Domestic bonds	**4,064.3**	**4,432.3**	**5,475.7**	**5,573.1**	**6,100.3**	**7,247.1**
OFZs	3,296.7	3,734.8	4,693.2	4,990.5	5,632.8	6,779.6
OFZs with fixed coupon	2,248.2	2,688.8	2,551.0	2,710.3	3,051.1	4,283.6
Amortising OFZs[2]	1,048.6	1,046.0	1,038.6	791.2	680.1	539.8
OFZs with floating coupon	0.0	0.0	1,000.0	1,347.3	1,738.0	1,748.4
Inflation-linked OFZs	0.0	0.0	0.0	141.8	163.6	168.5
Zero-coupon OFZs	0.0	0.0	103.6	0.0	0.0	0.0
OFZ-ns	0.0	0.0	0.0	0.0	0.0	39.2
State savings bonds (GSO)	677.6	607.6	692.6	492.6	377.6	377.6
OVOZ[3]	90.0	90.0	90.0	90.0	90.0	90.0
State guarantees	**906.6**	**1,289.9**	**1,765.5**	**1,734.5**	**1,903.1**	1,442.5
Other	**7.0**	**0.0**	**0.0**	**0.0**	**0.0**	0.0
			(*% of total domestic public debt*)			
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Domestic bonds	**81.6**	**77.5**	**75.6**	**76.3**	**76.2**	**83.4**
OFZs	66.2	65.3	64.8	68.3	70.4	78.0
OFZs with fixed coupon	45.2	47.0	35.2	37.1	38.1	49.3
Amortising OFZs[2]	21.1	18.3	14.3	10.8	8.5	6.2
OFZs with floating coupon	0.0	0.0	13.8	18.4	21.7	20.1
Inflation-linked OFZs	0.0	0.0	0.0	1.9	2.0	1.9
Zero-coupon OFZs	0.0	0.0	1.4	0.0	0.0	0.0
OFZ-ns	0.0	0.0	0.0	0.0	0.0	0.5
State savings bonds (GSO)	13.6	10.6	9.6	6.7	4.7	4.3
OVOZ[3]	1.8	1.6	1.2	1.2	1.1	1.0
State guarantees	**18.2**	**22.5**	**24.4**	**23.7**	**23.8**	16.6
Other	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	0.0
			(*% of GDP*)			
Total	**7.3**	**7.8**	**9.1**	**8.8**	**9.3**	**9.4**
Domestic bonds	6.0	6.1	6.9	6.7	7.1	7.9
OFZs	4.8	5.1	5.9	6.0	6.6	7.4
OFZs with fixed coupon	3.3	3.7	3.2	3.3	3.6	4.7
Amortising OFZs[2]	1.5	1.4	1.3	0.9	0.8	0.6
OFZs with floating coupon	0.0	0.0	1.3	1.6	2.0	1.9
Inflation-linked OFZs	0.0	0.0	0.0	0.2	0.2	0.2
Zero-coupon OFZs	0.0	0.0	0.1	0.0	0.0	0.0
OFZ-ns	0.0	0.0	0.0	0.0	0.0	0.0
State savings bonds (GSO)	1.0	0.8	0.9	0.6	0.4	0.4
OVOZ[3]	0.1	0.1	0.1	0.1	0.1	0.1

State guarantees	**1.3**	**1.8**	**2.2**	**2.1**	**2.2**	1.6
Other	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	0.0
Memo:						
Exchange rate, rouble/U.S.$, end of period	30.37	32.73	56.26	72.88	60.66	57.60
GDP (*billions of roubles*)	68,164	73,134	79,200	83,387	85,918	92,082
Total domestic public debt (*U.S.$ billion*)	**163.9**	**174.8**	**128.7**	**100.3**	**131.9**	**150.9**

Notes:

(1) Does not include the domestic public debt of sub-federal and local governments unless such debt is supported by a federal guarantee.

(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.

Sources: Ministry of Finance; Bank of Russia.

Domestic Public Debt

As of 31 December 2017, the Russian Federation's domestic public debt amounted to 8,689.6 billion roubles (U.S.$150.9 billion), or 9.4% of GDP, an increase from 8,003.5 billion roubles (U.S.$131.9 billion), or 9.3% of GDP in 2016, 7,307.6 billion roubles (U.S.$100.3 billion), or 8.8% of GDP in 2015 and 7,241.2 billion roubles (U.S.$128.7 billion), or 9.1% of GDP in 2014.

OFZs are rouble denominated obligations with liquid issues having a maturity of up to 30 years, and pay interest quarterly, semi-annually or annually. Initially issued in June 1995, OFZs as a share of the Russian Federation's domestic public debt equalled 65.3% (5.1% of GDP) as of 31 December 2013, 64.8% (5.9% of GDP) as of 31 December 2014, 68.3% (6.0% of GDP) as of 31 December 2015, 70.4% (6.6% of GDP) as of 31 December 2016 and 78% (7.4% of GDP) as of 31 December 2017.

There are five types of OFZs in circulation: fixed coupon OFZs, amortising OFZs, floating-rate coupon OFZs, inflation-linked OFZs and retail OFZs for individuals ("**OFZ-ns**"). Fixed and floating-rate coupon OFZs have replaced amortising OFZs as the federal government's main instrument of domestic borrowing. Fixed-coupon OFZs, which are currently issued with original maturities of 5 to 15 years, accounted for 47.0%, 35.2%, 37.1%, 38.1% and 49.3% of the Russian Federation's domestic public debt as of 31 December 2013, 2014, 2015, 2016 and 2017, respectively, and 3.7%, 3.2%, 3.3%, 3.6% and 4.7% of GDP in 2013, 2014, 2015, 2016 and 2017, respectively.

Floating-coupon OFZs, which were first issued in 2014 and have current maturities of two to 19 years, accounted for 13.8%, 18.4%, 21.7% and 20.1% of the Russian Federation's domestic public debt in 2014, 2015, 2016 and 2017, respectively, and 1.3%, 1.6%, 2.0% and 1.9% of GDP in 2014, 2015, 2016 and 2017, respectively.

