

**PROSPECTUS**



**THE REPUBLIC OF SERBIA**

**U.S.\$57,137,726**

**3.75 per cent. Step up Bonds due 2010 to 2024 ("2024 Bonds")**

**Issue Price: 100 per cent**

**Issued on 21 September 2005**

**To be fully fungible with Existing 2024 Bonds**

The 2024 Bonds will be fungible with the 3.75 per cent. Step-up Bonds due 2010 to 2024 of the Republic of Serbia issued on 8 April 2005 (the "**Existing 2024 Bonds**").

The Existing 2024 Bonds are expressed to bear interest from 1 October 2004 to 1 November 2009 at a rate of 3.75 per cent. per annum and thereafter at a rate of 6.75 per cent. per annum payable semi-annually on 1 November and 1 May in each year after the first payment, which was due and was paid on 1 May 2005. The 2024 Bonds will bear interest on an identical basis and the 1 May 2005 first payment has similarly been paid.

Unless previously redeemed or cancelled, the 2024 Bonds will be redeemed in 30 equal semi-annual instalments on 1 May and 1 November each year, commencing on 1 May 2010.

Payments on the 2024 Bonds will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by the Republic of Serbia to the extent described under "Terms and Conditions of the 2024 Bonds - Taxation".

Application has been made to be admitted to the official list and traded on the Regulated Market of the Luxembourg Stock Exchange.

**PARTICULAR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" BELOW.**

The 2024 Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may be offered and sold only in transactions that are exempt from, or are not subject to, the registration requirements of the Securities Act. The Existing 2024 Bonds were offered in the United States only to Qualified Institutional Buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act) and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. The 2024 Bonds are being offered to a single investor outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act.

The 2024 Bonds will be in registered form, without coupons attached and in the denomination of U.S.\$50,000 or any amount in excess thereof which is an integral multiple of 1 U.S.\$.. The 2024 Bonds will be represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (the "**Unrestricted Global New 2024 Bonds**"), which will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG (acting through its London branch) as the common depository (the "**Common Depositary**") in respect of interests held through the facilities of Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"). The unrestricted global 2024 Bonds issued in relation to the Existing Bonds and the Unrestricted Global New 2024 Bonds are together referred to as the "Unrestricted Global 2024 Bonds". The Existing 2024 Bonds were also offered and sold to QIBs and represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (the "**Restricted Global 2024 Bonds**"), which are registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), and deposited with Deutsche Bank Trust Company Americas, as custodian (the "**Custodian**") for DTC. See "Form and Transfer of the 2024 Bonds" herein. The Restricted Global 2024 Bonds are subject to certain restrictions on transfer. See "Transfer Restrictions" herein.

Application has been made to list and admit to trading the 2024 Bonds on the market of the Luxembourg Stock Exchange appearing on the list of regulated markets issues by the E.C. A copy of this Prospectus will be published on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

21 September 2005

No person has been authorised to make or provide any representation or information regarding the Republic of Serbia or the 2024 Bonds other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by the Republic of Serbia or any agency thereof. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Unless otherwise indicated, all information in this Prospectus is given as of its date.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Republic of Serbia or any agency of the Republic of Serbia in any jurisdiction where an offer or invitation by or on behalf of the Republic of Serbia or any agency of the Republic of Serbia is not permitted by the laws of such jurisdiction. The distribution of this Prospectus and the offering of the 2024 Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes should inform themselves of and observe all such restrictions.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") no offer of the 2024 Bonds may be made to the public in that Relevant Member State, except that, with effect from and including the Relevant Implementation Date, an offer of the 2024 Bonds may be made to the public in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to those 2024 Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of 2024 Bonds to the public" in relation to any 2024 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 2024 Bonds to be offered so as to enable an investor to decide to purchase or subscribe the 2024 Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus

Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This Prospectus is not an offer to any other person or the public generally. Distribution of this Prospectus to any person other than a Holder or an advisor to such a Holder is not authorised by The Republic of Serbia except to the extent required after the date of issuance of the 2024 Bonds by the rules and regulations of the Luxembourg Stock Exchange. This Prospectus is not an offer to the public in any jurisdiction.

Prospective purchasers of the 2024 Bonds should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Serbia of acquiring, holding and disposing of the 2024 Bonds and receiving payments of interest, principal and/or other amounts under the 2024 Bonds.

The 2024 Bonds are being issued to allow a late joining creditor of the Republic of Serbia to take securities on a basis fully fungible with the Existing 2024 Bonds issued by the Republic of Serbia in April 2005.

In this Prospectus, (i) all references to "dollar," "U.S.\$", "U.S. dollar" and "\$" are to the lawful currency of the United States of America and (ii) all references to "euro", "EUR" and "€" means the single currency of Participating Member States of the European Union and all references to interest accruing from a specified date or to a specified date are to interest accruing from, and including, the first specified date to, but excluding, the second specified date.

A glossary of defined terms used in this Prospectus can be found in Annex A hereto.

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.

Statistical information reported herein has been derived from official publications of, and information supplied by, a number of agencies of the Republic of Serbia, including, the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (the "**Ministry of Finance**"). In certain cases, the Ministry of Finance and/or the National Bank of Serbia 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 has 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 may differ from data made public previously due to regular revisions conducted by the National Bank or Serbia, the Ministry of Finance and other Serbian authorities. Unless otherwise stated, data set out in this Prospectus has been presented on the basis of information prepared up to the 31 December 2004.

**Responsibility Statement**

The Republic of Serbia, having made all reasonable enquiries, confirms that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge in accordance with the facts and contains no omission likely to affect its import.

Such information is true and accurate in every material respect and is not misleading in any material respect and that this Prospectus, insofar as it concerns such matters, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Republic of Serbia are honestly held by the Republic of Serbia, have been reached after considering all relevant circumstances and are based on reasonable assumptions. The Republic of Serbia accepts responsibility for the information contained in this Prospectus.

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## SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the 2024 Bonds should be based on a consideration of this Prospectus as a whole. No civil liability attaches to The Republic of Serbia solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with any other part of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the European Union (a "**Member State**"), the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated. Words and expressions defined in the "Terms and Conditions of the 2024 Bonds" below or elsewhere in this Prospectus have the same meanings in this summary.

### 1. **Essential characteristics and risks associated with The Republic of Serbia**

The Republic of Serbia or ("**Serbia**"), is one of the two republics which are members of the State Union of Serbia and Montenegro, the other being the Republic of Montenegro (or "**Montenegro**"). The State Union of Serbia and Montenegro ("**SM**") was established on 4 February 2003 when the Federal Parliament of the Federal Republic of Yugoslavia ("**FRY**") adopted a new Constitutional Charter and proclaimed the establishment of the State Union of Serbia and Montenegro. Serbia contains two autonomous provinces: Vojvodina and Kosovo-Metohija. Belgrade is the capital of Serbia, and the administrative, economic and cultural centre of Serbia and Serbia-Montenegro.

Serbia is located in the central part of the Balkan Peninsula and has been referred to as the crossroads of Europe. Serbia possesses the shortest transport links between Western and Central Europe, the Middle East, Asia and Africa. Serbia borders Bulgaria, Romania, Hungary, Croatia, Bosnia and Herzegovina, Albania and Macedonia.

In 2002, the population of Serbia was approximately 7,498,000 (without the data from Kosovo and Metohija), the largest cities being Belgrade (1,602,226 citizens), Novi Sad (179,626 citizens), Nis (175,391 citizens) and Kragujevac (147,305 citizens). The population comprises a majority of Serbs and is mainly Orthodox Christian.

The Government of SM is a presidential parliamentary democracy. The legislative branch of government, the SM Parliament (Skupstina) was constituted on 4 March 2003. The Assembly has 126 seats, with 91 allocated to Serbia and 35 to Montenegro. The current President, Svetozar Marovic, was elected the first President of SM on 7 March 2003. Members of the new Assembly were chosen by the parliaments of the two republics and will serve for two years. A direct election is scheduled for 2005. Upon the expiration of a three-year period following the implementation of a new Constitutional Charter which was adopted on 4 February 2003, the member states are able to institute proceedings to withdraw from the state union.

Since the overthrow of Slobodan Milosevic's Socialist Party's regime and the formation of the government by the coalition of pro-democratic political parties in October 2000, Serbia has made significant progress in successfully implementing political and economic changes,

rebuilding the country, adopting principals of a modern democratic society, making the transition to a market-based economy with a view to meeting the requirements necessary to eventually join the European Union ("EU"). These efforts have resulted in notable economic growth and an increased level of macroeconomic stability in the country.

The important elements of Serbia's economic transition include its ongoing privatization process (in which over 1,200 state companies were privatized), the restructuring of the banking system and major public companies, the reform of public finance and the strengthening of the fiscal and monetary sector. Serbia has become more open towards the world economy and has taken steps to deregulate and liberalise trade, re-establish ties and further co-operation with leading international financial institutions (including the IMF, the World Bank, the European Bank for Reconstruction and Development ("EBRD"), the European Investment Bank ("EIB") and the International Finance Corporation) and encourage international investment.

Between 2000 and 2004, Serbia recorded real GDP growth of 22.1%, or around 5.1% on average per annum. In 2003, Serbia's GDP amounted to U.S.\$18.9 billion, or some U.S.\$2,500 per capita. GDP in 2004 was estimated at U.S.\$21.64 billion raising GDP per capita to approximately U.S.\$2,886. Inflation as measured by reference to the retail price index ("RPI") was 13.7% in 2004. Unemployment stood in the region of 18.5% in 2004, although that figure may be overstated.

Since January 2001, major legal reform has occurred in Serbia with a view to moving in the direction of harmonising its rules with the standards prevailing in the market economies of the EU and other developed countries, making a favourable environment for the development of entrepreneurship, providing a regulatory framework conducive to economic growth and development, providing for the efficient introduction of private-public partnerships, encouraging foreign investment and the development of the overall economy.

Serbia is the beneficiary of international lending and financial assistance from a number of international financial institutions and the EU. The lending and assistance is generally for the purpose of rebuilding, reforming and developing Serbia's economy.

The key parts of Serbia's economy are industry (largely represented by food processing, energy, textile, leather, footwear and wood processing products), agriculture (best known for crop farming, livestock breeding and vine and fruit growing), fishery, construction, trade, and transportation.

Uncertainty in relation to Serbia's political and economic environment, inflation, balance of payments, and risks associated with Serbia's financial sector are all factors (amongst others) that might impact on the financing conditions of Serbia. Furthermore, Serbia is a sovereign state. Although Serbia has waived its sovereign immunity in respect of the 2024 Bonds, enforcement against Serbia in the event of default may be impracticable by virtue of legal, commercial, political or other considerations. The ability of Serbia to repay the 2024 Bonds depends on its ability to raise revenues either by taxation, through the capital markets or through other sources.

Long-term debt of Serbia is currently rated BB- (Outlook Stable) by Standard and Poor's and BB- (Outlook Stable) by FitchRatings.

## **2. Essential characteristics and risks associated with the 2024 Bonds**

Serbia is issuing 2024 Bonds with a principal amount of U.S.\$57,137,726. The 2024 Bonds will be issued on 21 September 2005 and unless previously redeemed or purchased and cancelled, the 2024 Bonds will be redeemed in 30 equal semi-annual instalments on 1 May and 1 November each year, commencing on 1 May 2010.

The 2024 Bonds will be fungible with the Existing 2024 Bonds and are expressed to bear interest from 1 October 2004 to 1 November 2009 at a rate of 3.75 per cent. per annum and thereafter at a rate of 6.75 per cent. per annum payable semi-annually on 1 November and 1 May in each year after the first payment on 1 May 2005. The first payment in 1 May 2005 has been paid.

The 2024 Bonds will be in fully registered form without interest coupons attached, with denominations of U.S.\$50,000 or any amount in excess thereof which is an integral multiple of U.S.\$1.00. The 2024 Bonds will be represented by interests in one or more Unrestricted Global New 2024 Bonds.

The 2024 Bonds constitute general, direct, unconditional, unsubordinated and, subject to Condition 4(a) of the Terms and Conditions of the 2024 Bonds, unsecured obligations of Serbia. Subject to Condition 4(a) of the Terms and Conditions of the 2024 Bonds, the 2024 Bonds shall at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of Serbia.

Serbia undertakes that so long as any 2024 Bond remains outstanding, if Serbia creates or permits to subsist any Security Interest upon the whole or any part of its International Monetary Assets to secure any Public External Indebtedness, Serbia shall at the time or prior thereto, secure equally and rateably therewith the obligations of Serbia under the 2024 Bonds.

If prior to (and excluding) the date on which the SM, Serbia or any other republic of which Serbia is a member becomes a member state of the European Union, any Public External Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the debtor following a default, or Serbia fails to make any final payment of principal in respect of Public External Indebtedness when such final payment is due and payable or by the expiry of any originally applicable grace period, provided that the aggregate amount of the relevant Public External Indebtedness in question equals or exceeds U.S.\$30,000,000 (or its equivalent) and this state of affairs is continuing, such state of affairs will constitute an event of default and the holders of the 2024 Bonds will have the rights more fully set out in this Prospectus.

All payments of principal and interest in respect of the 2024 Bonds by Serbia 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 Serbia or any political subdivision or any authority thereof or therein having power to tax,



unless such withholding or deduction is required by law, as more fully set out in this Prospectus.

Serbia may, without the consent of the holders of the 2024 Bonds, create and issue further 2024 Bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further 2024 Bonds and the date and amount of the first payment of interest on such further 2024 Bonds) so that such further 2024 Bonds shall be consolidated and form a single series with the 2024 Bonds.

The trading market for debt securities may be volatile and may be adversely impacted by many external and domestic events. The 2024 Bonds may have no established trading market when issued, and one may never develop or, if one does develop, it may not be maintained. This might result in the market or trading price and liquidity of the 2024 Bonds being adversely affected.

The 2024 Bonds may not be a suitable investment for all investors. The acquiring, holding or disposing of 2024 Bonds and receiving payments under 2024 Bonds may have tax consequences for an investor.

The 2024 Bonds will be represented by global bonds (except in limited circumstances) and investors will have to trade their interests in the 2024 Bonds through a clearing system.

Application has been made to the Luxembourg Stock Exchange for the 2024 Bonds to be admitted to the Official List of the Luxembourg Stock Exchange, subject to the Luxembourg Stock Exchange Listing Rules. The 2024 Bonds will be governed by English law.

## **RISK FACTORS**

Prospective Investors should read the entire Prospectus. Words and expressions defined in the "Terms and Conditions of the 2024 Bonds" below or elsewhere in this Prospectus have the same meanings under this section. Investing in the 2024 Bonds involves certain risks. In addition, the purchase of certain 2024 Bonds may involve substantial risks and be suitable only for investors who have the knowledge and experience in financial and business matters to enable them to evaluate the risks and merits of an investment in the 2024 Bonds. Prospective investors should make their own inquiries as they deem necessary without relying on Serbia and should consult with their financial, tax, legal, accounting and other advisers, prior to deciding whether to make an investment in the 2024 Bonds. Prospective investors should consider, among other things, the following:

**1. Risks relating to the 2024 Bonds**

**(a) Risks related to the 2024 Bonds generally**

Set out below is a brief description of certain risks relating to the 2024 Bonds generally.

***The trading market for debt securities may be volatile and may be adversely impacted by many events***

The market for the 2024 Bonds issued by Serbia is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in European and other industrialised countries. There can be no assurance that events in SM, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of 2024 Bonds or that economic and market conditions will not have any other adverse effect.

***There could be no active trading market for the 2024 Bonds***

There can be no assurance that an active trading market for the 2024 Bonds will develop, or, if one does develop, that it will be maintained. The 2024 Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If an active trading market for the 2024 Bonds does not develop or is not maintained, the market or trading price and liquidity of the 2024 Bonds may be adversely affected. If the 2024 Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Serbia. Although an application has been made to the Luxembourg Stock Exchange for the 2024 Bonds to be admitted to the Official List of the Luxembourg Stock Exchange, subject to the Luxembourg Stock Exchange Listing Rules, and to be admitted to trading on the Luxembourg Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

***The 2024 Bonds may not be suitable investment for all investors***

Each potential investor in the 2024 Bonds must determine the suitability of that investment in the light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the 2024 Bonds and the merits and risks of investing in the 2024 Bonds;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the 2024 Bonds and the impact the 2024 Bonds will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the 2024 Bonds, including 2024 Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the 2024 Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Because the global instruments relating to the 2024 Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with Serbia***

The 2024 Bonds will be represented by the Unrestricted Global 2024 Bond. The Unrestricted Global 2024 Bond will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Individual 2024 Bond Certificates will only be available in certain limited circumstances, as described in this Prospectus. While the 2024 Bonds are represented by the Unrestricted Global 2024 Bond, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

Serbia will discharge its payment obligations under the 2024 Bonds by making payments to DTC, Euroclear, Clearstream, or the Common Depositary (as defined in this Prospectus) or nominee as the case may be, as the registered holder thereof. A holder of a beneficial interest in an Unrestricted Global 2024 Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the 2024 Bonds. Serbia, the Exchange Agent (as described in this Prospectus) or any affiliate of any of them or any person by whom any of them is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to, or payments made in respect of, beneficial interests in the Global 2024 Bonds or for maintaining, supervising, or reviewing any records relating to such beneficial interests.

### ***The 2024 Bonds are unsecured***

The 2024 Bonds constitute unsecured obligations of Serbia.

### ***The terms of the 2024 Bonds may be modified, waived or substituted without the consent of 100% of the bondholders***

The conditions of the 2024 Bonds contain provisions for convening meetings of bondholders to consider matters affecting their interests. These provisions permit defined majorities to bind all bondholders including bondholders who did not attend and vote at the relevant meeting and bondholders who voted in a manner contrary to the majority.

### ***Sovereign Immunity***

Serbia is a sovereign state. Although Serbia has waived its sovereign immunity in respect of the 2024 Bonds, enforcement in the event of a default may nevertheless be impracticable by virtue of legal, commercial, political or other considerations.

### ***There can be no assurance that English law in effect as at the date of this Prospectus will not be modified***

The conditions of the 2024 Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

#### **(b) Risks related to the market generally**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

#### ***The secondary market generally***

The 2024 Bonds may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their 2024 Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for 2024 Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of 2024 Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of 2024 Bonds.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) 2024 Bonds are legal investments for it, (b) 2024 Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any 2024 Bonds. Financial institutions

should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of 2024 Bonds under any applicable risk-based capital or similar rules.