As of 31 December 2017, the weighted average duration of the OFZ market portfolio was approximately 4.25 years, compared to 3.88 years as of 31 December 2016. As of 31 December 2017, the OFZ market portfolio yield was 7.41% as compared to 8.43% as of 31 December 2016.

In 2015, inflation-linked OFZs were issued for the first time, accounting for 1.9%, 2.0% and 1.9% of the Russian Federation's domestic public debt as of 31 December 2015, 2016 and 2017, respectively. In 2014, the Russian Federation issued zero-coupon OFZs; no amounts were outstanding as of 31 December 2017.

In April 2017 the Ministry of Finance offered 15 billion roubles of OFZ-ns with a 3-year tenor and a semi-annual coupon of 7.5%-10.5% (the coupon rising semi-annually by 0.5%-1%). The OFZ-ns are not publicly tradable and their transfer or pledge to third parties is restricted. The instruments are offered to individuals through the offices of Sberbank and VTB Bank. After the initial 15-billion OFZ-ns tranche was placed in the beginning of June 2017, the Ministry of Finance offered another 15 billion roubles of OFZ-ns on the same terms (except for the placement date of the instruments). In September 2017, this tranche was placed and the Ministry of Finance started offering the second 15 billion roubles 3-year tenor OFZ-ns with the similar structure. The offering is ongoing as of the date of this Prospectus. The last offering day is 14 March 2018.

Since 2006, state savings bonds, which are sold to institutional investors and for which there is no trading market, have also constituted a substantial part of the federal government's domestic borrowing. State savings bonds comprised 10.6% (0.8% of GDP), 9.6% (0.9% of GDP), 6.7% (0.6% of GDP), 4.7% (0.4% of GDP) and 4.3% (0.4% of GDP) of the Russian Federation's domestic public debt as of 31 December 2013, 2014, 2015, 2016 and 2017, respectively. State savings bonds comprised 4.3% of domestic public debt as of 31 December 2017.

In 2011, the federal government issued rouble denominated Eurobonds, or OVOZs, for the first time, placing 90 billion roubles in the international capital markets. Rouble denominated Eurobonds accounted for 1.0 % of the Russian Federation's domestic public debt as of 31 December 2017.

The Russian Federation also issues rouble-denominated state guarantees. In 2017, state guarantees were issued in an aggregate amount of 101.3 billion roubles, almost a twelve-time decrease from the amount (in Russian roubles) issued in 2016. Of the state guarantees issued in 2017, the largest portion was issued for the purposes of the anti-crisis measures taken by the Government (37.8 billion roubles, or 37.3% of the overall amount of state guarantees issued in 2017). State guarantees in the amount of up to 356.4 billion roubles are expected to be granted in 2018.

Non-Residents' Access to the Local Bond Market

There are currently no restrictions on foreign investment in the domestic bond market, except with respect to certain government issuances. According to the General Terms of Issuance and Circulation of State Savings Bonds, state savings bonds may only be purchased by a specified 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.

The Central Depository Law and certain amendments to the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996 granted direct access to the Russian federal government securities market for foreign investors, including through accounts opened with international depository and clearing systems. In June 2016, the Bank of Russia adopted a list of foreign entities entitled to open foreign nominee accounts with NSD. According to the list, 88 foreign companies have been designated as "eligible institutions", including the principal European clearing systems. Eligible institutions are entitled to hold Russian sovereign, sub-federal and municipal bonds, Russian corporate bonds and foreign securities on their foreign nominee depo accounts with NSD. Starting from 1 July 2014, they are also authorised to hold other types of securities deposited with NSD, including Russian equities. OFZs are now admitted to trading on the main platform of the Moscow Exchange, instead of the more limited "government securities" platform.

Government Domestic Public Debt Service

As a share of GDP, domestic public debt service equalled 0.4% in 2013, 0.4% in 2014, 0.4% in 2015, 0.5% in 2016 and 0.6% in 2017. The domestic public debt to GDP ratio was 7.8% in 2013, 9.1% in 2014, 8.8% in 2015, 9.3% in 2016 and 9.4% in 2017.

Other Public Sector Domestic Debt

The total domestic public sector debt includes debt of the Russian subnational borrowers (i.e. the sub-federal and local governments) in the form of bonds, budget loans and bank credits and regional and municipal guarantees (such debt, however, is not reflected in the table above). The Russian Federation is not legally responsible for the debts of sub-federal and local governments in the absence of a government guarantee. The aggregate amount of domestic public debt of the Russian Federation's subjects and municipalities outstanding as of 1 January 2013, 2014, 2015, 2016, 2017 and 2018 was estimated at 1,579.6 billion roubles (2.3% of GDP), 2,008 billion roubles (2.7% of GDP), 2,374.5 billion roubles (3.0% of GDP), 2,627.8 billion roubles (3.2% of GDP), 2,717.2 billion roubles (3.2% of GDP) and 2,683.1 billion roubles (2.9% of GDP), respectively.

Domestic Public Debt Service Projection

The following table sets forth a projection of the Russian Federation's contractual domestic public debt service from 2018 through 2025, including principal and interest payable on all domestic public debt outstanding as of 31 December 2017, on the basis of interest rates prevailing as of that date.

Domestic Debt Service Projections[(1)]

	2018	2019	2020	2021	2022	2023	2024	2025
				(billions of roubles)				
Principal	524.9	730.1	592.1	709.3	781.6	693.1	353.9	483.9
Interest	554.4	519.2	459.4	422.9	378.8	312.5	279.1	233.0
Total	**1,079.3**	**1,249.2**	**1,051.5**	**1,132.2**	**1,160.4**	**1,005.6**	**633.0**	**716.9**

Note:

(1) Domestic public debt service projections are made on the basis of the amount of the government's public debt and certain other parameters as of 31 December 2017.

Source: Ministry of Finance.

External Financial Assets

Following the dissolution of the Union of Soviet Socialist Republics ("**USSR**"), the Russian Federation assumed responsibility for the servicing of external debts of the government of the former USSR to foreign creditors pursuant to agreements signed with 11 of the other former Soviet republics. In return, the Russian Federation received the right to the republics' claims on the external financial assets of the former USSR. In most cases, the indebtedness under such claims has been uncollectible. As of 1 January 2018, the total amount of the Russian Federation's claims on foreign borrowers (including claims on the financial assets of the former USSR) was approximately U.S.$38.1 billion.