## **2. Risks relating to Serbia**

### **(a) There can be no assurance that Serbia's credit rating will not change**

Long-term debt of Serbia is currently rated BB- (Outlook Stable) by Standard and Poor's and BB- (Outlook Stable) by Fitch Ratings. The Existing 2024 Bonds have been rated BB- (Outlook Stable) by Standard and Poor's and BB- (Outlook Stable) by Fitch Ratings. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the 2024 Bonds. The current ratings are sub-investment grade. They indicate that the 2024 Bonds are regarded as having significant speculative characteristics and that there are major ongoing uncertainties or exposure to financial or economic conditions which could compromise Serbia's capacity to meet its financial commitment on the 2024 Bonds.

### **(b) Uncertainty in relation to Serbia's political and economic environment**

Serbia's recent history has been turbulent and includes war, economic collapse and diplomatic and economic isolation. Since the overthrow of Slobodan Milosevic's Socialist Party's rule in 2000, many political and economic reforms have taken place as part of the task of rebuilding the country. However, Serbia has not yet secured macroeconomic stability and its economy still has a number of structural weaknesses including high unemployment, unrestructured industry and relatively low levels of exports compared to imports (see below), in addition to other issues such as a large pension liabilities, which may affect Serbia's creditworthiness. Although Serbia is currently politically stable, there is no guarantee that it will remain so and Serbia faces a number of challenges ahead. Other issues which could affect Serbia's political stability include its relations with the International Criminal Tribunal for the former Yugoslavia, the status of the province of Kosovo and Metohija and the future of the state union with Montenegro. Any negative changes in Serbia's political environment, may affect the stability of the Serbian economy, which could compromise Serbia's capacity to service the 2024 Bonds.

### **(c) EU Accession**

Serbia is working towards EU membership, although at present such membership remains both distant and uncertain. Membership depends on a number of economic and political factors relating to both Serbia and the EU. There can be no assurance that Serbia will be able to accede to the EU in any given time period.

### **(d) Financial Sector**

Despite significant restructuring and privatisation within Serbia's banking sector and the entry of foreign banks into the market, the banking sector is highly euroised, with high levels of household deposits in foreign currency and a large proportion of loans linked to foreign

currency, making the banking system vulnerable to movements in exchange rates. Bank lending activity has also significantly accelerated with household loans increasing by over 100%. Such a large increase in consumer loans poses macroeconomic risks although the National Bank of Serbia has implemented a number of measures aimed at reducing these.

(e) **Balance of Payments**

Although foreign trade and the volume of exports have considerably increased since October 2000, Serbia's foreign trade deficit increased rapidly in 2004 by 52.6% relative to 2003 to reach U.S.\$7,047 million. This large trade deficit was largely the result of a disproportionately high level of growth in imports and high net inflows of funds from abroad on account of current transfers. Serbia's current account deficit also increased from U.S.\$1,757 million to U.S.\$2,922 million. Serbia's large current account deficit is an area of vulnerability, and along with inflation levels (see below), an indicator that macroeconomic stabilisation is not yet secured.

(f) **Refinancing Risk**

Although government indebtedness has decreased substantially since 2000, Serbia still has large amounts of domestic and international debt. Although Serbia has engaged in debt restructuring to deal with part of its London Club obligations these high levels of debt may be adversely affected by any deterioration of Serbia's political or economic climate including exchange rate movements.

(g) **Inflation Risk**

Inflation significantly decreased in Serbia from a high 111.9% in 2000 to 7.8% in 2003 (measured by reference to the RPI). Nevertheless, the rate of inflation has increased in Serbia since 2003. The RPI inflation rate in 2004 rose to 13.7%, partly as a result of world oil price increases and higher prices of other commodities, as well as the elimination of inherited price disparities. Although the adopted budget for 2005 provides for a lower 9.1% rate, with steady decline planned with the ultimate aim of lowering the rate to 4% by 2007, the level of inflation is uncertain and there is no assurance that inflation will decline to these levels.

## TERMS AND CONDITIONS OF THE 2024 BONDS

The following, save for the paragraphs in italics, is the text of the terms and conditions of the 2024 Bonds (as defined below) which, subject to amendment, will be endorsed on each Bond Certificate and will be attached and (subject to the provisions thereof) apply to each Global New Bond:

The U.S. Dollar denominated Bonds due 2010 to 2024 (the "**2024 Bonds**") (which expression includes any further 2024 Bonds issued pursuant to Condition 14 (*Further Issues*) and forming a single series with the 2024 Bonds) of the Republic of Serbia were authorised pursuant to the provisions of Law on Ratification of the Memorandum of Understanding on the Restructuring of the NFA and TDFA between the Republic of Serbia and the International Coordinating Committee, "Official Herald of the Republic of Serbia", No 84 dated 24 July 2004. In addition, a law was passed governing the conditions and procedure for the restructuring of debts under the NFA and TDFA ("Official Gazette of the Republic of Serbia", No. 61/2005, dated 18 July 2005). A fiscal agency agreement dated 7 April 2005 (the "**Fiscal Agency Agreement**") has been entered into in relation to the 2024 Bonds by the Republic of Serbia, Deutsche Bank AG (acting through its London branch), as fiscal agent (the "**Fiscal Agent**"), Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas as paying agents (together with the Fiscal Agent, the "**Paying Agents**"), Deutsche Bank Trust Company Americas as registrar (the "**Registrar**") and Deutsche Bank AG (acting through its London branch) and Deutsche Bank Luxembourg S.A. as the transfer agents (the "**Transfer Agents**").

In these Conditions, "**Fiscal Agent**," "**Registrar**," "**Paying Agent**" and "**Transfer Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement for the 2024 Bonds, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the principal office of the Fiscal Agent (currently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of each of the other Agents. The Bondholders (as defined in Condition 1(b) (*Title*)) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement for the 2024 Bonds.

### 3. **Form, Denomination and Title**

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

The 2024 Bonds are in definitive fully registered form, without interest coupons attached, in a minimum denomination of U.S.\$50,000 and any amount in excess thereof which is an integral multiple of U.S.\$1.00 (each an "**authorised denomination**"). A certificate (each a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding or holdings of 2024 Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Republic of Serbia shall procure to be kept by the Registrar.

(b) **Title**

Title to the 2024 Bonds will pass by and upon registration in the Register. In these Conditions, "**Bondholder**" and "**holder**" mean the person in whose name a 2024 Bond is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any 2024 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.

4. **Transfer of 2024 Bonds and Issue of 2024 Bonds**

(a) **Transfer**

Subject to Condition 2(d) (*Closed Periods*), a 2024 Bond may be transferred in whole or in part in an authorised denomination upon the surrender of the Bond Certificate representing that 2024 Bond, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "**Transfer Form**") duly completed and executed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of the 2024 Bonds represented by a Bond Certificate, neither the part transferred nor the balance not transferred may be less than the applicable 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 2024 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 2024 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 2024 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 2024 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 2024 Bond.

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

All transfers of 2024 Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of 2024 Bonds scheduled to the Fiscal Agency Agreement. The regulations scheduled to the Fiscal Agency Agreement may be changed by the Republic of Serbia in a manner which is reasonably required by the Republic of Serbia (after consultation with the Registrar) to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of the Bondholders. A copy of the current regulations will be sent by the Registrar to any Bondholder who so requests.

5. **Status**

The 2024 Bonds constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Republic of Serbia. The 2024 Bonds shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Republic of Serbia.

6. **Negative Pledge and Covenants**

(a) **Negative Pledge**

So long as any 2024 Bond remains outstanding (for the purposes of these Conditions "outstanding" shall have the meaning ascribed to such term in the Fiscal Agency Agreement), the Republic of Serbia undertakes that, if it creates or permits to subsist any Security Interest upon the whole or any part of its International Monetary Assets to secure any Public External Indebtedness, the Republic of Serbia shall, at the time or prior thereto, secure equally and rateably therewith the obligations of the Republic of Serbia under the 2024 Bonds.

(b) **Covenants**

So long as any 2024 Bond remains outstanding, the Republic of Serbia shall:

- (i) continue to procure that it exercises full ownership, power and control over the International Monetary Assets as they exist from time to time;
- (ii) duly obtain and maintain in full force and effect all governmental consents, licenses, approvals and authorisations, and/or make or cause to be made all (if any) registrations, recordings and filings, which may at any time be required to

be obtained and/or made in the Republic of Serbia for the execution, delivery or performance of all obligations arising under the 2024 Bonds and the validity or enforceability thereof; and

- (iii) use reasonable endeavours to maintain the listing of the 2024 Bonds on the Luxemburg Stock Exchange.

In these Conditions:

**"Domestic Euro-Denominated Bonds"** means the zero coupon euro-denominated domestic bonds issued by the Republic of Serbia in respect of certain frozen deposits in the banking system of the former Federal Republic of Yugoslavia;

**"External Indebtedness"** means any obligation, and guarantees of obligations, in respect of existing or future Indebtedness denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Republic of Serbia;

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

**"Indebtedness"** means any indebtedness of any Person (whether incurred as principal or surety) for or in respect of monies borrowed or any bond, debenture, note or similar securities or instruments;

**"International Monetary Assets"** means all of the Republic of Serbia's official holdings of gold and all of the Republic of Serbia's and the Republic of Serbia's Monetary Authorities' holdings of: "Special Drawing Rights," "Reserve Positions in the Fund" and "Foreign Exchange" each of which shall have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meaning as shall be formally adopted by the IMF from time to time;

**"Monetary Authorities"** means the National Bank of Serbia or any other entity which, from time to time, acts as a central bank of the Republic of Serbia and, if and to the extent that it performs the functions of a monetary authority for or on behalf of the Republic of Serbia or the government thereof, any currency board, exchange stabilisation fund or treasury;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Public External Indebtedness"** means External Indebtedness (other than (i) External Indebtedness under the NFA or the TDFA or (ii) any Serbian Domestic Euro-Denominated Bonds) which (i) is in the form of, or represented by, bonds, notes or other similar securities or any guarantees 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; and

"**Security Interest**" means any lien, pledge, hypothecation, mortgage, security interest, deed of trust, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

7. **Interest**

Each 2024 Bond bears interest on its outstanding principal amount from 1 October 2004 at the rates set forth below, payable semi-annually in arrear on 1 May and 1 November after the first interest payment date, which shall fall on 1 May 2005 (each such date for payment of interest being, an "Interest Payment Date") in each year until maturity. Interest will be paid subject to and in accordance with the provisions of Condition 7 (*Payments*).

<u>Interest Period</u> <u>(from and including the first indicated date to</u> <u>but excluding the second indicated date)</u>	<u>Interest Rate</u>
1 October 2004 to 1 November 2009	3.75 per cent. per annum
Thereafter	6.75 per cent. per annum

*In common with the Existing 2024 Bonds the payment due on the first interest payment date has been made.*

Each 2024 Bond will cease to bear interest from each Principal Payment Date (as defined in Condition 6 (*Redemption, Purchase and Cancellation*)) on the portion of the outstanding principal amount of such 2024 Bond scheduled to be paid on such Principal Payment Date unless, after presentation and (in the case of the Final Principal Payment Date) surrender of such 2024 Bond, payment of principal is improperly withheld or refused, in which case the outstanding principal amount of such 2024 Bond will continue to bear interest in accordance with this Condition 5 (after as well as before judgement) until whichever is the earlier of (i) the day on which all sums due in respect of such 2024 Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) 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 2024 Bonds up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

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

8. **Redemption, Purchase and Cancellation**

(a) **Scheduled Redemption**

Unless previously redeemed, or purchased and cancelled, each 2024 Bond will be redeemed in thirty semi-annual instalments on the dates set forth below (each, a "**Principal Payment Date**") commencing on 1 May 2010 in the amount (expressed as a percentage of the outstanding principal amount of such 2024 Bond on the date of issue), set forth below opposite such Principal Payment Date. Principal will be paid subject to and in accordance with Condition 7 (*Payments*).

<b>Principal Payment Date</b>	<b>Percentage</b>
1 May 2010 .....	3.33333 per cent
1 November 2010 .....	3.33333 per cent.
1 May 2011 .....	3.33333 per cent.
1 November 2011 .....	3.33333 per cent.
1 May 2012 .....	3.33333 per cent.
1 November 2012 .....	3.33333 per cent.
1 May 2013 .....	3.33333 per cent.
1 November 2013 .....	3.33333 per cent.
1 May 2014 .....	3.33333 per cent.
1 November 2014 .....	3.33333 per cent.
1 May 2015 .....	3.33333 per cent.
1 November 2015 .....	3.33333 per cent.
1 May 2016 .....	3.33333 per cent.
1 November 2016 .....	3.33333 per cent.
1 May 2017 .....	3.33333 per cent.
1 November 2017 .....	3.33333 per cent.
1 May 2018 .....	3.33333 per cent.
1 November 2018 .....	3.33333 per cent.
1 May 2019 .....	3.33333 per cent.
1 November 2019 .....	3.33333 per cent.
1 May 2020 .....	3.33333 per cent.

<b>Principal Payment Date</b>	<b>Percentage</b>
1 November 2020.....	3.33333 per cent.
1 May 2021.....	3.33333 per cent.
1 November 2021.....	3.33333 per cent.
1 May 2022.....	3.33333 per cent.
1 November 2022.....	3.33333 per cent.
1 May 2023.....	3.33333 per cent.
1 November 2023.....	3.33333 per cent.
1 May 2024.....	3.33333 per cent.
1 November 2024.....	the remainder

(b) **Purchase and Cancellation**

The Republic of Serbia and its affiliates may at any time purchase 2024 Bonds in the open market or otherwise at any price as long as the conditions referred to in Condition 6(c)(i) and 6(c)(iii) are satisfied at the time of such purchase. Any 2024 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 2024 Bonds so cancelled will not be reissued.

(c) **Early Redemption**

The Republic of Serbia may redeem the 2024 Bonds at par without premium or penalty, on any Interest Payment Date, in whole or in part, at a redemption price equal to the principal amount of the 2024 Bonds to be redeemed together with the amount of interest accrued and unpaid as of the date of redemption. Any partial redemption shall be made pro rata. Any redemption shall be subject to the following:

- (i) the Republic of Serbia is current in all payments, if any, falling due on all 2024 Bonds at or immediately preceding the date of such redemption;
- (ii) the Bond Certificates representing any 2024 Bonds redeemed in full by the Republic of Serbia shall be surrendered to the Registrar and cancelled and may not be reissued or resold; and
- (iii) there is no subsisting Event of Default (as defined in Condition 9 (*Events of Default*)) relating to the 2024 Bonds to be so redeemed.

Notice of any redemption of the 2024 Bonds shall be given in accordance with Condition 15 (*Notices*) and shall be given not less than thirty, nor more than forty days prior to the Interest Payment Date upon which the redemption is to be made (the "**Redemption Date**"). The notice shall specify such date, the place or places of payment, that payment

will be made upon surrender of the 2024 Bonds, that on and after the said date interest on the amounts being redeemed shall (subject to payment thereof) cease to accrue and other relevant information. Such notice shall be irrevocable and once given, the principal amount of each 2024 Bond (or portion thereof) called for redemption shall become due and payable on the Redemption Date upon presentation and surrender of the Bond Certificate as described below.

On the Redemption Date, provided that the Fiscal Agent has received funds on the Business Day prior to the payment in U.S. Dollars in an amount equal to the amount scheduled to be redeemed:

- (i) the Bondholder of any 2024 Bond redeemed in full in accordance with this Condition 6(c) shall receive full payment of the interest on such 2024 Bond falling due and payable on the Redemption Date and against surrender of the Bond Certificate representing such 2024 Bond receive, in accordance with this Condition 6(c), the principal amount of such 2024 Bond then outstanding and as from the Redemption Date such 2024 Bond shall (unless payment is improperly withheld) cease to bear interest and, if there are no further amounts outstanding in relation to such 2024 Bond, such 2024 Bond shall be cancelled; and
- (ii) the Bondholder of any 2024 Bond redeemed in part in accordance with this Condition 6(c) shall receive full payment of the interest on such 2024 Bond falling due and payable on the Redemption Date, and shall against surrender of the Bond Certificate representing such 2024 Bond for cancellation (upon which such cancelled 2024 Bond shall be invalid), receive the portion of the principal amount of such 2024 Bond being redeemed and a new Bond Certificate for the portion thereof not redeemed shall be delivered to such Bondholder in exchange therefor and as from the Redemption Date the portion of the principal amount of the original 2024 Bond to be redeemed on such date shall (unless payment is improperly withheld) cease to bear interest.

(d) **Debt Conversion Programme**

The 2024 Bonds may be eligible to participate in any debt conversion programme which the Republic of Serbia may from time to time enact for these purposes (the "**Debt Conversion Programme**"). Subject to agreement between the Republic of Serbia and the relevant Bondholder, 2024 Bonds may be exchanged or converted pursuant to the Debt Conversion Programme. Upon any such exchange or conversion, the relevant Bond Certificate shall be surrendered to the Registrar or Transfer Agent for cancellation and, in the case of a partial exchange or conversion, a new Bond Certificate having a principal amount equal to that represented by the difference between the principal amount of such 2024 Bond immediately prior thereto and the amount thereof so exchanged shall be made available to such Bondholder upon such exchange or conversion. In the case of any such exchange or conversion being effected on a date other than an Interest Payment Date, the agreement relating thereto shall include arrangements relating to accrued interest on the principal amount of the 2024 Bond so

exchanged or converted for the period from the immediately preceding Interest Payment Date to the date of such exchange or conversion.

9. **Payments**

(a) **Principal**

Payments of principal in respect of each 2024 Bond will be made by transfer to a U.S. Dollar account maintained by the Bondholder with a bank in New York City or (i) if it does not have such a U.S. Dollar account or (ii) the principal amount of 2024 Bonds held by such person is less than U.S.\$250,000, by a U.S. Dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder by uninsured mail at the risk of the Bondholder. Such payment will be made only upon presentation and (in the case of final redemption) surrender of the relevant Bond Certificate at the specified office of any of the Paying Agents and will be rounded downwards, if necessary, to the nearest cent. For the purposes of this Condition 7(a) the holder of such 2024 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 (the "**Principal Record Date**") and the outstanding amount of each Bondholder's registered holding will be deemed to be the amount shown as such on the Register for such Bondholder at the same time on that date.

(b) **Interest**

Payments of interest (other than interest due on a Principal Payment Date) in respect of each 2024 Bond will be made by U.S. Dollar cheque drawn on a bank in New York City and mailed to the holder (or to the first-named of joint holders) of such 2024 Bond at the address appearing in the Register not later than the due date for such payment and will be rounded downwards, if necessary, to the nearest cent. For the purposes of this Condition 7(b) the holder of such 2024 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 (the "**Interest Record Date**").

Upon application by a Bondholder with respect to 2024 Bonds having a principal amount of U.S.\$250,000 or more to the specified office of the Registrar not less than fifteen days before the due date for the payment of any interest (other than interest due on a Principal Payment Date) in respect of such 2024 Bonds, such payment will be made by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City. Any such application for transfer to a U.S. Dollar account shall be deemed to relate to all future payments of interest (other than interest due on a Principal Payment Date) in respect of the 2024 Bonds which become payable to the Bondholder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such Bondholder.

Payment of interest due on a Principal Payment Date will be made in the same manner as payment of the principal of a 2024 Bond.

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

All payments of principal and interest in respect of the 2024 Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8 (*Taxation*).

(d) **Commissions**

No commissions or expenses shall be charged to the Bondholders in respect of any payments of principal or interest in respect of the 2024 Bonds.

(e) **Payments on Business Days**

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

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

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

(f) **Delay in Payments**

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving any amount due in respect of any 2024 Bond as a result of (i) the due date not being a business day, (ii) the Bondholder being late in presenting or surrendering its Bond Certificate (if required to do so) or (iii) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

(g) **Partial Payments**

If at any time a partial payment is made in respect of any 2024 Bond, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.



(h) **Agents**

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and the Republic of Serbia reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the 2024 Bonds are outstanding it will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) a Paying Agent and a Transfer Agent having a specified office in a major European city outside of the Republic of Serbia which will be in Luxembourg, so long as the 2024 Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 15 (*Notices*).

10. **Taxation**

All payments of principal and interest in respect of the 2024 Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Serbia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Republic of Serbia shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any 2024 Bond presented for payment:

- (a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such 2024 Bond by reason of it being resident in the Republic of Serbia or otherwise liable to such taxes, duties, assessments or governmental charges of the Republic of Serbia otherwise than as a result of the mere holding of such 2024 Bond; or
- (b) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such 2024 Bond on the last day of such period of 30 days.

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 shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8.

11. **Events of Default**

If any of the following occurs and is continuing (each an "**Event of Default**") in respect of the 2024 Bonds:

(a) **Non-payment**

the Republic of Serbia fails to pay any amount of principal or interest in respect of the 2024 Bonds when due and such failure continues for a period of fifteen business days; or

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

the Republic of Serbia defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the 2024 Bonds or, to the extent adversely affecting the 2024 Bonds, the Fiscal Agency Agreement (other than the obligations referred to in Condition 9(a) (*Non-payment*) which default (if capable of remedy) is not remedied within sixty days after written notice of such default shall have been given to the Republic of Serbia by any holder of the 2024 Bonds or the Fiscal Agent, as the case may be, it being understood that a default in respect of the undertaking set forth in Condition 4(a) (*Negative Pledge*) (where legally possible by the creation of equal and rateable security) shall be deemed capable of remedy for purposes hereof; or

(c) **Cross-acceleration**

prior to (and excluding) the date on which (a) the State Union of Serbia and Montenegro, (b) the Republic of Serbia or (c) any other republic of which the Republic of Serbia is a member becomes a member state of the European Union (i) 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 (ii) the Republic of Serbia shall fail to make any final payment of principal in respect of Public External Indebtedness on the date on which such final payment is due and payable or at the expiry of any grace period originally applicable thereto, 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.\$30,000,000 (or its equivalent in any other currency or currencies); or

(d) **Moratorium**

a moratorium is declared 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 2024 Bonds or the Fiscal Agency Agreement, to the extent it adversely affects the 2024 Bonds is contested by the Republic of Serbia or any agency or entity acting on behalf of the Republic of Serbia or the Republic of Serbia or any agency or entity acting on behalf of the Republic of Serbia shall deny any of the Republic of

Serbia's obligations under the 2024 Bonds or it is or will become unlawful for the Republic of Serbia to perform or comply with any of its obligations under or in respect of the 2024 Bonds or under or in respect of the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(f) **IMF**

The State Union of Serbia and Montenegro ceases to be a member of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement other than in the Relevant Circumstances. In this paragraph (f) "**Relevant Circumstances**" means:

- (i) the Republic of Serbia becomes a member of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement;
- (ii) any other republic of which the Republic of Serbia is a member becomes a member of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement; or
- (iii) the Republic of Serbia elects, pursuant to clause 60 of the Constitutional Charter of the State Union of Montenegro to leave the State Union of Serbia and Montenegro, in circumstances where the Republic of Serbia would need to re-apply for membership of the IMF; and does not fail to become a member within one year of such leaving.

If the Relevant Circumstances are applicable then this Condition 9(f) shall thereafter apply by reference to the new relevant member of the IMF.

(g) **Consents etc.**

any regulation, decree, consent, approval, licence or other authority necessary to enable the Republic of Serbia to enter into or perform its obligations under the 2024 Bonds or under the Fiscal Agency Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to be 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 2024 Bonds, as the case may be,

then, in the case of any event mentioned in (a) to (g) above, all of the 2024 Bonds may by written notice addressed and delivered by the holders of at least 25 per cent. of the aggregate principal amount of the outstanding 2024 Bonds to the Fiscal Agent, be declared immediately due and payable, whereupon, unless prior to such date the Republic of Serbia shall have cured or otherwise rectified the relevant event, all of the 2024 Bonds shall become immediately due and payable at their principal amount together with accrued interest. The Republic of Serbia will promptly notify the Fiscal Agent upon becoming aware of the occurrence of any Event of Default. The Republic of

Serbia shall ensure that it will use all reasonable endeavours to give prompt notice of any such declaration to all Bondholders.

If the Fiscal Agent receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding 2024 Bonds and/or a resolution is passed at a meeting of Bondholders duly convened and held in accordance with the Fiscal Agency Agreement to the effect that the Event(s) of Default giving rise to a declaration of acceleration made pursuant to this Condition 9 is or are cured or is or are waived by them following any such declaration and that such holders request the Fiscal Agent to rescind the relevant declaration, the Fiscal Agent shall, by notice in writing to the Republic of Serbia and the Bondholders, rescind the relevant declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default or any right of any Bondholder in relation thereto.

**12. Prescription**

Claims against the Republic of Serbia in respect of principal and interest shall become void unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

**13. Replacement of Bond Certificates**

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the Transfer Agent with its specified office in Luxembourg 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 Republic of Serbia may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

**14. Paying Agents**

The initial Paying Agents and their initial Specified Offices are listed below. The Republic of Serbia reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; provided, however, that the Republic of Serbia shall at all times maintain a paying agent in Luxembourg and a fiscal agent. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Bondholders in accordance with Condition 15 (*Notices*).

15. **Meetings of Bondholders; Modification and Waiver**

(a) **Convening Meetings of Bondholders**

The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider matters relating to the 2024 Bonds, including, without limitation, the modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Any such modification may be made if, having been approved in writing by the Republic of Serbia, it is sanctioned by an Extraordinary Resolution (as defined below). Such a meeting may be convened by the Republic of Serbia and shall be convened by the Fiscal Agent upon the request in writing of Bondholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding 2024 Bonds.

(b) **Quorum**

The quorum at any meeting of Bondholders convened to vote on an Extraordinary Resolution will be (i) one or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding 2024 Bonds or, (ii) at any adjourned meeting of Bondholders, one or more persons being or representing Bondholders, holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding 2024 Bonds held or represented; **provided, however**, that any proposals relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding 2024 Bonds are present. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

(c) **Reserved Matter**

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

- (i) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the 2024 Bonds, to reduce the amount of principal or interest payable on any date in respect of the 2024 Bonds or to alter the method of calculating the amount of any payment in respect of the 2024 Bonds on redemption or maturity or the date for any such payment;
- (ii) effect the exchange or substitution of the 2024 Bonds for, or the conversion of the 2024 Bonds into, shares, bonds or other obligations or securities of the Republic of Serbia or any other person or body corporate formed or to be formed;
- (iii) cancel the principal amount of the 2024 Bonds;
- (iv) vary the currency or place of payment in which any payment in respect of the 2024 Bonds is to be made;

- (v) amend the status of the 2024 Bonds under Condition 3 (*Status*);
  - (vi) amend the obligation of the Republic of Serbia to pay additional amounts under Condition 8 (*Taxation*);
  - (vii) amend the Events of Default or the Events of Acceleration set out in Condition 9 (*Events of Default*);
  - (viii) modify the provisions contained in the Fiscal Agency Agreement concerning the quorum required at any meeting of the Bondholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;
  - (ix) change the definition of "Extraordinary Resolution" or "outstanding" in the Conditions and/or Fiscal Agency Agreement;
  - (x) instruct any Bondholder or committee appointed on behalf of all Bondholders pursuant to Condition 13(d) (*Matters requiring unanimity*) to withdraw, settle or compromise any proceeding or claim being asserted pursuant to Condition 9 (*Events of Default*);
  - (xi) confer upon any committee appointed pursuant to Condition 13(d) (*Matters requiring unanimity*) any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution; or
  - (xii) amend this definition.
- (d) **Matters requiring unanimity**

Any proposal:

- (i) to change the law governing the 2024 Bonds, the courts to the jurisdiction of which the Republic of Serbia has submitted in the 2024 Bonds, the Republic of Serbia's obligation to maintain an agent for service of process in England or the Republic of Serbia's waiver of immunity, in respect of actions or proceedings brought by any Bondholder, set out in Condition 18 (*Submission to Jurisdiction*);
- (ii) to modify any provision of these Conditions in connection with any exchange or substitution of the 2024 Bonds for, or the conversion of the 2024 Bonds into, any other obligations or securities of the Republic of Serbia or any other person, 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 securities of the Republic of Serbia or any other person resulting from the relevant exchange or substitution or conversion; or

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

(iii) to modify the provisions of this paragraph (d) (*Matters requiring unanimity*),

may only be given effect with the consent of the holders of all of the outstanding 2024 Bonds.

(e) **Modifications**

Subject as provided in paragraph (d) (*Matters requiring unanimity*), any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution. In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least:

(i) in the case of a Reserved Matter, 75 per cent. of the aggregate principal amount of the outstanding 2024 Bonds; or

(ii) in the case of a matter other than a Reserved Matter, 66 2/3 per cent. of the aggregate principal amount of the outstanding 2024 Bonds which are represented at that meeting.

Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not and whether they voted in favour or not.

(f) **Written resolutions**

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding 2024 Bonds, in the case of a Reserved Matter, or at least 66<sup>2</sup>/<sub>3</sub> per cent. of the aggregate principal amount of the outstanding 2024 Bonds, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders. Any Written Resolution shall be binding on all of the Bondholders, whether or not signed by them. This Condition 13(f) shall be without prejudice to Condition 13(d) (*Matters requiring unanimity*).

(g) **Manifest Error, etc.**

The 2024 Bonds and these Conditions may, subject to the prior written approval of the Republic of Serbia, be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Republic of Serbia shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or

technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Bondholders.

(h) **Bondholders' Representative Committee**

- (i) *Appointment:* The Bondholders may, by a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the 2024 Bonds then outstanding, or by notice in writing to the Fiscal Agent signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the 2024 Bonds then outstanding, appoint any persons as a committee to represent the interests of the Bondholders if any of the following events shall have occurred:

- (A) an Event of Default;
- (B) any event or circumstance which would, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 9 (*Events of Default*) become an Event of Default; or
- (C) any public announcement by the Republic of Serbia, to the effect that the Republic of Serbia is seeking or intends to seek a restructuring of the 2024 Bonds (whether by amendment, exchange offer or otherwise).

Such committee shall, if appointed by notice in writing to the Republic of Serbia, give notice of its appointment to all Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable after the notice is delivered to the Republic of Serbia.

- (ii) *Powers:* Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Bondholders, (ii) adopt such rules as it considers appropriate regarding its proceedings, (iii) enter into discussions with the Republic of Serbia and/or other creditors of the Republic of Serbia and (iv) designate one or more members of the committee to act as the main point(s) of contact with the Republic of Serbia and provide all relevant contact details to the Republic of Serbia. The Republic of Serbia shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Republic of Serbia of a reasonably detailed invoice and supporting documentation.

(i) **Outstanding 2024 Bonds**

For the purposes of (i) ascertaining the right to attend and vote at any meeting of Bondholders and (ii) Condition 9 (*Events of Default*), Condition 13 (*Meetings of*



*Bondholders; Modification and Waiver*) and Schedule 6 (*Provisions for Meetings of Bondholders*) to the Fiscal Agency Agreement, those 2024 Bonds (if any) which are for the time being held by any person (including but not limited to the Republic of Serbia) for the benefit of the Republic of Serbia or by any public body owned or controlled, directly or indirectly, by the Republic of Serbia shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

16. **Further Issues**

The Republic of Serbia shall be at liberty from time to time, without the consent of the holders of the 2024 Bonds, to create and issue further 2024 Bonds ranking equally in all respects (or in all respects save for payments made prior to the issuance of such further 2024 Bonds and the date and amount of the first payment of interest on such further 2024 Bonds) so that the same shall be consolidated and form a single series with the 2024 Bonds.

17. **Notices**

Notices to the Bondholders will be sent to them by first class 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 2024 Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices with respect to the 2024 Bonds will also be published on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the '*D' Wort*') or, if such publication is not practicable, in an English language newspaper having general circulation in Europe, and each such notice shall be deemed to have been given on the date of such publication, or if published more than once or on different dates, on the first date on which publication is made.

A copy of all notices provided pursuant to this Condition 15 shall also be given to Euroclear and Clearstream.

18. **Currency Indemnity**

The U.S. dollar is the sole currency of account and payment for all sums payable by the Republic of Serbia under or in connection with the 2024 Bonds, including damages. Any amount received or recovered in a currency other than the U.S. dollar (whether as a result of, or the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Republic of Serbia shall only constitute a discharge to the Republic of Serbia 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 2024 Bond, the Republic of Serbia shall

indemnify such recipient against any loss sustained by it as a result. In any event, the Republic of Serbia shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from the Republic of Serbia'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 2024 Bond or any judgement or order.

19. **Governing Law**

The 2024 Bonds and the Fiscal Agency Agreement shall be governed by and construed in accordance with the laws of England.

20. **Submission to Jurisdiction**

(a) **Jurisdiction**

The Republic of Serbia has agreed in the Fiscal Agency Agreement and in respect of the 2024 Bonds for the benefit of the Bondholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings ("**Proceedings**"), and to settle any dispute or difference arising out of or in connection with the 2024 Bonds including any question as to the existence, validity or termination of the 2024 Bonds (a "**Dispute**"), which may arise out of or in connection with the 2024 Bonds and, for such purposes, has irrevocably submitted to the jurisdiction of such courts.

(b) **Appropriate forum**

The Republic of Serbia has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agreed not to claim that any such court is not a convenient or appropriate forum.

(c) **Process agent**

The Republic of Serbia has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London, EC2V 7EX, or, if different, its registered office for the time being. If such person is not or ceases to be effectively appointed to accept service of process on the Republic of Serbia's behalf, the Republic of Serbia shall, on the written demand of any Bondholder addressed to the Republic of Serbia and delivered to the Republic of Serbia or to the specified office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Bondholder shall be entitled to appoint such a person by written notice addressed to the Republic of Serbia and delivered to the Republic of Serbia or to the specified office of the Fiscal Agent. Nothing in this

Condition 18 shall affect the right of any Bondholder to serve process in any other manner permitted by law.

(d) **Non-exclusivity**

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Bondholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) **Consent to enforcement etc**

Subject to paragraph (f) below, the Republic of Serbia has consented generally in respect of any Proceedings, to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

(f) **Waiver of immunity**

To the extent that the Republic of Serbia may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, by reason of sovereignty or otherwise, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Republic of Serbia has agreed not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction, provided that the Republic of Serbia has not waived any immunity with respect to: (i) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) any other property or assets used solely for official state purposes in the Republic of Serbia or elsewhere, or (iv) military property or military assets of the Republic of Serbia related thereto.

## FORM AND TRANSFER OF 2024 BONDS

### Form of 2024 Bonds

All 2024 Bonds will be in definitive registered form, without interest coupons attached. As the 2024 Bonds are offered and sold outside the United States in reliance on Regulation S they will be represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (which together with the corresponding permanent global bond or bonds issued in relation to the Existing 2024 Bonds are referred as the "**Unrestricted Global 2024 Bonds**"), which will be deposited on or before the Settlement Date with, and registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG (acting through its London branch) as the common depositary (the "**Common Depositary**") in respect of interests held through the facilities of Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"). A beneficial interest in an Unrestricted Global 2024 Bond may at all times be held only through Euroclear and Clearstream.

The Existing 2024 Bonds offered and sold to QIBs are represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (the "**Restricted Global 2024 Bonds**"), which are registered in the name of Cede & Co., as nominee for DTC, and deposited on or before the Settlement Date with Deutsche Bank Trust Company Americas, as custodian (the "**Custodian**") for DTC. The Restricted Global 2024 Bonds and any Individual 2024 Bond Certificate (as defined below) issued in exchange therefor (a "**Restricted Individual 2024 Bond Certificate**") will be subject to certain restrictions on transfer contained in a legend appearing on the face of such 2024 Bond set forth below.

The Unrestricted Global 2024 Bonds and the Restricted Global 2024 Bonds (each a "**Global 2024 Bond**" and together, the "**Global 2024 Bonds**") will have separate CUSIP and ISIN numbers and separate Common Codes, identical to those applicable to the Existing 2024 Bonds.

All 2024 Bonds will initially be in the form of Unrestricted Global 2024 Bonds. Individual 2024 Bond Certificates will only be available in certain limited circumstances described below.