Relations with International Financial Institutions

The Russian Federation has, in the past, received financial support from such international financial institutions as the IMF and the World Bank (IBRD and the International Finance Corporation ("**IFC**")) as financial (budget substitution) loans to cover federal budget deficits. In January 2005, the Russian Federation fully repaid 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 IBRD in the implementation of projects in key sectors of the economy by way of investment loans with a significant share of Russian co-financing. As of 1 January 2018, the Russian Federation has signed 67 loan agreements with the IBRD (of which 61 are closed and six are still active) under which approximately U.S.$10.4 billion has already been spent on projects primarily related to infrastructure development and modernisation of key sectors of the economy. Under these loan agreements, the IBRD provided U.S.$10.5 billion to the Russian Federation (of which U.S.$0.4 billion represents active projects and U.S.$10.1 billion represents completed projects). Disbursements of loans of up to U.S.$0.6 billion by the IBRD are planned for 2018, aimed at improving public sector management, mitigating social and environmental problems, preserving objects of cultural importance and developing housing and public utility infrastructure.

In recent years, the greatest investment by international financial institutions in Russia's private sector (excluding sovereign borrowings) has been by the EBRD and IFC. The EBRD has invested an aggregate of €24.3 billion in 792 projects from 1991 to 2014, although it has not provided any new lending since 2014. The IFC has invested U.S.$10.0 billion in 263 projects since 1992. Other international financial institutions that invest in Russia's private sector include the Eurasian Development Bank, the Black Sea Trade and Development Bank, the International Investment Bank, the International Bank for Economic Cooperation and the New Development Bank. In particular, as of 1 January 2018, the Board of Directors of the New Development Bank approved three project loans to the Russian Federation totalling U.S.$628.8 million.

Guaranteed Savings

Pursuant to Federal Law No. 73-FZ of May 10, 1995 "On Recovery and Protection of Personal Savings in the Russian Federation" and certain other legislative and regulatory acts, the Russian Federation committed to make payments in compensation of savings accumulated by the citizens of the Russian Federation before the collapse of the Soviet Union. Under the this law, the state guarantees recovery and preservation of the value of money savings accumulated by citizens of the Russian Federation by placing money on deposit with the Savings Bank of the Russian Federation, paying insurance premiums to public insurance companies in the Russian Federation and making investments in government securities (issued by the USSR and the Russian Soviet Federative Socialist Republic) taking into account the purchasing power of the 1991 rouble. The federal budget provides for annual appropriations towards the compensation.

In the period between 1996 and 2016, the total amount of budget appropriations towards these payments was 499.7 billion roubles. 5.5 billion roubles are budgeted in the federal budget for compensation payments in 2018. The Government is currently considering proposals to introduce an optimal regime for compensating personal savings within the capacity of the federal budget.

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 not recognised as tax residents in Russia, 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 foreign legal entity or organisation may be recognised as a tax resident in Russia based on the provisions of an applicable double taxation agreement (for the purposes and in the context of such agreement) or in case it qualifies as a tax resident according to the place of management test employed by the Tax Code. A Bondholder will not be deemed to have a permanent establishment in Russia or recognised as a Russian tax resident 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. In addition, in accordance with the amendments made to the Tax Code in 2012, tax agents are not required to withhold tax from interest payments to foreign corporate holders of securities issued by the Russian Federation.

Condition 8 in the relevant Conditions 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. In addition, the Tax Code may be interpreted as permitting payment of taxes for third parties.

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.

U.S. Federal Income Taxation

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 pursuant to this 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. 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, entities or arrangements treated as partnerships for U.S. federal income tax purposes or other pass-through entities that hold the Bonds or investors therein, person that will hold the Bonds as a hedge against currency risk or as a position in a "straddle" or conversion transaction or as part of a "synthetic security" or other integrated financial transaction, person subject to the alternative minimum tax or the Medicare tax on net investment income, U.S. citizen or lawful permanent resident living outside the United States, person that has ceased to be a U.S. citizen or lawful permanent resident of the United States, nonresident alien individual present in the United States for more than 182 days in a taxable year, investor holding the Bonds in connection with a trade or business conducted outside of the United States or person whose "functional currency" is not the U.S. dollar. In addition, U.S. holders that participated in the tender offer by the Lead Manager should consult their tax advisors about whether this will impact the application of any of the rules discussed below in their particular circumstances.

This summary is based upon the U.S. Internal Revenue Code of 1986 (the "**Code**"), Treasury regulations issued thereunder and judicial and administrative interpretations thereof, each as of 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.

As used herein, a "**U.S. holder**" means a beneficial owner of a Bond that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States; (ii) a corporation created or organised in the United States or under the laws of the United States or any state therein or the District of Columbia; or (iii) any other person that is subject to U.S. federal income tax on a net income basis in respect of a Bond.

Investors should consult their tax advisors regarding the tax consequences of the purchase, 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 non-U.S. tax laws.

Special Rules Applicable to Certain Accrual Method Taxpayers

Pursuant to recent legislation, for taxable years beginning after December 31, 2017, an accrual method taxpayer that reports revenues on an "applicable financial statement" generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in the applicable financial statements. This rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes prior to the time such income otherwise would be recognized pursuant to the rules described below. U.S. holders should consult their tax advisors regarding the potential applicability of these rules to their investment in the Bonds.

Characterization of the New Bonds

The application of the U.S. federal income tax rules to certain terms of the New Bonds is not entirely clear. It is possible that these terms could cause the New Bonds to be classified as contingent payment debt instruments for U.S. federal income tax purposes ("**CPDIs**"). The Issuer does not intend to treat the New Bonds as CPDIs. However, this is not binding on the U.S. Internal Revenue Service, which could attempt to assert, possibly successfully, that the New Bonds are CPDIs. In that event, a U.S. Holder may be required to accrue income on the New Bonds in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of the New Bonds. This would affect the amount and timing of the income that a U.S. Holder recognizes. U.S. Holders are urged to consult their tax advisors regarding the potential application to the CPDI rules to the New Bonds. This remainder of this discussion assumes that the New Bonds will not be treated as CPDIs.