### Exchange of Interests in Global 2024 Bonds for Individual 2024 Bond Certificates

Registration of title to Existing 2024 Bonds initially represented by a Restricted Global 2024 Bond in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted in respect of Existing 2024 Bonds unless (a) DTC or such successor depositary notifies the Republic of Serbia that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global 2024 Bonds or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934 (the "**Exchange Act**"), or is at any time no longer eligible to act as such, and the Republic of Serbia is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (b) following a failure to pay principal in respect of any 2024 Bonds or Existing 2024 Bonds that is due and payable, the Fiscal Agent has received notice

from the registered holder of any Global 2024 Bond of that series requesting the exchange of such Global 2024 Bond in full for Restricted Individual 2024 Bond Certificates.

Registration of title to 2024 Bonds or Existing 2024 Bonds initially represented by an Unrestricted Global 2024 Bond in a name other than the Common Depositary or any nominee of the Common Depositary will not be permitted in respect of such bonds unless (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) following a failure to pay principal in respect of any such bonds that is due and payable, the Fiscal Agent has received a notice from the registered holder of the relevant Unrestricted Global 2024 Bond requesting the exchange of a specified amount of the relevant Unrestricted Global 2024 Bond for individual bond certificates (the "**Unrestricted Individual 2024 Bond Certificates**" and, together with the Restricted Individual 2024 Bond Certificates, the "**Individual 2024 Bond Certificates**").

In such circumstances, the relevant Global 2024 Bond will be exchanged in full or in part, as the case may be, for Individual 2024 Bond Certificates and the Republic of Serbia will, at the cost of the Republic of Serbia (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual 2024 Bond Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant holders of the 2024 Bonds. A person having an interest in a Global 2024 Bond must provide the Registrar with (a) a written order containing instructions and such other information as the Republic of Serbia and the Registrar may require to complete, execute and deliver such Individual 2024 Bond Certificates and (b) in the case of a Restricted Global 2024 Bond only, a fully completed, signed certificate substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of a simultaneous sale pursuant to Rule 144A, that the transfer is being made in compliance with the provisions of Rule 144A. Individual 2024 Bond Certificates issued in exchange for a beneficial interest in a Restricted Global 2024 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 each series of 2024 Bonds two years (or such other period as provided by Rule 144A) after the date on which 2024 Bonds of that series which are represented by an interest in a Restricted Global 2024 Bond are last issued, assuming compliance with Condition 6(b) of the Terms and Conditions of the 2024 Bonds.

The holder of a 2024 Bond may transfer such 2024 Bond in accordance with the provisions of Condition 2 of the Terms and Conditions of the 2024 Bonds. Individual 2024 Bond Certificates may not be eligible for trading on DTC, Euroclear or Clearstream.

If (a) Individual 2024 Bond Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the due date for their delivery in exchange for interests in a Global 2024 Bond or (b) any of the 2024 Bonds represented by a Global 2024 Bond has become due and payable in accordance with the Conditions or the date for final redemption of the 2024 Bonds has occurred and, in either case, payment in full of the amount of principal falling due with all

accrued interest thereon has not been made to the registered Holder of such Global 2024 Bond in accordance with its terms on the due date for payment, then such Global 2024 Bond (including the obligation to deliver Individual 2024 Bond Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the registered Holder will have no further rights under such Global 2024 Bond (but without prejudice to the rights which the Holder of the 2024 Bonds represented by such Global 2024 Bond or others may have under a deed of covenant dated 7 April 2005 (the "**Original Deed of Covenant**") and a deed of covenant dated 21 September 2005 (the "**Additional Deed of Covenant**") executed by the Issuer. Under these Deeds, persons shown in the records of DTC, Euroclear and/or Clearstream as being entitled to an interest in the 2024 Bonds represented by a Global 2024 Bond will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Global 2024 Bond became void, they had been the registered Holders of 2024 Bonds represented by Individual 2024 Bond Certificates in an aggregate principal amount equal to the principal amount of 2024 Bonds they were shown as holding in the records of DTC, Euroclear and/or (as the case may be) Clearstream.

Upon the transfer, exchange or replacement of a Restricted Individual 2024 Bond Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Restricted Individual 2024 Bond Certificate, the Republic of Serbia will deliver only Restricted Individual 2024 Bond Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic of Serbia and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic of Serbia that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Such transfer restrictions will terminate with respect to each series of 2024 Bonds two years (or such other period as provided by Rule 144) after the date on which 2024 Bonds of that series which are represented by an interest in a Restricted Global 2024 Bond are last issued, assuming compliance with Condition 6(b) of the Terms and Conditions of the 2024 Bonds.

The Registrar will not register the transfer of or exchange of interests in a Global 2024 Bond for Individual 2024 Bond Certificates during the three Business Days ending on the due date for any payment of principal of the 2024 Bonds.

#### **DTC, Euroclear and Clearstream Arrangements**

So long as DTC or its nominee or Euroclear, Clearstream or the Common Depositary or any nominee of the Common Depositary is the registered holder of a Global 2024 Bond, DTC, Euroclear or Clearstream, the Common Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the 2024 Bonds represented by such Global 2024 Bond for the purposes of the Fiscal Agency Agreement and the 2024 Bonds. Payments of principal, interest and additional amounts, if any, in respect of a Global 2024 Bond will be made to DTC, Euroclear, Clearstream or the Common Depositary or nominee, as the case may be, as the registered holder thereof. None of the Republic of Serbia, the Exchange Agent or

any affiliate of any of them or any person by whom any of them is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global 2024 Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Holders of book-entry interests in 2024 Bonds held through DTC will receive from the Fiscal Agent through DTC, to the extent received by DTC from the Fiscal Agent, all distributions of principal and interest made with respect to book-entry interests in such 2024 Bonds.

Distributions of principal and interest with respect to book-entry interests in 2024 Bonds held through Euroclear or Clearstream will be credited, to the extent received by Euroclear or Clearstream from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Interest on the 2024 Bonds (other than interest on redemption) will be paid to the holder shown on the register maintained by the Registrar on the third Business Day before the due date for such payment so long as the 2024 Bonds are represented by a Global 2024 Bond, and on the Interest Record Date for such payment if the 2024 Bonds are in the form of Individual 2024 Bond Certificates. Trading of 2024 Bonds will therefore be net of accrued interest from the relevant record date to the relevant interest payment date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global 2024 Bond to such persons may be limited. Because DTC, Euroclear and Clearstream can only act on behalf of direct and indirect participants, the ability of a person having an interest in a Global 2024 Bond to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the 2024 Bonds through DTC, Euroclear and Clearstream will be reflected in the book-entry accounts of each institution. The Registrar will adjust the amounts of 2024 Bonds on the Register as necessary for the accounts of (a) Cede & Co. and (b) BT Globenet Nominees Limited to reflect the amounts of 2024 Bonds held through DTC, Euroclear and Clearstream, respectively. Beneficial ownership in 2024 Bonds will be held through financial institutions as direct and indirect participants in DTC, Euroclear and Clearstream.

Interests in the Global 2024 Bonds will be in uncertificated book-entry form.

#### ***Trading between Euroclear and/or Clearstream Accountholders***

Secondary market sales of book-entry interests in 2024 Bonds held through Euroclear or Clearstream to purchasers of book-entry interests in 2024 Bonds through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional eurobonds.

### ***Trading between DTC Participants***

Secondary market sales of book-entry interests in 2024 Bonds between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same Day Funds Settlement System.

### ***Trading between DTC Seller and Euroclear/Clearstream Purchaser***

When a book-entry interest in 2024 Bonds is to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global 2024 Bond to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in an Unrestricted Global 2024 Bond (subject to such certification procedures as are provided in the Fiscal Agency Agreement), the purchaser must send instructions to Euroclear or Clearstream at least one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will instruct the Common Depositary to receive the beneficial interest and make payment for it. On the settlement date, the Common Depositary will make payment to the DTC participant's account against delivery of the beneficial interest. After settlement has been completed, the beneficial interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Euroclear or Clearstream accountholder's account. The securities credit will appear the next day, European time. The cash debit will be back-valued to, and interest on the Unrestricted Global 2024 Bond will accrue from, the value date, which will be the preceding day when settlement occurs in New York. If settlement is not completed on the intended value date, that is, if the trade fails, the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date, whenever that may be.

The Euroclear or Clearstream accountholder will need to make available to its clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as it would for any pre-settlement occurring within Euroclear or Clearstream. Under this approach, the purchasing accountholder may take on credit exposure to Euroclear or Clearstream until the beneficial interest in the Unrestricted Global 2024 Bond is credited to its account one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to the purchasing accountholder, it can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, the Euroclear or Clearstream accountholder purchasing the beneficial interest in the Unrestricted Global 2024 Bond would incur overdraft charges for one day, assuming it cleared the overdraft when the beneficial interest was credited to its account. However, interest on the Unrestricted Global 2024 Bond would accrue from the value date. Therefore, in many cases, the investment income on the Unrestricted Global 2024 Bond earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each accountholder's particular cost of funds.

Because the settlement is taking place during New York business hours, the DTC participant can use its usual procedures for transferring a beneficial interest in the Global 2024 Bond to the



Common Depositary for the benefit of the Euroclear or Clearstream accountholder. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

***Trading between Euroclear/Clearstream Seller and DTC Purchaser***

Due to time zone differences in its favour, a Euroclear or Clearstream accountholder may employ customary transfer procedures when transferring a book-entry interest in an Unrestricted Global 2024 Bond to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global 2024 Bond (subject to such certification procedures as are provided in the Fiscal Agency Agreement). The seller must send instructions to Euroclear or Clearstream at least one business day prior to the settlement date. Euroclear or Clearstream will instruct the common depositary to credit the beneficial interest in the Global 2024 Bond to the DTC participant's account and receive payment. Payment will be reflected in the account of the Euroclear or Clearstream accountholder the following date. Receipt of cash proceeds in the Euroclear or Clearstream accountholder's account will be back-valued to the value date, which will be the preceding day, when settlement occurs in New York. If the Euroclear or Clearstream accountholder has a line of credit with its clearing system and elects to draw on such line of credit in anticipation of receipt of sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date, that is, if the trade fails, receipt of the cash proceeds in the Euroclear or Clearstream accountholder's account will instead be valued as of the actual settlement date, whenever that may be.

For a further description of restrictions on the transfer of 2024 Bonds, see "Transfer Restrictions" below.

DTC has advised the Republic of Serbia that it will take any action permitted to be taken by a holder of 2024 Bonds (including, without limitation, the presentation of a Global 2024 Bond for exchange as described above) only at the direction or one or more participants in whose account with DTC interests in Global 2024 Bonds are credited and only in respect of such portion of the aggregate principal amount of the relevant Global 2024 Bonds as to which such participant or participants has or have given such direction. In the circumstances described above, DTC will surrender the Global 2024 Bonds for exchange for Individual 2024 Bond Certificates, which will, in the case of Restricted Individual 2024 Bond Certificates, bear the legend applicable to transfers pursuant to Rule 144A.

DTC has advised the Republic of Serbia as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust

companies and clearing corporations and may in the future include certain other organisations. DTC is partially owned by some of these participants or their representatives. Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that clear through, or maintain a custodian relationship with, a participant, either directly or indirectly.

Euroclear and Clearstream have advised the Republic of Serbia as follows: Euroclear and Clearstream hold securities for participating organisations and facilitate the clearance and settlement of securities between their respective accountholders through electronic book-entry changes in accounts of such accountholders. Euroclear and Clearstream provide to their accountholders, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream accountholders are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with Euroclear or Clearstream accountholders, either directly or indirectly.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream to facilitate transfers of beneficial interests in Global 2024 Bonds among participants and accountholders of DTC, Euroclear and Clearstream, none of DTC, Euroclear or Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Republic of Serbia nor any agent of the Republic of Serbia nor any person by whom any of them is controlled for purposes of the Securities Act will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or the sufficiency for any purpose of the arrangements described above.

While a Global 2024 Bond is lodged with DTC or the Custodian, 2024 Bonds represented by Individual 2024 Bond Certificates will not be eligible for clearing or settlement through DTC. While a Global 2024 Bond is lodged with Euroclear or Clearstream or the nominee for the Common Depository for Euroclear or Clearstream, 2024 Bonds represented by Individual 2024 Bond Certificates will not be eligible for clearing or settlement through Euroclear or Clearstream.

## **TRANSFER RESTRICTIONS**

Transfers of interests in Global 2024 Bonds within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

A beneficial interest in a Restricted Global 2024 Bond may be transferred to a person who wishes to take delivery of such beneficial interest through an Unrestricted Global 2024 Bond only upon receipt by the Registrar of a written certification from the transferor (in the applicable form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made to the Republic of Serbia or an affiliate of the Republic of Serbia or in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

In respect of any such transfer as is referred to above, the transferee must give details of the accounts at Euroclear and Clearstream, as the case may be, and DTC to be credited or debited, as the case may be, with an interest in the relevant Global 2024 Bond.

With respect to each series of 2024 Bonds issued pursuant to Rule 144, transfer restrictions will terminate two years (or such other periods as provided by Rule 144) after the date on which 2024 Bonds of that series which are represented by an interest in a Restricted Global 2024 Bond are last issued, assuming compliance with Condition 6(b) of the Terms and Conditions of the 2024 Bonds.

Any beneficial interest in either a Restricted Global 2024 Bond or an Unrestricted Global 2024 Bond that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global 2024 Bond will, upon transfer, cease to be a beneficial interest in such Global 2024 Bond and become a beneficial interest in the other Global 2024 Bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global 2024 Bond for so long as such person retains such an interest.

Each Restricted Global 2024 Bond and any Restricted Individual 2024 Bond Certificate offered hereby will bear a legend to the following effect, unless the Republic of Serbia 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 REPUBLIC OF SERBIA OR AN AFFILIATE OF THE REPUBLIC OF SERBIA, (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, (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 REALES OF THIS BOND OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION.

The Republic of Serbia and its affiliates and others will rely upon the truth and accuracy of the foregoing.

This Prospectus has not been submitted to the clearance procedure of Commissione Nazionale per le Società e la Borsa ("**CONSOB**") and may not be used or distributed in Italy in connection with any offering of the 2024 Bonds in Italy other than in compliance with all applicable Italian securities or exchange laws and regulations or in such other circumstance where an exemption from compliance with the solicitation restrictions, including those under Italian Legislative Decree No. 58 of 24 February 1998, as amended, or CONSOB Regulation No. 11971 of 14 May 1999, as amended, applies. The 2024 Bonds are not being offered or sold, directly or indirectly to other persons that are Italian residents or persons located in the Republic of Italy and neither this Prospectus nor any other offering material relating to the 2024 Bonds may be distributed or made available in the Republic of Italy. In any case, neither the 2024 Bonds nor the Prospectus or any other document relating to the 2024 Bonds may be offered, sold or distributed in Italy except to "**Professional investors**" ("*operatori qualificati*"), as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 ("**Regulation No. 11522**"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("**Decree No. 58**"). In any case, neither the 2024 Bonds nor the Prospectus or any other document relating to the 2024 Bonds may be offered, sold or distributed to individuals resident in Italy.

Each addressee of this document acknowledges that the 2024 Bonds are not being offered or sold, and will not be offered or sold, directly or indirectly, to the public in the Republic of France and that offers and sales of the 2024 Bonds in the Republic of France will be made only to qualified investors (*investisseurs qualifiés*) acting for their own account as defined in Article L.411-2 of the French Code *monétaire et financier* and decree no. 98-880 dated 1 October 1998.

In addition, neither this document nor any other offering material relating to the 2024 Bonds has been distributed or caused to be distributed or will be distributed or caused to be distributed in Republic of France other than to investors to whom the offer and sales of the 2024 Bonds in Republic of France may be made as described above.

This Prospectus and related documentation are not intended to constitute a public offer in Belgium within the meaning of the Law of 22 April 2003 on the Public Offering of Securities

and may not be distributed to the Belgium public. The Belgium Commission for Banking and Finance has not reviewed nor approved this document or commented on its accuracy or adequacy or recommended or endorsed the Prospectus. Only qualifying professional investors within the meaning of Article 3.2 of the Belgium Royal Decree of 7 July 1999 on the public nature of financial transactions acting for their own account are eligible to accept, in exchange for existing claims, the 2024 Bonds.

## **REPUBLIC OF SERBIA**

### **THE REPUBLIC OF SERBIA**

#### **Territory, Population and Natural Resources**

The Republic of Serbia, is one of the two republics which are members of the State Union of Serbia and Montenegro; the other being the Republic of Montenegro. The Republic of Serbia contains two autonomous provinces: Vojvodina and Kosovo-Metohija. Belgrade is the capital of Serbia, and the administrative, economic and cultural centre of Serbia and Serbia-Montenegro.

The Republic of Serbia is located between 41°50' and 46°11' of North latitude and 18°26' and 23°00' of East longitude, and its territory extends for 88,361 km<sup>2</sup>.

<b>City</b>	<b>Number of citizens</b>
Belgrade	1,602,226
Novi Sad	179,626
Nis	175,391
Kragujevac	147,305

Sources statistical data on largest cities from 2002 census

#### **Position, Relief, Climate**

Serbia is located in the central part of the Balkan Peninsula, on a historically important route linking Europe and Asia, occupying an area of 88,361 sq. km. Serbia is in the West European time zone (one hour ahead of Greenwich Mean Time). Its climate is temperate continental, with a gradual transition between the four seasons of the year. The average annual temperature is 11-12C. The temperatures in January and June average -1 to +1C and 22-23C respectively. Average annual precipitation ranges from 600mm to 800mm in the plains and between 800mm and 1,200mm in the mountains.

Serbia has been referred to as the crossroads of Europe. The international roads and railways passing down its river valleys make up the shortest link between Western and Central Europe, on the one side, and the Middle East, Asia and Africa, on the other. These roads follow the course of the valley of the river Morava, splitting in two near the city of Nis. One track follows the valleys of the rivers of Southern Morava and Vardar to Thessaloniki; the other, the river Nisava to Sofia and Istanbul.

Serbian rivers belong to the basins of the Black, Adriatic and Aegean Seas. Three of them, the Danube, Sava and Tisa, are navigable. The longest river is the Danube, which flows for 588 of its 2783-kilometer course through Serbia. The Danube basin has always been important for Serbia. With the commissioning of the Rhine-Main-Danube Canal in September 1992, the Black Sea and the Near and Far Eastern ports have become more accessible to Europe. Serbia is linked to the Adriatic Sea and Montenegro via the Belgrade-Bar railway.

Northern Serbia is mainly flat, while its central and southern areas consist of highlands and mountains. The flatlands are mainly in Vojvodina (the Pannonian Plain and its rim: Macva, the

Sava Valley, the Morava Valley, Stig and the Negotin Marches in Eastern Serbia). Approximately 55% of Serbia is arable land, and approximately 27% is forested. Of its mountains, 15 reach heights of over 2,000 meters, the highest being Djeravica in the Prokletija range (2,656 m).

The length of Serbia's border is 2,397 km. To the East, Serbia borders with Bulgaria, to the North East - with Romania, to the North - with Hungary, to the West - with Croatia and Bosnia and Herzegovina, and to the South - with Albania and Macedonia.

### **Population and religion**

The ethnic composition of the population of the Republic of Serbia is mixed, which is the result of the dynamic historical circumstances in the region. The population comprises a majority of Serbs, while alongside them, in Serbia reside 37 other different nationalities. Under the Constitution of the Republic of Serbia national minorities have equal rights according to the highest current international standards. On the basis of the most recent population census from 2002 the population of Serbia was approximately 7,498,000 (without the data from Kosovo and Metohija). Serbs represent 82.9% of the population and others 17.1%. The official language is Serbian with cyrillic writing, even though the Latin alphabet is also used. The national minorities have a legal right to use their own language and alphabet officially on the territories in which they live. The population of Serbia is mainly Orthodox Christian. The Serbian Orthodox Church, which became autocephalous in 1219, played an important role in the evolution and safeguarding of the Serbian national identity. Romanians, Bulgarians and the majority of the Roma population are also Orthodox. Apart from the Serbian Orthodox Church there are other religious communities in Serbia including Islamic, Catholic, Protestant and Jewish.

### **Industry and mining**

The industrial and mining sectors of the Republic of Serbia encompass mining, stone mining, the processing industry, the electric power industry and production and distribution of petroleum products and water.

There are approximately 700,000 workers employed in industrial and mining companies, comprising approximately one third of the total registered active labour force in the Republic of Serbia, most of which are employed by large enterprises.

### **Agriculture**

The total surface area of Serbia is 8,840,000 ha. Agricultural land covers 5,633,000 ha, out of which 3,390,000 ha is arable land. Land and climate conditions are highly conducive to the development of agriculture. The plains of Vojvodina, Kosovo, Metohija, Pomoravlje, Posavina, Tamnava, Krusevac and Leskovac offer favourable conditions for mechanized field crop farming and vegetable production. The hills and mountains of Zlatibor, Rudnik, Stara Planina, Kopaonik and Sar are attractive for developing sheep and cattle production and forestry. The Republic of Serbia has a total agricultural labor force of approximately 1.3 million comprising

approximately 17% of the total population. According to the latest data, the population engaged in agricultural production is rapidly aging.

The structure of Serbia's agricultural labor force is as follows: livestock breeding (43%), field crop farming (42%), fruit and wine production (12%), other crops (3%).

#### **Issuer's Address and Contact Number**

The Issuer's contact details are as follows:

Ministry of Finance of the Republic of Serbia - Treasury

Knez Mihailova 36

110000 Belgrade

Tel: + 381 11 3022 716/+ 381 11 3022 708

#### **POLITICAL BACKGROUND**

##### **State Union level**

The FRY was officially transformed on 4 February 2003 when the Federal Parliament adopted a new Constitutional Charter and proclaimed the establishment of SM. SM consists of two republics, Montenegro and Serbia (which includes two autonomous provinces - Kosovo and Metohija, and Vojvodina), which effectively function independently of each other. The new state union has been designed to increase cooperation between the two republics, to create a single market and to ensure a more equitable balance of power and responsibility.

The Government of SM is a presidential parliamentary democracy. Its competencies include foreign affairs, defense, economic relations (both internal and international), and human and minority rights. The President, who is elected for a four-year term, leads the executive branch of the government and is head of the Council of Ministers. The current President, Svetozar Marovic, was elected the first President of SM on 7 March 2003 (see below).

The legislative branch of government, the SM Parliament (Skupstina) was constituted for the first time on 4 March 2003. The Assembly has 126 seats, with 91 allocated to Serbia and 35 to Montenegro. Members of the new Assembly were chosen by the parliaments of the two republics and will serve for two years. A direct election is scheduled for 2005.

The Council of Ministers includes 5 Ministries with rotating terms to be shared between the two republics. The current Council of Ministers was approved by the Federal Assembly on 17 March 2003.

Upon the expiration of a three-year period following the implementation of the new Constitutional Charter, the member states are able to institute proceedings to withdraw from the state union.



## **Republic level**

Each of the Republic of Serbia and the Republic of Montenegro has its own assembly. The Serbian Parliament has a four-year term. Recent Presidential elections in Serbia elected a new President Boris Tadic who is a member of the Democratic Party.

The Montenegrin Parliament also has a four-year term. Early elections for the Montenegrin Parliament were held on 20 October 2002, resulting in a clear victory for the Democratic Party of Socialists (DPS). Montenegro's government is headed by Prime Minister Milo Djukanovic. Filip Vujanovic (DPS) was elected President on 11 May 2003.

The Republics are required to adjust their constitutions to the new federal Constitutional Charter within six months after its promulgation and adjust laws and other regulations to the Charter.

## **Kosovo and Metohia**

On 10 June 1999, following the implementation of United Nations Resolution 1244, an interim civilian administration led by the United Nations (United Nations Mission in Kosovo, "UNMIK") was established in Kosovo within the FRY (which is now SM). Under UN Resolution 1244, SM's sovereignty over Kosovo is confirmed, but the resolution calls for greater and genuine autonomy for the province through gradual devolution of administrative powers from UNMIK to the democratically elected local political representatives.

## **Recent political developments**

The most recent parliamentary elections in the Republic of Serbia were held on 28 December 2003.

The result of this election was inconclusive in the sense that the distribution of seats in the 250-member Serbian parliament did not lend itself to the seamless formation of a government. The Serbian Radical Party (SRS) won most seats (82), followed by the Democratic Party of Serbia (DSS - 53). Five parties, the DSS, the Democratic Party (DS - 37), G17 Plus (34) and the Serbian Renewal Movement (SPO)/New Serbia (NS) (23) formed a coalition. After more than two months of protracted negotiations a minority government, dependent on the support of the Socialist Party of Serbia (SPS), was formed by the DSS, G17 Plus and the SPO/NS coalition. On 3 March, Vojislav Kostunica (DSS) was appointed Prime Minister and parliament approved his proposed 18-member cabinet. Kostunica's DSS has 9 ministers, G17 Plus has four ministries as does the SPO/NS coalition. Miroljub Labus, leader of G17 Plus is the sole Deputy Prime Minister. One of his main tasks is to coordinate European integration efforts.

## **Legal system**

The legal system in SM is based on a civil law system. The Criminal Law was originally based on the German criminal law system. Recent changes to the Serbian and the Montenegrin Criminal Law, introduced some changes by incorporating some Anglo-American Criminal Law concepts.

Judicial institutions have the responsibility for the implementation of the legislation, monitoring of that implementation and providing initiatives for changing legislative solutions, which also need to be adjusted to the required standards.

The court system is intended to secure respect of citizens' rights and freedoms, protection of interests of legal entities, protection of citizens property rights, respect of rules of law and the Constitution, laws and international acts incorporated in legislation. Court power is exercised by judges, independent of legislative and executive power.

## **Constitution**

Under the Constitution, all power in the country is divided between the three branches of government, namely; Legislative (which is represented by the Parliament of Serbia), Executive, (which is represented by the government of Serbia) and the judiciary (which is represented by the courts in general), meaning that there is not a specific legal body to represent the last branch. All branches are independent and have full competence in the areas which they cover. No branch may interfere with the substance of the other branches by undertaking their competences and including them in their own area of activities. The only effective way for their proper functioning, in accordance with the Constitution, including planning and strategy, is to have mutual cooperation.

Executive authority is vested in the Government of the Republic of Serbia. The Government comprises of the Prime Minister, Deputy Minister and 17 line Ministers. The Prime Minister chairs and represents the Government. The Government takes decisions at its sessions by majority vote of its members.

The Government proposes to the National Assembly draft laws and other general regulations. The Government is also responsible to the National Assembly for the implementation of the policies of the Republic of Serbia, pursuant to the provisions of the Constitution of the Republic of Serbia and the laws adopted in the National Assembly.

The highest law at the republic level is the Constitution of Serbia. This Constitution of Serbia was adopted on 28 September 1990. However, both Constitutions of Serbia and of Montenegro have to be brought into conformity with the new Constitution of the State Union and that could be a long process.

The Constitutional Court of Serbia is located in Belgrade and has the power to determine if laws, regulations and decisions of state organs are in keeping with the Constitution of Serbia.

## **THE SERBIAN ECONOMY**

### **Overview of Economic Reforms**

The formation in October 2000 of the government by the coalition of pro-democratic political parties, which finally managed to take power after a decade of Slobodan Milosevic's Socialist Party's rule, effectively ended Serbia's long diplomatic and economic isolation and opened doors for the beginning of political and economic reforms that have since taken place. To date,

Serbia has made significant progress in successfully implementing political and economic changes, rebuilding the country, adopting principals of a modern democratic society, including through the transition to a market economy on the way to fulfillment of the requirements eventually to join the EU. All this resulted in notable economic growth and an increased level of macroeconomic stability in the country over the past four years.

Amongst the key elements of the economic transition is the ongoing privatization process. Economic reforms carried out in terms of changing the ownership structure, form the basis for the creation of a market based system and enhancing efficiency in the economy. Overall, Serbia has become more open towards the world economy, and has taken steps to deregulate and liberalize trade and reestablish ties (and further consolidate cooperation with) the leading international financial institutions (IMF, World Bank, EBRD, EIB, International Finance Corporation, etc.) and to encourage international investment.

The reforms of the past four-year period focused on strengthening the fiscal and monetary sector, as well as restructuring the banking system. Over 1,200 state companies were privatized in this period, international trade and the customs system were liberalized and attractive foreign investment and concession laws were enacted. The government undertook the restructuring of major public companies which required the elimination of considerable price disparities in the energy sector and other public services. Measures were also taken to reform and downscale state administration and cut government expenditure. To enhance the effectiveness of the restructuring process, tripartite agreements among the government, unions and employers were concluded concerning labour costs and conditions. In addition the development of small and medium enterprises (SMEs) was encouraged through various government programmes.

Facilitating the ongoing economic transition, the overall judiciary system of the judiciary was improved with new laws drafted according to European standards. New laws have been introduced in order to provide a regulatory framework conducive to economic growth and development. Some of those include laws on companies, banks and other financial institutions, insurance companies, NBS, bankruptcy, privatization of state and social ownership, foreign investment and concessions, customs zones, progressive tax laws including value added tax ("VAT"), securities law, etc.

The reform of public finance significantly improved the efficiency of the fiscal system allowing for tax cuts and the broadening of the taxation base, whilst reorganising and modernising tax administration. Enhancement of the overall fiscal efficiency resulted in the tightening of fiscal discipline, as well as significant increases in tax collection rates. The law on VAT was brought into force in January 2005 and one anticipated positive effect is the considerable reduction of the sizeable informal sector which should result in a more equitable spread of the fiscal burden whilst improving revenues. Tighter fiscal policy resulted in a notable decrease of the budget deficit, from 4% of the GDP in the year 2000, to an estimated 1.9% in 2004 and 1.4% (projected) for 2005.

The current stabilization program was implemented to extend the IMF stand-by arrangement, and one central aim was to suppress inflation. As a consequence, the inflation rate as measured by reference to the RPI went down from a high 111.9% in 2000, to 7.8% in 2003. This was

largely due to the implementation of responsible well-coordinated monetary and fiscal policies. Partly as a result of world oil price increases and higher prices of other commodities, as well as elimination of inherited price disparities, the RPI inflation rate in 2004 rose to 13.7%. Notwithstanding this, the adopted budget for 2005 provides for a lower 9.1% rate, with steady decline planned for the years ahead, ultimately with the aim of lowering the rate to 4% by 2007.

The exchange rate was relatively stable over the past four-year period and Serbia enjoyed a considerable increase in foreign reserves, which rose from the level of U.S.\$524 million in 2000 to just over U.S.\$4 billion in 2004. Moreover, in 2004, the aggregate reserves, which include the commercial banks' foreign currency reserve requirement, stood at U.S.\$4.89 billion, representing approximately 4.6 months worth of the overall import of goods and services.

The level of recorded household savings went up from virtually zero in 2000, to some U.S.\$1.5 billion in 2004, driven by the strengthening of domestic economic activity and growing levels of confidence in the restructured Serbian banking system.

Government indebtedness has decreased substantially since 2000, dropping to 49% in 2004 from a high 169% previously. The debt restructuring arrangements made with the Paris and London clubs of creditors, with write-offs of 66% and 62% of total debt, respectively, were amongst the most significant in reducing the overall level of public debt.

As part of the process of stabilization and association, Serbia developed greater levels of cooperation with neighboring countries, as well as the member countries of the EU and the rest of the world, which considerably increased the volume and value of foreign trade. An unfavorable characteristic, however, is the fact that in the last four years the level of imports grew at a faster pace than the level of exports, which produced a relatively large trade deficit in the current balance of payments. The trade deficit of goods and services in 2004 was some U.S.\$6.6 billion, with current negative balance of payments of about U.S.\$2.9 billion, or 13.5% of the GDP of the Republic of Serbia.

The new legal framework is conducive to the growth in foreign capital investment. Full repatriation of profit for foreign investors was made possible and corporation tax has been lowered to only 10%, which is amongst the lowest in the region. As a result of the ongoing positive structural changes, FDI in 2003 stood at U.S.\$1.4 billion, which was the highest-level FDI in the Balkans that year. Despite the change of government and a subsequent relative slow-down in the privatization process in the first half of the year, FDI in 2004 still stood at a significant U.S.\$890 million.

### **Civil and Commercial Law**

After January 2001 a major reform was launched in Serbia through a series of commercial and other laws with a view to move in the direction of harmonization with the standards prevailing in the market economies of the EU and other developed countries. Strong reforms were carried out particularly in making a favorable environment for the development of entrepreneurship.

They include arrangements to create a legal framework conducive to the protection of legal and physical persons and harmonization with the EU *acquis communautaire*.

The amendments to the Foreign Investments Law in 2003 encouraged the inflow of FDI. Essentially, foreign investors are assured equal treatment with residents, which means that persons investing in Serbia have all legal entitlements and protection of domestic investors.

Likewise, the Concession Law, effective as of June 2003, provided for the efficient introduction of private-public partnerships in Serbia. That law widened considerably the list of sectors that may be the subject of concession licenses. These sectors include; raw materials, water supply, public roads, airports, river ports, telecommunications, oil and gas, works in local communities, factories and utilities, medical institutions, sports and recreation facilities, tourist resorts. The Concession Law allows build-operate-transfer arrangements under which the person granted the concession may finance, build or restructure a given facility and exploit it for a given period of time. For the time being the maximum concession period is 30 years.

Several new laws were approved in 2004 and many were amended, which are designed to enable still higher foreign investment and faster development of the overall economy in Serbia, to create a more expeditious and transparent judiciary and equal treatment of all economic actors. These laws include:

- Law on Guarantee Fund (April 2004),
- Law on National Insurance Corporation for Residential Credit Insurance (May 2004),
- Insurance Law (May 2004),
- Law on Pension and Disability Insurance (September 2004),
- Law on Corporate Profit Tax (August 2004),
- Law on Value Added Tax (August 2004),
- Law on Financial Transactions Taxation (April 2004),
- Company Law (November 2004),
- Law on Conflict of Interest of Public Officials (April 2004),
- Bankruptcy Law (August 2004),
- Law on the Securities Market and other Financial Instruments (May 2004).

### **Gross Domestic Product ("GDP")**

Following years of isolation and the 1999 NATO bombing, the total GDP in 2000 stood at only US\$9 billion, which was significantly below the 1989 level of US\$26 billion. Following the political changes after October 2000, notable economic growth and recovery have taken place.

Between 2000 and 2004, Serbia recorded real GDP growth of 22.1%, or around 5.1% on average per annum.

In 2003, Serbia's GDP amounted to U.S.\$18.9 billion, or some U.S.\$2,500 per capita. GDP in 2004 was estimated at U.S.\$21.64 billion raising GDP per capita to approximately U.S.\$2,886.

The relatively quick pace of the economic recovery decelerated somewhat in 2003, when largely due to the droughts, which affected agricultural production and contributed to weaker

than expected performance in the industrial and construction sectors, GDP increased by only approximately 3 percentage points. Notwithstanding this modest growth in these sectors overall, the 2004 GDP increase was estimated at a strong 8.6% which is the highest level of growth since the late 1970s.

Going forward, real GDP is expected to grow by approximately 4.6% in 2005 and to average 5% per annum over the five-year period thereafter. Based on these projections, the GDP of Serbia is expected to reach nearly U.S.\$30 billion or around U.S.\$3,900 per capita by the end of 2010.

### **Gross Domestic Product of Serbia - Actual And Projections**

	<b>U.S.\$ million - Actual for the years 2000 - 2003 (inclusive) and thereafter Projections</b>	<b>CSD billion Current prices</b>	<b>Real growth rate</b>
2000	8,050		5.2
2001	10,619		5.1
2002	14,282		4.5
2003	18,919		2.4
2004	21,640	1,263.4	8.6
2005	22,635.4	1,478.8	4.6
2006	23,767.2	1,662.7	5.0
2007	24,955.6	1,851.0	5.0
2008	26,203.4	2,047.7	5.0
2009	27,513.5	2,267.6	5.0
2010	28,889.2	2,510.5	5.0

Source: RSB (Press Release, No. 138/2005) and projections of the Government of Serbia, NBS and IMF staff

### **Principal Sectors of the Economy**

It is estimated that, as at the end of 2004, the Industrial sector accounted for 21.4% of GDP, whilst the agriculture and fishery and the transportation sectors comprised 14.2% and 8.8% of the Serbian economy, respectively. The construction sector (3.4%) and the trade sector (8.4%) are other significant contributors of the economy, with all the other sectors combined representing 26.6% of the GDP.