Pre-Issuance Accrued Interest

If a portion of the price paid for a Further Bond is allocable to interest that accrued prior to the date the Further Bond is issued ("pre-issuance accrued interest"), the Issuer intends to take the position that, on the first interest payment date, a portion of the interest received in an amount equal to any pre-issuance accrued interest will be treated as a return of the pre-issuance accrued interest and not as a payment of interest on the Further Bond. A U.S. Holder's basis in a Further Bond will not include the portion of purchase price allocable to the pre-issuance accrued interest. Amounts treated as a return of pre-issuance accrued interest should not be taxable when received. U.S. holders should consult their tax advisors with regard to the tax treatment of the pre-issuance accrued interest on a Further Bond.

Payments of Interest

It is anticipated and the following discussion assumes that the New Bonds will not be issued with more than a *de minimis* amount of original issue discount ("**OID**"). OID will be considered to be de minimis if it is less than 0.25% of the principal amount multiplied by the number of complete years to maturity. If the New Bonds are issued with more than a *de minimis* amount of OID, U.S. holders will be subject to special U.S. federal income tax rules with respect to this OID. U.S. holders would be required to include any OID in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest regardless of the U.S. holder's regular method of accounting for U.S. federal income tax purposes, even though the cash attributable to this income will not be received until a New Bond is sold, exchanged, redeemed or otherwise disposed of.

Subject to the discussion of amortisable bond premium below, payments of stated interest, excluding any amounts attributable to pre-issuance accrued interest which will generally not be includable in income on the Further Bonds, will be taxable to a U.S. holder as non-U.S. source 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. U.S. holders are urged to consult their tax advisers regarding payments made or received in a nonfunctional currency.

Bond Premium

A U.S. holder will be considered to have purchased a Further Bond at a premium to the extent of the excess of the purchase price over the sum of the face amount of the Further Bond and the pre-issuance accrued interest and may elect to amortise the premium as an offset to interest income, using a constant yield method, over the remaining term of the Further Bond. If a U.S. holder makes this election, the election generally will apply to all taxable debt instruments held during or after such U.S. holder's taxable year for which the election is made. In addition, a U.S. holder may not revoke the election without the consent of the U.S. Internal Revenue Service. If a U.S. holder elects to amortise the premium, such U.S. holder will be required to reduce tax basis in the Further Bond by the amount of the premium amortised during such U.S. holder's holding period. If a U.S. holder does not elect to amortise the premium, the amount of premium will be included in the tax basis in the Further Bond and will decrease the gain or increase the loss otherwise recognised upon the disposition of the Further Bond. Therefore, if a U.S. holder does not elect to amortise premium and holds the Further Bond to maturity, such U.S. holder generally will be required to treat the premium as capital loss when the Further Bond matures.

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 tax basis in the Bonds. A U.S. holder's tax basis in a Bond generally will equal the cost of its initial investment in that Bond (excluding any amounts attributable to pre-issuance accrued interest, and reduced by any amortised bond premium applied to reduce interest on a Further Bond). Gain or loss recognised by a U.S. holder on the sale, exchange, 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. Long-term capital gains recognized by an non-corporate holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. U.S. holders are urged to consult their tax advisers regarding payments made or received in a nonfunctional currency.

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.

In the event that a Russian withholding tax is imposed on the disposition proceeds attributable to interest accrued but not paid on the Bonds between interest payment dates, then a U.S. holder generally would be required to include in income such proceeds and any Russian tax withheld from such proceeds 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. 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 tax advisors regarding the availability of foreign tax credits.

Information Reporting and Backup Withholding

Payments in respect of the Bonds that are paid within the United States or through certain U.S. 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 an accurate 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 timely furnished to the Internal Revenue Service. U.S. holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Bonds.

Specified Foreign Financial Assets

Certain U.S. holders that own "specified foreign financial assets" with an aggregate value in excess of US$ 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Bonds) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties.

In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Bonds, including the application of the rules to their particular circumstances.

The Proposed Financial Transaction Tax ("FTT")

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The following is a summary of provisions to be contained in the Global Bonds that will apply to, and in some cases modify, the relevant Conditions while they are represented by Global Bonds.

Form of Bonds

The Bonds will initially be evidenced by the Unrestricted Global Bonds and/or the Restricted Global Bonds. Individual bond certificates in definitive form ("**Bond Certificates**") will only be available in certain limited circumstances as described below.

The Original Unrestricted Bonds are represented by beneficial interests in the Original Unrestricted Global Bond. The Offered Unrestricted Bonds will be represented by beneficial interests in the Offered Unrestricted Global Bonds, in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

The Original Restricted Bonds are represented by beneficial interests in the Original Restricted Global Bond. The Offered Restricted Bonds will be represented by beneficial interests in the Offered Restricted Global Bonds, in registered form without interest coupons attached, which will be registered in the name of, and shall be deposited on or about the Closing Date with, NSD.

Beneficial interests in the Global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by NSD and its Participants, which include Euroclear.

The Restricted Global Bonds and any Bond Certificates issued in exchange therefor will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Restricted Global Bonds and such Bond Certificates as set forth below.

The 2047 Unrestricted Global Bonds, the 2047 Restricted Global Bonds, the New Unrestricted Global Bond, the New Restricted Global Bond will have separate ISIN numbers.

So long as the Bonds are exclusively in the form of Global Bonds, the term "**Holder**" or "**Bondholder**" shall refer to NSD (in its capacity as central securities depository ("**Central Securities Depository**") on behalf of its Participants, including Euroclear and other international Participants) as the registered holder of the Global Bonds, except that Direct Rights Participants (as defined under "—*Direct Rights*" below) shall be considered "**Holders**" or "**Bondholders**" to the extent of the Direct Rights to which they are entitled. So long as the Bonds are exclusively in the form of Global Bonds, NSD shall be the Registrar (and notice of its appointment as such need not be given pursuant to the relevant Conditions).