### **Structure Of Gross Domestic Product Of Serbia**

GDP in CSD (billion), 2002 Constant Prices

	<b>Actual 2002</b>	<b>Estimate 2003</b>	<b>Estimate 2004</b>	<b>STRUCTURE %</b>		
				<b>Actual 2002</b>	<b>Estimate 2003</b>	<b>Estimate 2004</b>
Industry	212.4	204.3	218.4	23.1	21.7	21.4
Agriculture and fishery	131.2	122.1	145.2	14.3	13	14.2
Construction	30.0	33.2	34.4	3.3	3.5	3.4

	STRUCTURE %					
	Actual 2002	Estimate 2003	Estimate 2004	Actual 2002	Estimate 2003	Estimate 2004
Trade	70.9	79.1	86.4	7.7	8.4	8.4
Transportation	71.2	77.9	90.1	7.7	8.3	8.8
Taxes - Subsidies	147.7	161.8	176.3	16.1	17.2	17.2
Other activities	255.8	263.2	271.9	27.8	27.9	26.6
<b>TOTAL GDP</b>	<b>919.2</b>	<b>941.6</b>	<b>1,022.6</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: RSB

The bulk of the production within the industrial sector is represented by food processing, energy, textile, leather, footwear and wood processing products. A significant growth of the metal industry is also noted. The generally well-diversified production within the agricultural sector is best known for crop farming, livestock breeding and vine and fruit growing. Finally, both wholesale and retail trade have been developing over the past four years, with international trade growing at a fast pace.

Historically strong, the construction sector is currently lagging far behind its real potential, with the volume of work contracted abroad well beyond its traditionally high levels. This leaves significant room for improvement and represents a potentially high growth area going forward. Despite the fact that the Transportation sector continues to represent a significant portion of the economy, in order to assist in sustaining the rate of the economic growth, improvements would need to be made with regards to the road and railway infrastructure, as well as restructuring of the public transportation state-owned companies, such as the national railway.

### Employment

One of the negative aspects of the ongoing process of economic transition is the relatively high levels of unemployment. Notwithstanding the high GDP growth recorded in 2004, the levels of official unemployment remain high, in the region of 31.7% of the work force in 2004<sup>1</sup>. As at the end of 2004, the registered number of unemployed workers stood at approximately 969,900, of which approximately 100,000 were temporarily or permanently incapacitated.

Notwithstanding this, the real state of unemployment is believed to be significantly less alarming. Approximately one third of those registered as unemployed are believed to perform unregistered work, or are engaged in the "grey economy". To curb this problem, some efforts have been made to register only the "active job seekers". The table below depicts the unemployment figures in Serbia in years following 2000.

### Employment And Unemployment Trends In Serbia

Number of employed end period in thousands	Number of unemployed end period in thousands
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<sup>1</sup> The Statistical Office of the Republic of Serbia has published the results of the Labor Force Survey for 2004, with a modified sample which encompassed a larger number of households (to over 6,700 (from 3,900 formerly)). The results of the survey have shown that the unemployment rate in 2004 stood at 18.5%.

2000	2,103	731.3
2001	2,095	780.5
2002	2,057	904.5
2003	2,020	944.9
2004	2,026	969.9

Source: RSB.

In order to assist in dealing with unemployment, various programs have been introduced both locally and in cooperation with international financial institutions and aid agencies. For instance, one EU sponsored project is aiming at linking unemployed persons with employers through employment agencies to be opened in cities throughout Serbia.

Nevertheless, one of the major problems remains the substantial level of redundancies in the state and publicly owned companies, which will continue to contribute to growing unemployment in the future. Many of the dismissed workers, particularly the older ones, have great difficulties in finding new employment. Tackling this issue, the Government introduced in 2005 tax exemptions for employers employing persons older than 50, exempting them from all the taxes and contributions regarding those employees. This is expected nearly to halve the expense of the employer in relation to those workers on account of earnings. In addition to this, in order to boost employment, the newly employed will be given some income tax reliefs.

As a result of the structural changes designed to assist with the problem of unemployment, the current situation is expected to improve going forward despite the ongoing economic transition. According to World Bank data, the situation regarding the legal framework governing the labor market has shown significant improvement already. As such, the flexibility index (under which lower index values signify higher flexibility) dropped from 51 in 2003, to 28 in 2004, and the index qualifying legal regulations for employment, reduced from 56 to 23.

### **Wages and income**

Real earnings growth for 2004 stands at around 10.4%, which exceeds the estimated GDP growth of 8.6% for 2004. This gap, however, was considerably narrowed relative to the previous years (10% in 2003 and as much as 40% in 2002).

Whilst the levels of average net monthly earnings in Serbia (average for 2004: EUR 194.20) compares well to most of the neighboring countries, a potential slow down in earnings is desirable as this would result in a reduction of the high foreign trade deficit and a lower level of inflation. As such, it is expected that the real wages in the public sector for 2005 would remain unchanged or even be somewhat lower compared to 2004.

Certain changes were introduced in the taxation of earnings in 2004. The tax on the payroll of 3.5% of gross earnings was cancelled, while the contribution rate for social insurance went up, which in aggregate, resulted in a negligible decrease of the fiscal burden on earnings, which remains relatively high.



## **Pension Reform**

The social insurance system in Serbia is made up of the following:

- (i) ("pay as you go") pension funds;
- (ii) the health insurance fund; and
- (iii) the social security service.

This system is financed directly through contributions and obligatory social insurance which is set aside from the earnings of the employed on predetermined rates. The shortfall of funds for settling liabilities to beneficiaries is covered by transfers from the budget.

The aggregate amount of pensions paid out by the three state pension funds in 2004 stands at about CSD 160 billion, which is approximately 13% of GDP. Pensions are adjusted quarterly depending on the growth of average earnings and the cost of living.

One of the major challenges of the economic transition taking place in Serbia, like in other countries in central and eastern Europe that underwent this process, is the ongoing reform of the pension fund. The slow-down in the population growth and the growing number of pensioners has resulted in an almost 1:1 ratio of number of workers paying contributions into pension funds and the number of current beneficiaries. This also required an increased level of budget contribution into the pension funds, raising questions regarding sustainability of the current system in the future.

In 2001, the age for legal retirement was increased, whilst the current quarterly pension adjustments referable to the growth of earning was changed so that the quarterly adjustment became referable to the growth of earnings (with a weight of 50%) and the cost of living (also with a weight of 50%). Although this served to decelerate pension expenditures growth, the ratio of total pension liability to GDP is still significant compared to most other countries.

## **BALANCE OF PAYMENTS AND FOREIGN TRADE**

### **Balance of payments**

The share of the external sector in the overall economic activity of the country is growing, reflecting greater openness of the domestic economy to the world. However, as an effect, despite increase in exports, there has been a growing foreign trade deficit trend in 2004.

In 2004, the foreign trade deficit increased by 52.6% relative to 2003 to reach U.S.\$7,047 million. Exports of goods rose from U.S.\$2,855 million to U.S.\$3,897 million (36.5%), while imports of goods rose from U.S.\$7,473 million to U.S.\$10,944 million (46.4%).

The high trade deficit was covered mostly by high net inflows of funds from abroad on account of current transfers, which in 2004 stood at a high U.S.\$3,411 million mainly in remittances and proceeds from foreign exchange offices as well as from services (U.S.\$405 million) and grants (U.S.\$525 million). All this caused a 66.3% increase in the current account deficit from U.S.\$1,757 million to U.S.\$2,922 million. The capital account surplus reached U.S.\$3,163

million primarily as a result of foreign direct investment and disbursements of medium- and long term loans. As a result the overall balance of payments for 2004 was in surplus by U.S.\$687 million and there was a resultant increase by this amount in the foreign reserves of NBS (as defined below) over the same period.

**Balance Of Payments Of Republic Of Serbia**  
(in million U.S.\$)

		Estimate.**
	2003	2004
<b>Trade Balance</b>	-4.618	-7047
<b>Exports, f.o.b.</b>	<b>2.855</b>	<b>3897</b>
Recorded	2.755	3701
Unrecorded		268
Valuation adjustment		-72
<b>Imports, c.i.f.</b>	<b>-7.473</b>	<b>-10.944</b>
Recorded	-7.473	-11139
Valuation adjustment		195
<b>Services net</b>	<b>289</b>	<b>405</b>
Export	1.007	1.487
Import	-718	-1082
<b>Net factor income</b>	<b>-208</b>	<b>-216</b>
Of which: Net interest	-208	-216
Earnings	69	80
Payments	-277	-296
<b>Current transfers, net</b>	<b>2.304</b>	<b>3411</b>
Inflows	2.712	4006
Outflows	-408	-595
Current account balance, before grants	-2.233	-3447
<b>Current account balance</b>	<b>-1.757</b>	<b>-2922</b>
Official grants	476	525
Foreign direct investments, net	1.360	966
Medium & long-term credits*	918	1906
Amortization*	-204	-376
Short-term credits, net	66	394
Other capital, net	280	289
Commercial banks, net	102	-16
<b>Capital account balance</b>	<b>2.318</b>	<b>3163</b>
Error and omissions	432	446
<b>Overall balance</b>	<b>933</b>	<b>687</b>
<b>Financing</b>	<b>-993</b>	<b>-687</b>
Central bank, net	-992	-687
Gross foreign reserves (increase, -)	-1.270	-694

of which: IMF	277	243
Gross foreign liabilities (increase, +)	277	7
of which: IMF		236

\*For 2003 an unregistered U.S.\$100 million were included.

\*\* Source: NBS

Over the past five years, Serbia's aggregate exports grew at a considerable rate. However, a disproportionably higher growth in imports resulted in a rise of foreign trade deficit.

**Foreign Trade Of Serbia  
2000-2004 (in million U.S.\$)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>2004 **</b>
Export	1.558	1.721	2.075	2.755	3701
Import	-3.330	-4.261	-5.614	-7.473	-11139
Trade deficit	-1.772	-2.540	-3.539	-4.718	-7438

\* From 2003 goods are classified by BEC (Broad Economic Category), so that the time series is not consistent.

\*\* Source: NBS

It is noted that, over the period under review, the general export structure did not change substantially. Namely, the share of intermediate goods in overall exports ranged from 56.4% in 2000, to 65.4% in 2004, the share of equipment from 7.8%, to 6.5%, and the share of consumer goods from 35.8% in 2000 to 28.12% in 2004.

There were, however, significant changes in the structure of imports, most notably the share of intermediate goods, which dropped from 70% in 2000, to 56.1% of overall imports in 2004. In the same period, the share of consumer goods increased from 14.0%, to 22.5% of total imports, while the share of imported equipment rose from 16.0% in 2000 to 21.4% in 2004.

The recorded growth in imports of consumer goods, versus the relative decline in the share of imported intermediate goods is considered unfavourable. Although various measures have been introduced to deal with this shift, the recovery of the domestic economy, restructuring and privatization of certain enterprises initiated in the period under review have not as yet produced visible results in terms of expected changes in the structure of imports.

**Commodity Trade 2000-2004 - (in million U.S.\$)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>2004</b> (Jan-Dec)
<b>Export</b>	<b>1.558</b>	<b>1.721</b>	<b>2.075</b>	<b>2.755</b>	<b>3701</b>
Intermediate goods	879	913	1130	1.505	2421
Equipment	121	157	165	427	241
Consumer goods	558	651	780	823	1039
<b>Import</b>	<b>3.330</b>	<b>4.261</b>	<b>5.614</b>	<b>7.473</b>	<b>11139</b>
Intermediate goods	2.331	2.852	3.404	4.241	6251
Equipment	532	672	1.132	1.452	2380

Consumer goods	467	737	1.078	1.780	2508
Source: RSB					

\* From 2003 goods are classified by BEC (Broad Economic Category), so that the time series is not consistent.

### **Official international reserves**

Despite the growing foreign trade deficit, one of the characteristics of the period under review is the strong growth in the level of country's official foreign exchange reserves. Foreign exchange reserves of NBS (as defined below) increased from U.S.\$1.169,1 million at the end of 2001, to U.S.\$3.550,1 million at the end of 2003, and further to just over U.S.\$4.2 billion by the end of 2004. Although the increase in foreign exchange reserves in 2004 is lower than the corresponding increases in recent previous years, it well exceeds the planned growth for the year.

The trend of growing foreign exchange reserves which continued in 2004 confirms that the state of Serbia's international liquidity remains at a satisfactory level. A high trade deficit was more than offset by a still larger surplus in the non-factor services, private remittances and official transfers, foreign direct investments, grants, foreign loans and other capital inflow.

### **Gold Reserves**

As at June 30 2005, Serbia's gold reserves totalled 344,047.3153 fine troy ounces with a national valuation of approximately USD 150,383,081.50 at USD 437.10 per troy ounce.

### **PUBLIC FINANCE**

During 2004, fiscal flows were in compliance with the envisaged macroeconomic policy, and the fiscal deficit was reduced as compared to the previous year. Consolidated general government revenues and expenditures amounted to CSD 592.7 billion (46% of GDP) and 615.1 (48% of GDP), respectively. The overall fiscal deficit for 2004 stands at CSD 22.4 billion (about 1.9% of GDP), which complies with the downward revised quantitative criteria under the current extended funds arrangement agreed with the IMF.

The fiscal deficit in 2004 was financed as follows: CSD 9.8 billion from 2003 privatization proceeds, CSD 5.9 billion from the sale of domestic securities, CSD 5.2 billion from loans and 0.7 billion dinars from donations and CSD 3.1 billion from privatization proceeds realized during the 2004 year. With financing exceeding the deficit, state deposits were increased by CSD 2.5 billion.

The biggest change affecting the 2005 budget is the replacement of sales tax, (rate of 20%) with value added tax (18% basic rate and 8% special rate (bread, milk, oil, fresh fruit and vegetables, meat, drugs, etc.)) effective as of 1 January 2005. The introduction of value added tax is expected to result in a higher rate of consumption-tax collection and a significant decrease in the volume of "grey economy".

The latest revision (as of July, 2005) of Law on Budget for 2005 envisages revenues of CSD 433 billion and expenditures of CSD 401 billion, turning the fiscal deficit of CSD 20.5 billion into fiscal surplus of CSD 32.2 billion.

The total revenues of the Budget of Republic of Serbia for 2005 (the "**Budget**") are as follows:

Economic classification	Description	Budget resources	Expenditures from additional income of governing bodies	Total resources
<b>I. TOTAL REVENUES</b>		<b>432,999,000,000</b>		
7	<b>Current Revenues</b>	<b>432,999,000,000</b>		
71	<b>Tax Revenues</b>	<b>393,800,000,000</b>		
711	Taxes on income and profit	60,553,000,000		
7141	VAT	207,948,500,000		
7142	Excises	80,798,500,000		
715	Taxes on international trade and transaction	39,200,000,000		
712,713,716,719	Other taxes	5,300,000,000		
74	<b>Non tax Revenues</b>	<b>39,199,000,000</b>		
<b>II. TOTAL EXPENDITURES</b>		<b>400,767,778,000</b>	<b>58,250,952,000</b>	<b>459,018,730,000</b>
4	<b>Current Expenditures</b>	<b>384,538,097,000</b>		
41	<b>Expenditures for employees</b>	<b>84,641,135,000</b>	<b>7,946,233,000</b>	<b>92,587,368,000</b>
411	Salaries and allowances for employees	68,831,762,000	5,234,712,000	74,066,474,000
412	Social contributions (by employer)	13,824,648,000	958,969,000	14,783,617,000
413	Compensation in kind	272,273,000	450,138,000	722,411,000
414	Employee social benefits	1,161,248,000	655,610,000	1,816,858,000
415	Compensation for employees	393,225,000	291,153,000	684,378,000
416	Awards, bonuses and special payments	32,608,000	355,651,000	388,259,000
417	Judges and assembly members' allowances	125,371,000		125,371,000
42	<b>Use of services and goods</b>	<b>19,734,481,000</b>	<b>21,614,583,000</b>	<b>41,349,064,000</b>
421	Continuous cost	4,095,507,000	4,312,012,000	8,407,519,000
422	Travel costs	1,265,277,000	478,949,000	1,744,226,000
423	Contract services	2,600,232,000	4,292,171,000	6,892,403,000
424	Specialized costs	7,088,300,000	8,811,039,000	15,899,339,000
425	Current repair and maintenance	1,324,025,000	1,647,415,000	2,971,440,000
426	Supplies	3,361,140,000	2,072,997,000	5,434,137,000
43	<b>Consumption of fixed capital</b>		<b>68,075,000</b>	<b>68,075,000</b>
431	Consumption of fixed assets		68,075,000	68,075,000
44	<b>Interest payments</b>	<b>19,982,883,000</b>	<b>307,591,000</b>	<b>20,290,474,000</b>
441	Domestic interest payments	3,770,626,000	298,626,000	4,069,252,000
442	Foreign interest payments	15,365,712,000	145,000	15,365,857,000
444	Borrowing related charges	846,545,000	8,820,000	855,365,000
45	<b>Subsidies</b>	<b>30,146,175,000</b>	<b>500,000,000</b>	<b>30,646,175,000</b>
451	Subsidies to non-financial public corporations	29,921,175,000	500,000,000	30,421,175,000
453	Subsidies to public financial corporations	225,000,000		225,000,000
46	<b>Grants and transfers</b>	<b>181,662,183,000</b>	<b>2,935,475,000</b>	<b>184,597,658,000</b>
462	Grants and transfers to international organizations		2,000,900,000	2,000,900,000
463	Grants and transfers to other levels of government	81,297,183,000	904,575,000	82,201,758,000
464	Grants and transfers for compulsory	100,365,000,000	30,000,000	100,395,000,000

	social insurance			
47	<b>Social benefits</b>	<b>43,645,681,000</b>	<b>841,865,000</b>	<b>44,487,546,000</b>
472	Social assistance benefits (from the budget)	43,645,681,000	841,865,000	44,487,546,000
48	<b>Other expenditures</b>	<b>3,528,616,000</b>	<b>1,024,151,000</b>	<b>4,552,767,000</b>
481	Donations to non-government organizations	1,554,560,000	849,576,000	2,404,136,000
482	Taxes, compulsory fees, and fines imposed by one level of government on another level	509,871,000	141,207,000	651,078,000
483	Fines and penalties imposed by courts of law or quasi-judicial bodies	1,134,055,000	25,768,000	1,159,823,000
484	Redress for injuries or damages caused by natural disasters or other natural causes	179,000,000	1,600,000	180,600,000
485	Redress for injuries or damages caused by government units	151,130,000	6,000,000	157,130,000
49	<b>Reserves</b>	<b>1,196,943,000</b>		<b>1,196,943,000</b>
499	Reserve funds	1,196,943,000		1,196,943,000
51	<b>Fixed assets</b>	<b>15,579,681,000</b>	<b>21,354,828,000</b>	<b>36,934,509,000</b>
511	Buildings and structures	7,582,402,000	19,227,732,000	26,810,134,000
512	Machinery and equipment	7,967,979,000	1,940,456,000	9,908,435,000
513	Other fixed assets	29,300,000	186,640,000	215,940,000
52	<b>Inventories</b>	<b>500,000,000</b>	<b>1,626,226,000</b>	<b>2,126,226,000</b>
521	Strategic stocks	500,000,000	1,626,226,000	2,126,226,000
54	<b>Natural assets</b>	<b>150,000,000</b>	<b>100,000,000</b>	<b>250,000,000</b>
541	Land	150,000,000	100,000,000	250,000,000

### **III. SURPLUS (I-II) 32,231,222,000**

The total budget surplus for 2005 is expected to be CSD 32,231,222,000.