The provisions set forth below, including in particular with respect to transfers and exchanges of interests in the Global Bonds, will apply separately to each of the Further Bonds and the New Bonds.

Beneficial Interests in the Global Bonds

The following description of the operations and procedures of NSD and of Euroclear is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Russian Federation takes no responsibility for these operations and procedures and persons that require further information should contact the systems or their participants directly to discuss these matters.

As Central Securities Depository in the Russian Federation, NSD holds securities for Participants and facilitates the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers, banks, clearing corporations and certain other organisations. Euroclear is a Participant. Persons who are not Participants may beneficially own securities held by or on behalf of NSD only through Participants. NSD has no knowledge of the identity of beneficial owners of securities held by or on behalf of NSD. NSD's records reflect only the identity of Participants to whose accounts securities are credited. The ownership interests and transfer of ownership interests of each beneficial owner of each security held by or on behalf of NSD are recorded on the records of the Participants.

Pursuant to procedures established by NSD, upon deposit of the Global Bonds, NSD will credit the accounts of Participants designated by the Lead Manager (including Euroclear) with portions of the principal amount of the Global Bonds, and ownership of such interests in the Global Bonds will be maintained by NSD (with respect to the Participants) or by the Participants (with respect to other owners of beneficial interests in the Global Bonds held through such Participants).

Settlement with investors on the Closing Date will occur through the facilities of NSD and Euroclear. Investors in the Global Bonds may hold their interests therein directly through NSD, if they are Participants in such system, or indirectly through organisations (including Euroclear) that are Participants in such system (or though one or more financial intermediaries that include account holders of such Participants, including Euroclear). Investors wishing to hold beneficial interests in the Global Bonds through any other international clearing system will not be able to do so until such clearing system makes an eligibility determination with respect to the Bonds, which may be made only if and when customers of such clearing system instruct it to receive the Bonds.

All interests in the Global Bonds, including those held through Euroclear, will be subject to the procedures and requirements of NSD. Those interests held through Euroclear will also be subject to its procedures and requirements. The laws of some U.S. states require that certain persons take physical delivery of certificates evidencing securities they own. Consequently, the ability to transfer beneficial interests in a Global Bond to such persons will be limited to that extent. Because NSD can act only on behalf of Participants, the ability of beneficial owners of interests in the Global Bonds to pledge such interests to persons or entities that are not Participants, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Bonds will not have Bonds registered in their names, will not receive physical delivery of Bonds in certificated form and will not be considered the registered owners or holders thereof for any purpose.

Payments

Payments in respect of the principal of and interest (including any additional amounts) on a Global Bond registered in the name of NSD will be payable to NSD in its capacity as the registered holder. The Russian Federation and any agent acting on its behalf will treat NSD, as the registered holder of the Global Bonds, as the sole Holder thereof for the purpose of making payments and for any and all other purposes whatsoever (except as provided below with respect to Direct Rights). Consequently, neither the Russian Federation nor any such agent has or will have any responsibility or liability for:

- any aspect of NSD's records or any Participant's records relating to, or payments made on account of beneficial interests in, the Global Bonds, or for maintaining, supervising or reviewing any of NSD's records or any Participant's records relating to the beneficial interests in the Global Bonds, or

- any other matter relating to the actions and practices of NSD or any of its Participants.

The Issuer understands that NSD's current practice, upon receipt of any payment in respect of securities such as the Global Bonds (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date in amounts proportionate to their respective holdings in the principal amount of the relevant security as shown on the records of NSD, subject to receiving such payment from the Issuer on or prior to such payment date. So long as the Bonds are exclusively in the form of Global Bonds, under NSD's current procedures, the record date for receiving payments in respect of the Global Bonds is one business day (a business day being a day other than Saturday, Sunday or a public holiday when NSD is open for business) prior to the date of payment. Payments by the Participants (directly or through their participants or other intermediaries) to the owners of beneficial interests in the Global Bonds will be governed by standing instructions and their customary practices and will be the responsibility of the Participants (and such other participants or intermediaries) and will not be the responsibility of NSD, the Russian Federation or any agent. The Russian Federation and its agents will not be liable for any delay by NSD or any of its Participants (or any such other participants or intermediaries) in identifying the owners of beneficial interests in the Global Bonds, and the Russian Federation and its agents may conclusively rely on and will be protected in relying on instructions from NSD for all purposes.

Payments of principal and interest will be made, or procured to be made, (i) in Russian roubles, in the case of a Bondholder who has irrevocably elected to receive the relevant payment on the New Bonds in Russian roubles and has so notified the Registrar on or prior to the time required by NSD for the relevant payment on the New Bonds to be made in Russian roubles and (ii) in the case of all other holders of the New Bonds, in U.S. dollars or the Alternative Payment Currency (as defined in relevant Condition 7). Following submission of the irrevocable election to receive the relevant payment on the New Bonds in Russian roubles described above, the respective New Bonds which are the subject of such election, will be blocked from trading from no later than the business day following such submission until the Relevant Bond Payment Date.

NSD shall on each Relevant Bond Payment Date in respect of which the Registrar shall have received notification of the Currency Election, purchase Russian roubles with the related aggregate amount of U.S. dollars or alternative payment currency, as applicable ("**Foreign Currency Amount**") for delivery on the Relevant Bond Payment Date, at a purchase price

equal to (a) the bid price then used by NSD to purchase Russian roubles with U.S. dollars or alternative payment currency, as applicable, for its own account, or (b) if no such bid price is then available from NSD, at the bid price for the purchase of Russian roubles with U.S. dollars or alternative payment currency, as applicable, quoted by a leading foreign exchange bank in Moscow, London or New York City selected by NSD, in each case for delivery on the Relevant Bond Payment Date, and shall ensure that the purchase of Russian roubles with the related Foreign Currency Amount on each Relevant Bond Payment Date represents the "best execution" for that trade then available to NSD.

On each Relevant Bond Payment Date in respect of which the Registrar shall have received notification the Currency Election, NSD shall publish on its official website (currently www.nsd.ru) the information with respect to (a) the bid quotation at which Russian roubles were purchased by NSD and (b) whether such Russian roubles were purchased from NSD or from a leading foreign exchange bank in Moscow, London or New York City.

With respect to any New Unrestricted Global Bond and/or the New Restricted Global Bond, as early as practicable on the Relevant Bond Payment Date, (a) the Issuer will remit to NSD the Foreign Currency Amount in respect of that payment date, (b) NSD will pay, or procure the payment of, the Russian rouble amount purchased with the Foreign Currency Amount *pro rata* to the interests in the New Bonds, to the Bondholders that have made an irrevocable election to receive payments in Russian roubles. If, while the New Bonds are represented by the New Unrestricted Global Bond and/or the New Restricted Global Bond, for any reason no bid quotation for the purchase of Russian rouble with the Foreign Currency Amount is available on a Relevant Bond Payment Date, NSD shall so notify the Issuer, and the Issuer shall make payment on the New Bonds in U.S. dollar or alternative payment currency, as applicable.

Notwithstanding any other provision of the relevant Conditions to the contrary, including, (i) all costs of the purchase of Russian roubles with the Foreign Currency Amount shall be borne *pro rata* by the relevant Bondholders by deduction from the Russian rouble payment made to the relevant Bondholders, and (ii) the Russian Federation shall have no obligation whatsoever to pay any commissions or expenses, or to indemnify the Bondholders against any difference between the Russian rouble amount received by such Bondholders and their *pro rata* portion of the Foreign Currency Amount.

Notices

So long as the Bonds are exclusively in the form of Global Bonds, instead of providing notices to Bondholders by mail, the Issuer shall provide notices through the facilities of NSD, which will in turn deliver such notices to its Participants, including Euroclear, for delivery to holders of beneficial interests in the Global Bonds through their ordinary procedures. Such notices shall be deemed to have been given on the date of delivery to NSD. In addition, so long as the Bonds are listed on the Irish Stock Exchange, notices will also be given in accordance with the rules of the Irish Stock Exchange. In addition, NSD's notices to Bondholders in connection with the Currency Election about the bid quotation at which Russian roubles were purchased by NSD and whether such Russian roubles were purchased from NSD or from a leading foreign exchange bank in Moscow, London or New York City will be given by publishing such notices on the official NSD's website. Any 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.

So long as the Bonds are exclusively in the form of Global Bonds, notices from Bondholders to the Issuer may be given through the facilities of NSD. Holders of beneficial interests in the Global Bonds may deliver (or cause their custodians, brokers or other financial intermediaries to deliver) their notices to the Participants (including Euroclear) through which they hold such interests, for delivery to the Issuer through the facilities of NSD.

Direct Rights

Each Global Bond will be executed as a deed and provide that Direct Rights Participants shall have certain direct rights ("**Direct Rights**") with respect to the matters set forth below. "**Direct Rights Participants**" means (i) in the case where interests in the Global Bonds are held through Euroclear or any other Participant that is itself a clearing system ("**Clearing System Participants**"), the participants holding accounts with the Clearing System Participants to which such interests in the Global Bonds are credited on the electronic books and records maintained by the Clearing System Participants, as the case may be, or (ii) in the case of all other interests in the Global Bonds, the Participants holding accounts with NSD to which interests in the Global Bonds are credited on the electronic books and records maintained by NSD. Investors that hold their beneficial interests in the Global Bonds indirectly through Direct Rights Participants shall not be entitled to Direct Rights, but they may be able to instruct the Direct Rights Participants in the exercise of Direct Rights or (in the case of Bondholder meetings) obtain proxies from them, to the extent provided by the procedures of the Direct Rights Participants. The Russian Federation shall have no responsibility for ensuring that any such instruction or proxy rights will be available.

Direct Rights Participants shall have the following Direct Rights in respect of the interests in the Global Bonds credited to their accounts with NSD or a Clearing System Participant: (i) the right to attend meetings of Bondholders or to request the convening of a Bondholder meeting in accordance with the relevant Condition 12(b)(ii), (ii) the right to vote at any Bondholder meeting or in respect of any proposed Written Resolution in person, by proxy, or through electronic voting through the facilities of NSD, as described under "*—Electronic Voting*" below, subject to the procedures established by the Issuer in respect of any such Bondholder meeting or in respect of such Written Resolution in accordance with the relevant Conditions, (iii) the right to give notice of default, and, upon the occurrence of an Event of Default, to declare the Bonds immediately due and payable or to waive any Event of Default (subject to such a declaration being made or waiver being granted by the holders of Direct Rights in respect of the requisite percentage of the Bonds set forth in the relevant Conditions), and (iv) upon the failure of the Russian Federation to pay the principal of the Bonds when due (at maturity or upon being validly declared due and payable pursuant to the relevant Conditions), all rights, including the right to receive payments due on such Bonds, that such Direct Rights Participant would have received if it had been the holder of Bond Certificates. For the avoidance of doubt, Direct Rights Participants shall be entitled to Direct Rights without the need to exchange interests in the Global Bonds for Bond Certificates. NSD, as the registered Holder of the Global Bonds, shall not have the right to exercise any rights in respect of which Direct Rights are provided to Direct Rights Participants, and any actions taken by NSD in respect thereof shall be administrative in nature and undertaken as agent for the Issuer.

Electronic Voting

NSD will not exercise voting rights. So long as the Bonds are represented exclusively by Global Bonds, Direct Rights Participants may exercise voting rights through the electronic

voting facilities of NSD, so long as NSD continues to provide such facilities and they are compatible with the provisions in the relevant Conditions relating to Bondholder meetings and Written Resolutions. NSD maintains an e-proxy voting system in which voting instructions are delivered electronically to NSD by its Participants (including Clearing System Participants), which in turn receive voting instructions from their accountholders and participants in accordance with their ordinary procedures. NSD provides the voting results to the Issuer, which in turn determines if the relevant resolution passes (after taking into account any votes cast in person or by proxy at the Bondholder meeting or through any other voting system made available by the Issuer). The Issuer will communicate the results of the vote to Participants through NSD, and the Participants in turn will communicate such results through their ordinary procedures. Under the current procedures of NSD, the record date for electronic voting at a Bondholder meeting is generally seven business days (a business day being a day other than Saturday, Sunday or a public holiday when NSD is open for business) prior to the date of the Bondholder meeting.