The surplus will be used for:

- covering expenditures for the loans extended and acquiring of financial assets in the amount of CSD 5.5 billion
- principal repayment in the amount of CSD 23.5 billion
- the remaining CSD 3.2 billion will be put on Treasury Account in order to be used for future repayment of public debt.

## **MONETARY AND FINANCIAL SYSTEM**

### **National Bank of Serbia**

The National Bank of Serbia ("NBS") is the central bank of the Republic of Serbia. The primary objective of NBS is achieving and maintaining price stability. In addition to its primary objective NBS also strives for maintaining financial stability. Without prejudice to its primary objective NBS is required to support the economic policies of the government of the Republic of Serbia in accordance with the principles of a market economy. NBS sets and implements monetary policy, conducts the Serbian dinar ("CSD" or "**dinar**") exchange rate policy, keeps and manages foreign-exchange reserves, issues notes and coins, supervises and controls payment operations in the country, as well as the entire financial system. Other tasks of NBS include, among others, stimulation of the growth in savings and total deposits, strengthening of the secondary financial market, development of market financial institutions and maintenance of balance-of- payments equilibrium.

According to the Law on the National Bank of Serbia, NBS is independent in the performance of its tasks, does not ask for or take instructions from state organs or other individuals, and is responsible for its work to the National Assembly of the Republic of Serbia. NBS is bound to submit to the National Assembly an annual business report and a monetary policy report and a monetary policy program for the following year, as well as an annual report on the situation in the overall banking sector.

The following bodies constitute NBS: Monetary Board, Governor and Council of the National Bank of Serbia. The Monetary Board sets the monetary policy and is made up of the Governor and a vice-governor. The Governor is elected by the National Assembly of the Republic of Serbia to a five-year term. His competences include implementation of Monetary Board's and Council's decisions, organization and operation of the central bank, as well as preparation and adoption of enactments within the competence of NBS. The Council has a president and four members, elected by the National Assembly of Serbia to a five-year term. At the Governor's proposal, the Council adopts financial plans and annual statements of NBS.

In order to achieve set goals in the economic policy and macroeconomic indicators, NBS sets monetary and credit policy measures to influence realization of the projected growth of monetary aggregates.

NBS pursues a managed floating exchange rate policy for the dinar. The Exchange rate of the dinar is set at the Interbank foreign exchange market, against supply and demand. The entire foreign-exchange demand is satisfied by interventions by NBS.

NBS sets and implements monetary policy of the Republic of Serbia by:

- Issuing short-term securities (7-day, 14-day, 30-day and 60-day NBS bills)
- Implementing open market operations, including repo transactions,
- Performing discount transactions and granting short-term credits,
- Setting required bank reserves,
- Setting the discount rate and other interest rates of NBS,

- Issuing notes and coins,
- Enacting regulations and setting other instruments and measures of monetary policy.

In order to realize quantitative tasks of monetary policy, NBS strengthens and promotes monetary regulation market instruments including initiation of repurchase operations concerning state securities. In addition, it plans activities aimed at further development of financial markets, increasing their security and efficiency. This should result in a lessening of direct interventions by NBS and increasing banks' participation in performing transactions on the foreign exchange market.

## Monetary Policy

The basic goals of monetary policy in 2004 were to maintain price and financial system stability, increase foreign-exchange reserves and a stable exchange rate policy.

### Selected Monetary and Foreign Exchange<sup>(1)</sup>

	Dec 2000	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Jun 2005	Rate of Growth Jun-05 Dec-04
Dinar reserve money	18,735	41,448	69,323	69,996	76,970	71,492	-7.1
Excess assets <sup>(2)</sup>	4,088	8,015	14,139	10,805	10,879	7,352	-32.2
Currency in circulation	10,933	25,266	43,719	42,979	45,138	42,285	-6.4
Money supply (M1) <sup>(3)</sup>	27,026	58,233	93,815	99,544	111,179	119,978	7.9
Money supply (M2) <sup>(3)</sup>	32,897	68,098	110,900	124,886	146,613	160,009	9.2
Foreign currency reserves of NBS (in millions of US\$)	524	1,169	2,280	3,550	4,244	4,386	3.3
Total foreign currency reserves (in million of US\$) NBS + commercial banks	890	1,808	3,063	4,436	5,146	5,175	0.6
NBS securities sold <sup>(4)</sup>	86	715	1,549	2,223	1,752	17,607	905.0
Discount rate of NBS <sup>(5)</sup>	26.34	16.43	9.50	9.00	8.50	8.50	
Average money market interest rates <sup>(5)</sup>	11,743	55.31	32.21	27.14	/	/	
Weighted average interest rates applied to the securities used in NBS open market operations <sup>(5,6)</sup>	/	18.67	9.72	10.63	16.30	14.83	
Inflation rate in Serbia (in %) <sup>(7)</sup>	111.9	40.1	14.8	7.8	13.7	16.8	
Value of EUR against dinar	58.67	59.71	61.52	68.31	78.89	82.78	4.9
Value of USD against dinar	63.16	67.67	58.98	54.64	57.94	68.65	18.5
Selected indicators in %						Changes 1.01 - 30.06.2005	
Currency in circulation/M1	40.4	43.4	46.6	43.2	40.6	35.2	-5.4
Foreign currency reserves of NBS/M1	122.5	135.8	142.4	195.2	221.2	251.0	29.9
Total foreign currency reserves/M1	208.0	210.1	192.6	230.4	268.2	296.1	28.1
Foreign currency reserves of NBS/average three-months worth of imports <sup>(8)</sup>	150.9	272.1	362.6	443.9	309.9		
Foreign currency reserves/average three-months worth of imports <sup>(8)</sup>	276.9	408.3	501.3	550.1	378.2		

(1) Definitions of aggregates, prepared in line with international standards are reconciled with the Statistical Bulletin (see the Methodological explanations of tables).

(2) Including overnight deposits.

(3) Including local government deposits.

(4) At the close of the business day.

(5) At the annual level.



- (6) Weighted Average Interest Rates applied to the securities subject to open market operations of NBS are presented according to proportional method (Act/360). Until January 2005 the NBS was selling NBS bills (outright transactions) and as of January 31, 2005 NBS started with repo-auctions of long-term bonds of the Republic of Serbia (repo-transactions).
- (7) Annual rates, the current month against the same month of the previous year.
- (8) Weighted average quarterly coverage rate of imported goods and services by average quarterly foreign currency reserves (Note: this indicator was modified to include both import of good and import of services).

As referred to earlier, the inflation rate, which in 2000 was at a three-digit level, was reduced to 7.8% in 2003. Partial monetization was effected, so that key monetary aggregates recorded marked increase, particularly in 2001 and 2002. Foreign-exchange reserves of NBS were increased by a multiple, while coverage of the money supply M1 with foreign-exchange reserves of NBS doubled to exceed 200%.

Turbulences on the world market, particularly high rise of oil and oil derivatives prices, influenced adjustment of the originally set goals of the monetary and overall macroeconomic policy. The 2004 inflation rate exceeded projections and amounted to 13.7%. The base inflation registered a slower growth than the overall inflation.

The growth of monetary aggregates in 2004 for the most part remained within projected limits. At the end of December 2004, reserve money was 10% higher than at the end of the previous year, the M1 monetary aggregate was 8% higher, while due to the increase in dinar-time and FX deposits of non-monetary sectors, stronger growth was recorded in the M2 (13%) and M3 (30.5%) monetary aggregates. The increase in the M3 monetary aggregate was realized primarily due to an increase in net FX reserves, and an increase in corporate and retail loans within the net domestic assets. The contribution of net foreign assets of the banking sector to M3 growth amounted to 13.7 percentage points, whereas that of net domestic assets equalled 16.8 percentage points, with the contribution of investments by banks much higher, standing at 41.2 percentage points, while the contribution of other net assets was negative at 26.5 percentage points.

Bank lending activity saw a robust increase during the year and accelerated from the second quarter. Retail loans (to households) registered a substantially higher increase (over 100%), although the increase in corporate loans was also relatively high (43%). This prompted NBS to pass strict prudential measures at the end of 2004 in order to curb the growth in lending activity.

**Consolidated bank balance sheet**  
(in millions of dinars, end of period ("e.o.p."))

	2003 <sup>(3)</sup>	Current exchange rate 2004				2005
	December e.o.p.	March e.o.p.	June e.o.p.	September e.o.p.	December e.o.p	March e.o.p.
<b>Net foreign assets<sup>(1)</sup></b>	172,664	164,494	156,648	184,641	205,236	209,993
Assets	242,348	238,849	240,554	274,941	298,151	317,520
NBS	193,967	190,472	200,960	218,388	245,907	269,402
Commercial banks	48,381	48,377	39,594	56,553	52,244	48,118
Liabilities(-)	-69,684	-74,355	-83,906	-90,300	-92,915	-107,52
NBS	-59,731	-59,926	-67,907	-65,4q62	-66,154	-66,03
Commercial Banks	-9,953	-14,429	-15,999	-24,838	-26,761	-41,493
<b>Net domestic assets</b>	64,270	72,934	92,854	97,921	-72,957	101,285
Domestic credits	153,357	166,994	197,592	222,076	333,943	256,665
Net claims on government	-23,586	-25,203	-14,778	-19,986	-8,828	-42,756
Credits	23,250	23,257	23,708	24,517	29,972	30,873
Dinar credits	23,130	23,134	23,497	24,360	29,972	30,409
NBS	19,051	18,904	18,840	18,646	21,155	21,235
Commercial banks	4,079	4,230	4,657	5,714	8,817	9,174
Foreign currency credits	120	123	211	157	147	464
NBS	0	0	0	0	0	0
Commercial banks	120	123	211	157	147	464
Deposits(-)	-46,836	-48,460	-38,486	-44,503	-51,987	-73,629
Dinar deposits	-25,677	-29,862	-28,174	-31,382	-38,800	-52,005
NBS	-14,305	-17,570	-16,273	-19,343	-28,102	-40,591
Commercial banks	-11,372	-12,292	-11,901	-12,039	-10,698	-11,413
Foreign currency deposits	-21,159	-18,598	-10,312	-13,121	-13,187	-21,624
NBS	-18,108	-15,402	-7,025	-9,713	-9,763	-18,061
Commercial banks	-3,051	-3,196	-3,287	-3,408	-3,424	-3,563
Short term government credits to banks	-239	-165	-262	-279	-421	-450
Purchased frozen - currency bonds	4,897	5,786	5,132	6,261	8,284	10,467
Credit to the non-government sector	172,285	186,576	207,500	236,080	269,875	289,404
Households	28,643	32,383	40,248	52,060	64,612	69,844
Non-profit and other sectors in dinar	927	1,343	1,475	1,590	2,181	1,925
Non-profit and other sectors in foreign currency	436	461	257	261	302	286
Enterprises in dinar	91,364	100,633	109,398	123,447	140,682	157,584
Enterprises in foreign currency	50,915	51,756	56,122	58,722	62,098	59,761
Enterprises in foreign currency (EUR m.)	745	741	778	783	803	737
Other assets, net	-89,087	-94,060	-104,738	-124,155	46,196	-155,380
<b>Money supply (M3)</b>	236,934	237,428	249,502	282,562	309,217	311,278
Money supply (M2) <sup>(2)</sup>	117,040	105,553	112,612	121,218	132,279	124,129
Money supply (M1)	98,223	88,549	94,134	99,876	106,056	99,076
Currency in circulation	42,979	38,004	40,347	42,463	45,138	39,368
Demand deposits	55,244	50,545	53,787	57,413	60,918	60,308
Dinar time deposits	18,817	17,004	18,478	21,342	26,223	24,453
Foreign currency deposits <sup>(3)</sup>	119,894	131,875	136,890	161,344	176,938	187,149

(1) Excluding the frozen foreign currency reserves of the FRY and undivided foreign assets of the SFRY.

(2) Total dinar deposits.

(3) Excluding households' frozen foreign currency savings deposits.

NBS implemented a number of measures aimed at limiting the macroeconomic risk caused by the pronounced increase in consumer loans, which contributed to the rise of the foreign trade deficit and inflation. The measures that will be taken in order to resolve this problem are the following:

1. The banks will have the obligation to classify the loans granted to natural persons with a maturity of up to five years, which do not meet one of the following conditions (i)

having a mandatory down payment or a deposit of at least 20% of the loan value or (ii) their monthly instalments do not exceed 30% of their net earnings – into the category of risky receivables;

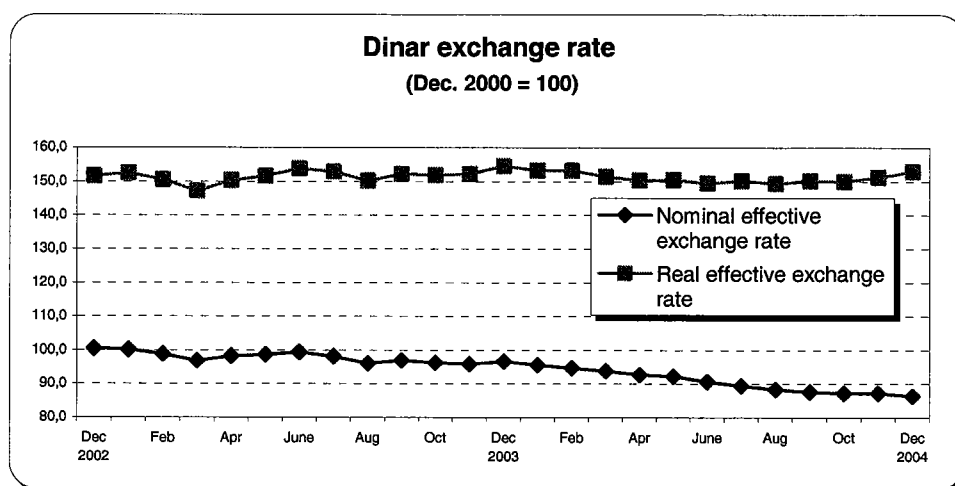
2. Gradual abolition of credit check function;
3. Establishment of a credit bureau, on the basis of which the banks would obtain information on citizens' debts to other banks and their ability to repay the funds borrowed, as well as on the risk level of the banks' own receivables.

During 2004, NBS conducted a moderately restrictive monetary policy aimed at limiting further growth of the inflation rate and reducing the foreign trade deficit. For that purpose, in August 2004, NBS increased the required reserve rate from 18% to 21% in order to sterilize surplus bank liquidity and prevent the pressure on the FX reserves. During the year, NBS also increased the interest rate for the maintenance of daily liquidity on the basis of collateralized securities from 200% to 250% of the discount rate (the discount rate of 8.5% has not changed during 2004, and as an instrument of monetary policy it had no significant influence on the commercial banks' behavior). NBS nevertheless increased the interest rate on its bills. In December, the average weighted interest rate on bills was 16.3% annualized, but the volume of bill sales was very modest and was CSD 1,752 million at the end of December.

With its measures, NBS effectively directed the commercial banks to transfer surplus liquidity to a separate account for depositing liquidity surplus in the domestic real time gross settlement ("RTGS") system, with NBS paying interest in the amount of 35% of the discount rate on the amount of the assets deposited. After increasing the required reserve rate, NBS reduced the sale of foreign currency and encouraged direct foreign currency trading between the commercial banks, on the Interbank FX Market, as well as outside it. The budget deficit funding by NBS has been considerably reduced during the last three years. In the course of 2003, a framework loan was granted to the Republic; the Republic repaid the disbursed amount of the loan before the end of the year. Since the beginning of 2004 no new loans have been granted to the government.

The average weighted interest rates on loans of the Serbian banking sector did not change significantly during the year although inflation accelerated, owing to the fact that most of the loans granted by the banks include an FX clause so that the principal amount of the loan is indexed to the inflation rate.

During 2004, a depreciation of the nominal effective dinar exchange rate was recorded. Compared to the end of the previous year, the nominal effective dinar exchange rate decreased by 10.7%, with the depreciation being more pronounced in the first half of the year. The real effective dinar exchange rate was relatively stable, and at the end of December 2004 it was 1.1% lower compared to the end of the previous year. Notwithstanding domestic inflation growth, the depreciation of the dinar against other currencies, except the euro, was moderate. If the position in December 2004 is compared with the position at the end of 2000, the nominal effective dinar exchange rate depreciated by 13.6%, while there was an appreciation by 53% in the real effective exchange rate.