Together with the notice of any meeting, the Issuer shall provide instructions as to the manner in which Direct Rights Participants may exercise voting rights through NSD's e-proxy voting system, or any other electronic voting systems or systems that may replace or be in addition to such system.

Transfers of Beneficial Interests in Global Bonds

Transfers between Participants in NSD will be effected in accordance with NSD's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear will be effected in the ordinary way in accordance with its rules and operating procedures. Cross-market transfers between Participants in NSD, on the one hand, and participants in any other Clearing System Participant (including Euroclear) through which interests in the Global Bonds may be held, on the other hand, will be effected through NSD in accordance with NSD's rules on behalf of such Clearing System Participants (including Euroclear) or their depositaries or nominees, and in accordance with the rules and procedures of such Clearing System Participants. Cross-market transfers between Participants in NSD, on the one hand, and participants in Euroclear, on the other hand, will require delivery of instructions to Euroclear by the counterparty in Euroclear in accordance with the rules and procedures and within the established deadlines (Brussels time) of Euroclear. Euroclear will, if the transaction meets its settlement requirements, deliver instructions to its depositaries or nominees to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Bond in NSD, and making or receiving in accordance with normal procedures for same-day funds settlement applicable to NSD. Euroclear participants may not deliver instructions directly to the depositaries or nominees for Euroclear.

Although NSD and Euroclear have the foregoing procedures in place to transfer interests in the Global Bonds among Participants in NSD (including Euroclear and other Clearing System Participants), they are under no obligation to perform or to continue to perform such procedures, and the procedures may be discontinued at any time. Neither the Russian Federation nor any of its agents will have any responsibility for the performance by NSD, its Participants (including Euroclear and other Clearing System Participants) or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Interests in Global Bonds for Bond Certificates

Registration of title to the Bonds initially represented by a Global Bond in a name other than NSD or a successor depositary or one of its nominees will not be permitted in respect of such Bonds unless (a) NSD or any Clearing System Participant (including Euroclear) in the European Union through which interests in the Global Bond may be held is closed for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) NSD notifies the Issuer that it is no longer able to discharge properly its responsibilities as depositary with respect to such Global Bonds, or is at any time no longer eligible to act as such under applicable law, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such inability or ineligibility on the part of NSD.

In such circumstances, beneficial interests in the Global Bonds will be exchanged in full or in part, as the case may be, for Bond Certificates, and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar 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 Issuer and/or the Registrar may require to complete, execute and deliver such Bond Certificates and (b) in the case of the Restricted Global Bonds 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, and for this purpose compliance with the relevant Condition 6(b) shall be assumed.

The holder of a Bond represented by a Bond Certificate may transfer such Bond in accordance with the provisions of the relevant Condition 2. Bond Certificates will not be eligible for trading in NSD, Euroclear or any other clearing system.

Upon the transfer, exchange or replacement of a Bond Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Bond Certificate issued in exchange for an interest in the Restricted Global Bond, the Russian Federation will deliver only 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 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.

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.

With respect to any New Bonds represented by the relevant Bond Certificates held by Bondholders that have made an irrevocable election in accordance with relevant Conditions

to receive payments in Russian roubles, as early as practicable on the Relevant Bond Payment Date, (a) the Russian Federation will remit to NSD the Foreign Currency Amount in respect of that payment date, (b) NSD will pay, or procure the payment of, the Russian roubles amount purchased with the Foreign Currency Amount to the to Bondholders that have made an irrevocable election in accordance with relevant Conditions to receive payments in Russian roubles by wire transfer of same day funds for value the due date for payment or, if the due date for payment is not a Business Day, the next succeeding day which is a Business Day. If for any reason no bid quotation for the purchase of Russian roubles with the Foreign Currency Amount is available on a Relevant Bond Payment Date while any New Bonds are represented by the relevant Bond Certificates, NSD shall so notify the Issuer, and the Issuer shall make all payments on the New Bonds in U.S. dollar or alternative payment currency, as applicable.

NSD and Euroclear

The information in this section concerning NSD, Euroclear and their book-entry systems has been obtained from sources that the Russian Federation believes to be reliable, but the Russian Federation takes no responsibility for the accuracy thereof.

NSD is the central securities depository of the Russian Federation, a part of the Moscow Exchange Group. NSD was founded on 27 June 1996. The status of central securities depository was assigned to NSD by the Russian Federal Financial Markets Service's order No. 12-2761/PZ-I dated 6 November 2012. NSD is an infrastructure institution for the financial market of the Russian Federation, performing a wide range of activities, including the functions of the central depository and securities settlement system, systemically and nationally significant payment system, a trade repository, as well as acting as Russia's national numbering agency and the substitute numbering agency for the CIS, authorised to assign ISIN and classification of financial instrument ("**CFI**") codes. The total value of securities on deposit with NSD amounted to 39,447 billion roubles (U.S.$685 billion) as of 31 December 2017. NSD has had relationships with the principal international clearing systems for many years. NSD's annual reports and other information about NSD are available in Russian and in English on its website, www.nsd.ru.

Euroclear holds securities for participating organisations and facilitates the clearance and settlement of securities between its accountholders through electronic book-entry changes in accounts of such accountholders. Euroclear provides to its accountholders, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear interfaces with domestic securities markets. Euroclear accountholders are financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodian relationship with a Euroclear accountholder, either directly or indirectly.

TRANSFER RESTRICTIONS

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 the receipt by the NSD of an instruction from the transferor in the form required by and in accordance with the operating procedures of the NSD to the effect that such transfer is being made to the Russian Federation or an affiliate of the Russian Federation or is being made in accordance with Regulation S or Rule 144A (if available) the Securities Act.

Any beneficial interest in a Restricted Global Bond that is transferred to a person who takes delivery in the form of a beneficial interest in the Unrestricted Global Bond will, upon transfer, cease to be a beneficial interest in the Restricted Global Bond and become a beneficial interest in the Unrestricted Global Bond.

A beneficial interest in an Unrestricted Global Bond may be transferred to a person who wishes to take delivery of such beneficial interest through an Restricted Global Bond upon delivery of instructions to NSD through a Participant to effect such transfer, specifying the principal amount to be transferred. Any beneficial interest in an Unrestricted Global Bond that is transferred to a person who takes delivery in the form of a beneficial interest in the Restricted Global Bond will, upon transfer, cease to be a beneficial interest in the Unrestricted Global Bond and become a beneficial interest in the Restricted Global Bond.

The Offered Bonds are being offered and sold in the United States only to QIBs. Because of the following restrictions, purchasers of Offered Bonds offered in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Offered Bonds.

Each purchaser of Offered 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 Offered Bonds for its own account or for the account of a QIB.

(b) The purchaser understands that the Offered 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 Bonds and any Bond Certificates exchanged therefor 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 Lead Manager and its affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

PLAN OF DISTRIBUTION

VTB Capital plc (the "**Lead Manager**") has, in a contract with the Issuer (the "**State Contract**") dated 7 March 2018 as supplemented on or about 16 March 2018, agreed to subscribe for the Offered Bonds. The Lead Manager expects to (i) deliver to the Issuer the Old Bonds acquired by the Lead Manager from their holders following a tender offer made by the Lead Manager, in respect of which the offer period closed on 15 March 2018, and (ii) pay to the Issuer U.S.$797,589,756.15.

The Lead Manager is offering to sell the Offered Bonds on the terms and in the manner set forth in this Prospectus. In connection with this, the Lead Manager has agreed to procure purchasers for the Offered Bonds, failing which to retain the Offered Bonds at their respective issue price set forth on the cover page of this Prospectus.

The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the State Contract prior to the issue of the Offered Bonds. The Issuer has agreed to indemnify the Lead Manager against certain liabilities in connection with the issue of the Offered Bonds. The Issuer has not incurred any expenses in relation to the offering of the Offered Bonds, other than commissions. The Lead Manager has agreed to bear certain expenses of the Issuer.

United States

The Offered 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 Lead Manager has agreed to offer the Offered Bonds for resale in the United States initially only to persons it reasonably believes to be QIBs 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 Offered Bonds are being offered and sold outside of the United States in reliance on Regulation S. The Lead Manager may, through its U.S. affiliates, resell a portion of the Offered Bonds within the United States only to QIBs in reliance on Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of Offered 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

The Lead Manager has 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 Offered Bonds in, from or otherwise involving the United Kingdom.

General

The Lead Manager has 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 the Offered Bonds or has in its possession or distributes the Prospectus or any other offering material.

Each purchaser of the Offered Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Offered 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 the Offered 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 the Lead Manager shall have any responsibility therefor.

The Lead Manager and some of the 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 receive customary compensation.

GENERAL INFORMATION

1. The Offered Bonds will be accepted for clearance through NSD and will have the ISIN numbers set out below.

	2047 Restricted Global Bond	2047 Unrestricted Global Bond
ISIN	RU000A0JXU22	RU000A0JXU14

	New Restricted Global Bond	New Unrestricted Global Bond
ISIN	RU000A0ZYYP9	RU000A0ZYYN4

2. Application has made to the Irish Stock Exchange for the Offered Bonds to be admitted to the Official List and trading on the Market. It is expected that admission of the Offered Bonds to trading will be granted on or the next working day after the Closing Date. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Offered Unrestricted Global Bonds and Offered Restricted Global Bonds.

   The expenses in connection with the admission of the Offered Bonds to the Official List and to trading on the Market are expected to amount to approximately €5,140.

   Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Russian Federation in relation to the Bonds and is not itself seeking admission to the Official List or trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

3. For 12 months starting on the date this Prospectus is made available, the issuance account agreement between the Issuer and NSD dated 26 May 2016 (the "**Issuance Account Agreement**") and Addendum No. 5 to the Issuance Account Agreement dated 16 March 2018 (in physical form) may be inspected during normal business hours (local time) on any weekday (public holidays excluded) at the office of the Issuer.

4. Copies of the Russian Federation's federal budget are available free of charge in electronic form on the website of the Ministry of Finance of the Russian Federation (http://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.

5. 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 Offered Bonds.

6. The issue of the Offered Bonds was 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. 362-FZ of 5 December 2017 "On the Federal Budget for 2018 and planning period for 2019 and 2020"; Resolution of the Government of the Russian Federation dated 16 December 2017 No. 2851-r;

Resolution of the Government of the Russian Federation dated 8 April 2010 No. 217; Resolution of the Government of the Russian Federation dated 28 February 2018 No. 336-r; Order of the Ministry of Finance dated 24 February 2012 No. 31n; Order of the Ministry of Finance dated 7 March 2018 No. 127; Order of the Ministry of Finance dated 16 March 2018 No. 151 and Order of the Ministry of Finance dated 16 March 2018 No. 152.

7. 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.

8. 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.

9. 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.

10. The Russian Federation has been involved in a number of litigation and arbitration proceedings in which substantial claims have been asserted and substantial damages sought against the Russian Federation in the previous 12 months. However, the Russian Federation does not believe that any of these proceedings will have a significant effect on the Russian Federation's financial position in light of the size of Russia's economy and the resources available to the Government. There are no, and have not been, any governmental, legal or arbitration proceedings in the 12 months preceding the date of this Prospectus (including any such proceedings which are pending or threatened of which the Russian Federation is aware) which may have or have in such period had a significant effect on the financial position of the Russian Federation.

11. Since 31 December 2017, 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.

12. The Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business for which they have received and/or will receive fees and expenses. In addition, in the ordinary course of their business, the Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative instruments) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. The Managers and their affiliates routinely hedge their credit exposure consistent with their customary risk management policies. Typically, the Lead Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including, potentially, the Bonds. Any such short positions could adversely affect future trading prices of the Bonds. The Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

13. The address of the Issuer is 9 Ilyinka Street, Moscow 109097, Russian Federation, and its telephone number is +7 495 987 9242.

ISSUER

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