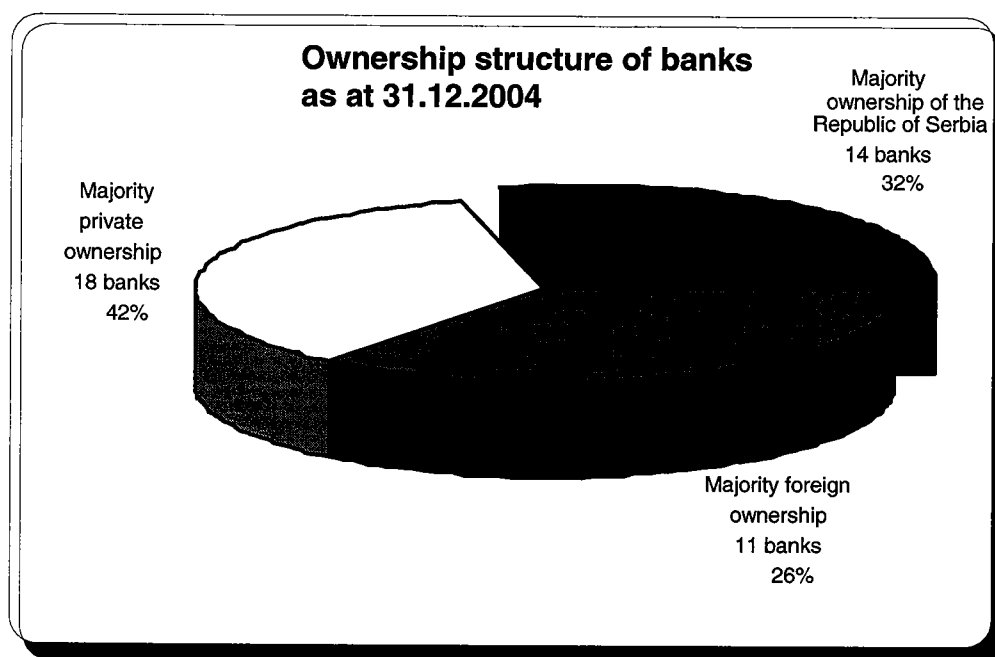
The performance criteria from the Extended Arrangement agreed with the IMF for net domestic and net FX assets in the previous year were met in full at the end of 2004.

The projection of the government and NBS for 2005 anticipates the annual inflation rate to be maintained at the single-digit level of approximately 9.1%, regardless of the introduction of VAT as of 1 January 2005. NBS will, on its part, take measures that curb domestic demand and result in the reduction of the current account deficit.

### **Banking system**

The banking system of the Republic of Serbia consists of the central bank (NBS), commercial banks and other financial organizations (savings banks, savings-credit organizations, and savings-credit cooperatives).

The banking-financial sector of the Republic of Serbia is currently comprised of 42 commercial banks, 22 insurance undertakings, the Fund for the Development of the Republic of Serbia, the Federation's Fund for Providing Loans Aimed at Faster Development of Underdeveloped Regions, the Deposit Insurance and Bank Rehabilitation Agency, National Corporation for Mortgage Insurance, as well as 9 savings-credit organizations and savings-credit cooperatives.



During 2001, 2002 and 2003 there were significant structural changes in the banking sector. In that period, a certain number of banks were closed, including the largest financial institutions in the country, while several new banks were established, primarily owned by foreign banks. Through restructuring of the banking sector, the number of banks was reduced from 86 at the beginning of 2001 to 49 banks at the end of that year.

The banking sector ownership restructuring also took place largely as a result of a debt-to-equity swap of Paris and London club obligations, as well as frozen foreign currency savings obligations, whereby the government undertook obligation for repayment of the debt, in turn becoming an equity holder in a number of local banks. Since 2004, the government began the process of privatization of banks in which it holds a majority stake and is planning to privatize as many as 7 banks in 2005. Moreover, further consolidation of the banking sector is expected, with NBS adopting stricter control and a less tolerant stance towards the undercapitalized and distressed banks. As at the end of 2004, there were 45 commercial banks operating in Serbia.

According to the data from reclassified balance sheets, as at 31 December 2004, the total assets of all banks stood at CSD 510,093 million, which means that, compared to 31 December 2003, the banking sector's total assets increased by a strong 38,78%. The survey of the banking sector's structure according to the total assets level, however, shows that most banks are in the group of medium-sized banks.

Distribution of banks according to total asset level				
Total Assets (CSD million)	2001	2002	2003	2004
	(as at 31 December)	(as at 31 December)	(as at 31 December)	(as at 31 December)
Over 10,000	6	7	8	14
From 5,000 to 10,000	10	10	14	10
From 1,000 to 5,000	23	26	22	18
Under 1,000	10	6	3	1
<b>Total</b>	<b>49</b>	<b>49</b>	<b>47</b>	<b>43*</b>

\* Numbers to be updated

Obligations towards clients, capital, and obligations towards other banks have the largest share in the liabilities structure, whilst advances to clients, other banks and cash & cash equivalents have the largest share on the asset side.

As a part of its supervisory activities, NBS performs off-site and on-site supervision and examination of commercial banks on regular basis. Solvency supervision is aimed at monitoring and assessment of compliance with the prescribed business indicators, while the on-site supervision is aimed at risk control. Through its supervision function, NBS seeks to ensure the maintenance of a financially sound and stable banking system for the purpose of achieving further development of the economy. The focus of supervision of the banking system is increasingly based on the risks to which the commercial banks are exposed in the course of performing their activities, as well as to the timely undertaking of corrective measures aimed at the establishment of risk management system. Such supervision is also designed to restore public confidence in the banking system. The accelerated growth of citizens' FX savings, euro savings primarily, represents a logical consequence of the activities taken in the field of risk amelioration.

During 2002 and 2003 the Capital, Assets, Management, Earnings and Liquidity ("CAMEL")<sup>2</sup> bank rating methodology was adopted, enabling the assessment of commercial banks' quantitative risk indicators.

Overall, the liquidity of the banking sector in Serbia is considered to be satisfactory. The banks wishing to deposit their surplus liquidity with NBS, participate in the buying and selling of NBS issued securities, buying of foreign currency from the NBS and/or obtaining loans (except the loans for daily liquidity maintenance), must meet the minimum creditworthiness requirements.

The minimum creditworthiness requirements for the banks are as follows:

- that the bank has no overdue dinar and FX obligations towards NBS;
- that, on the previous business day, the daily balance of the appropriated dinar and FX required reserve was not lower than 80% of the calculated dinar and FX reserve;

<sup>2</sup> CAMEL methodology is an international risk-based system used by banking supervisors in rating banks and financial institutions according to capital strength, asset quality, management ability, earnings sufficiency and liquidity.

- that in the previous accounting period the average daily balance of the appropriated dinar and FX required reserve was not lower than 90% of the calculated dinar and FX reserve;
- that the bank submitted to NBS the required data and reports on its business activities and liabilities.

In order to obtain authorization for conducting external operations, a commercial bank must meet the following conditions:

- that it has obtained an operating license from NBS;
- that it has been entered into the court register;
- that it has provided FX funds in the amount of EUR 6 million or the equivalent value in any other convertible currency;
- that it is technically equipped and organized to perform external business activities.

### **Legislation in the field of FX operations**

Under the Law on FX operations NBS is authorized to adopt regulations for the purpose of implementation of the provisions of this law. This law governs the following:

- payment and collection of funds in transactions between residents and non-residents, as well as transfer of such funds;
- payment and collection of FX funds in transactions between residents;
- purchase and sale of funds in transactions between residents and non-residents, as well as purchase and sale of FX funds between residents;
- one-sided transfers of funds from one country to another that are not performed based on the execution of transactions between residents and non-residents;
- current and FX accounts of residents abroad and residents and non-residents in the country, except for dinar current and deposit accounts of residents in the country.

According to the Law on the National Bank of Serbia, the central bank:

- independently conducts the dinar exchange rate policy and, with the approval of the Government, determines the dinar exchange rate regime, and
- purchases and sells foreign currency and FX cash on the FX market in order to manage the dinar exchange rate, manage the foreign reserves, as well as in order to maintain the liquidity of foreign payments.

In that respect, NBS prescribes:

- conditions and the manner of intervention of NBS on the FX market;
- conditions and the manner of performing foreign payment operations, and
- manner of maintaining foreign currency deposit book and FX account;
- the type of foreign exchange and foreign banknotes and coins it purchases and sells in the foreign exchange market.

## **FX market of the Republic of Serbia**

According to the Foreign Exchange Law, the FX market of the Republic of Serbia comprises the purchase and sale of foreign currency and FX cash in the Republic of Serbia performed:

- (1) directly, and
- (2) at the session of the Interbank FX Market ("**IFEM**").

The purchase and sale of FX cash is performed by authorized banks, NBS, as well as other residents performing exchange operations.

With the Foreign Exchange Law coming into force (at the end of April 2002) conditions were created for the introduction of the new manner of dinar exchange rate formation at the fixing session of the IFEM. The fixing session was introduced on 15 May 2002. At fixing sessions authorized banks can purchase foreign currency not only for their clients' operating needs but also for the purpose of increasing their own FX potential. At fixing sessions, commercial banks mostly appear on the side of demand, with NBS on the supply side. The liberalization of foreign exchange rate formation by authorized banks stimulated trade in foreign currencies between banks outside the IFEM. Commercial banks freely form their foreign exchange rates based on foreign currency supply and demand, respecting the principle of properly crossed dinar exchange rate.

The demand realized in the IFEM sessions in 2004 amounted to U.S.\$2,001.3 million (U.S.\$1,999.8 million in 2003).

Total demand realized in the course of the last four months of 2004 amounted to U.S.\$614.9 million, whereas the demand realized in each of these months was recorded at levels considerably below those recorded in the same months of the preceding year.

Furthermore, in the course of the ten IFEM sessions in this period, the fixing exchange rate was formed as a result of the process of balancing supply and demand between banks, where NBS did not sell foreign exchange in order to satisfy demand. The appearance of interbank trade in the IFEM sessions is significant as well, as banks have begun using the option to appear in the fixing session as sellers of foreign exchange.

A lower level of interventions from NBS foreign exchange reserves related to the sale of foreign exchange in the IFEM sessions in the course of the last four months of 2004 relative to the matching months in the previous years in part came as a result of the transfer of foreign exchange supply/demand balancing process from the IFEM sessions to that segment of the interbank foreign exchange market outside the IFEM session.

Total volume of direct interbank foreign exchange trade outside the IFEM sessions in the course of 2004 amounted to U.S.\$1,954.3 million, exceeding by U.S.\$1,053.8 million (a 117% increase) the volume of direct interbank foreign exchange trade in the preceding year. In addition, the volume of direct interbank trade outside the fixing session in 2004 stood at the level of 97.7% of trade in the fixing session, whereas in the preceding year, the volume of



direct interbank trade outside the fixing session amounted to only 45% of trade in the fixing session. Since September 2004, there has been a trend of a constant increase in the volume of interbank trade outside the IFEM sessions. The total amount of direct interbank foreign exchange trade in the course of the last four months of 2004 amounted to U.S.\$1,127.9 million, exceeding by as much as 83.4% the volume of foreign exchange trade in the IFEM sessions.

A substantial increase of interbank trade outside the IFEM sessions comes as a consequence of a larger amount of excess foreign exchange being available to banks for trade, which means that disposable foreign exchange reserves of the banks in the last four months of 2004 stood at their highest level in the past two years. Disposable foreign exchange reserves stood at U.S.\$901.8 million as of 31 December 2004, exceeding the figure for the end of the preceding year (U.S.\$885.5 million), which was largely the result of the inflow of receipts from the privatization of domestic companies, but also of increased borrowing by banks from their mother banks abroad in the last months of the year.

Furthermore, in the previous two months there was a clear reduction of the need for the foreign currency demand to be met by the sale of foreign currency by NBS, which had a positive effect on the increase in the foreign exchange reserves of NBS. The increase in foreign exchange reserves was also achieved through exchange office operations, as well as through net FX cash purchases. Moreover, during June 2005 the disbursement of the last tranche of the current financing arrangement in the amount of U.S.\$183 million was approved by the IMF, which will contribute to further foreign exchange reserve strengthening.

### **Capital market**

The capital market of the Republic of Serbia is characterized by the trade in shares, frozen foreign currency deposit bonds, NBS bills and T-bills of the Republic of Serbia. As from the beginning of 2005, legislation has been introduced allowing for the development of a secondary securities market, but most importantly, development of the repo market.

The free distribution of shares to all employees was a widely employed technique in privatization and as a result a special market for the trade in privatization-related shares has been set up at the Belgrade Stock Exchange in order to facilitate share trading. A number of brokerages, among which shareholders choose as their trading intermediaries, trade in the shares of privatized companies. Auctions at which share prices are determined are conducted once a month, based on a preset auction schedule. The Belgrade Stock Exchange conducts continual trading in shares of certain companies. Those companies' shares were previously included in the free stock exchange market and in determining the prices of these shares the predominant price method was used (i.e. the price at which most trading is effected). The stock exchange trading in shares, bonds and other debt securities is conducted in the Stock Exchange information system - electronic trading platform BELEX.

Although the Belgrade Stock Exchange was established in 1989, it was only after 2000 that its role in the financial system became significant, after political reforms and the continuation of the process of privatization within the economy. Of the total volume at the Belgrade Stock Exchange, shares account for over 60%. Because of the lack of planned reforms, this year's

share trade volume is more modest relative to the last years, but during the past months there has been a clear upward trend in trading volume. During 2004, continuous trading has been introduced for a small number of liquid stocks.

Bond trading was initiated at the Belgrade Stock Exchange on 19 November 2001. Bond trading is conducted in the manner prescribed by the rules of the Belgrade Stock Exchange, via broker-dealer companies, members of the Stock Exchange and the Central Registry. Bonds are traded, within stock-exchange trading, by the method of auction at predominant price, measured by the nominal value of the bond. Bond trading is free and exempt from the payment of the sales tax, payment operations fee, capital profit tax, as well as other taxes. Auctions are conducted twice a day with a trend towards transition to continuous trading.

The most heavily traded instruments at the Belgrade Stock Exchange are the foreign currency saving bonds ("FFCDs"). Pursuant to the Law on the Settlement of Public Debt Related to Frozen Foreign Currency Deposits and the Law on the Settlement of Public Debt Under Agreements on Citizens' FX Term Deposits with Dabimbank a.d. Beograd in liquidation and Citizens' FX Funds deposited with Banka Privatne Privrede Crne Gore a.d. Podgorica, the government undertook an obligation to settle the public debt (Euro 4.2 billion) related to frozen foreign currency deposits with authorized banks and FX deposits with the banks in liquidation. The bonds were issued in the aggregate amount of Euro 4.2 billion as zero-coupon bonds maturing on 31 May in each successive year (2002-2016).

The share of FFCDs in the structure of trading volume at the Belgrade Stock Exchange is over 20%. Unlike share trading volume that has recorded an upward trend in the past months, bonds trading volume has registered a certain decline.

Political changes and economic reforms initiated at the end of 2000 resulted in the revival of the financial market in the Republic of Serbia, so the total trading volume at the Belgrade Stock Exchange grew constantly until 2003. In 2004 the trading volume registered a significant decrease, partly due to the fact that NBS began to organize and conduct auctions of its bills independently which, since then, have not been included in the value of trading volume at the Belgrade Stock Exchange. Besides, trading volume also fell as a result of the lack of expected privatization proceeds. The trading volume structure has been significantly altered in the past four years. At the end of 2000, the trading volume structure was dominated by commercial notes and bills, whereas at the end of 2004 it was shares and FFCDs that had the highest share.

The Central Registry of Securities began operating in November 2001, at which time it only engaged in the registration of bonds for the settlement of government debts related to FFCDs. From mid-January 2002 it continued its activities as a standard clearing firm *Beokliring*. After taking over the database from the Temporary share registry, which operated under the Agency for Privatization, it was established as the Central Registry of Securities, Depositary and Clearing of all short-term and long-term securities issued in Serbia. With the introduction of the service involving the opening and maintenance of (dinar and FX) pecuniary accounts of the members of the Central Registry of Securities it was possible to transfer the ownership of securities from the seller's to the buyer's account simultaneously with the transfer of funds from the buyer's to the seller's account (i.e. a delivery versus payment system).

In April 2003, the Republic of Serbia issued, for the first time, T-bills for the purpose of financing the budget in the local financial market. The issued T-bills can be used as collateral in transactions on the interbank market. The participants in the auction submit bids electronically through the software designed for this purpose by the Central Registry of Securities.

T-bills are denominated in dinars, with a three- and six-month maturity. Bills with shorter maturities register higher trade volume. The average discount rate on three-month T-bills has risen since their introduction from 13.73% to 21.25%, whereas the average discount rate on six-month T-bills has been declining.

NBS has initiated repo operations involving bonds of the Republic of Serbia. Repo securities transactions will in the future period include NBS bills, T-bills of the Republic of Serbia, FFCDs and long-term bonds of the Republic of Serbia.

## **EXTERNAL AND INTERNAL DEBT**

### **External debt**

As at the end of May 2005, total outstanding debt to external creditors amounted to U.S.\$13,870 million.

Of this amount, a little less than U.S.\$5 billion was owed to international financial institutions, of which around 50% was owed to the World Bank. U.S.\$3.59 billion represented obligations outstanding to official bilateral creditors, with U.S.\$2.888 billion of this amount owed to the Paris Club of creditor countries and U.S.\$707 million owed to other non-Paris Club government creditors. The issue of the Existing 2024 Bonds (along with the issue of the 2024 Bonds as contemplated hereunder) settled the debt owed to the London Club of commercial creditors under the NFA and TDFA. A little more than U.S.\$3 billion is outstanding in respect of other creditors, which includes other financial organizations and suppliers and around U.S.\$1 billion represents short term debt primarily representing bank deposits and credit lines, as well as amounts owing in respect of oil and gas imports.

Of the U.S.\$13,870 million of debt to external creditors, U.S.\$9.655 billion represents debt owed by the public sector in Serbia.

**External Debt of Serbia**  
(preliminary data as of 31 March 2005)

<b>Creditor</b>	<b>Outstanding Debt (principal)</b>	<b>Interest Arrears</b>	<b>Late Interest</b>	<b>Total USD(m)</b>
<i>INTERNATIONAL FINANCIAL ORGANISATIONS</i>	<b>4,826</b>	<b>5</b>	<b>8</b>	<b>4,840</b>
IMF	877			877
IBRD	2,350			2,350
IDA	428			428
EUROFIMA	152			152
IFC	100	5	8	114
EIB	269			269
European Community-European Commission	337			337
EUROFOND - CEB	28			28
EBRD	286	0		286
<i>GOVERNMENTS</i>	<b>3,361</b>	<b>172</b>	<b>105</b>	<b>3,638</b>
PARIS CLUB	2,937	0	0	2,937
Consolidated debt <sup>(1)</sup>	2,715			2,715
Credits concluded after 20 December 2000	222	0	0	222
OTHER GOVERNMENTS <sup>(2)</sup>	424	172	105	701
<i>LONDON CLUB - regulated debt<sup>(3)</sup></i>	<b>1,077</b>	<b>0</b>	<b>0</b>	<b>1,077</b>
<i>LONDON CLUB - non-regulated debt<sup>(4)</sup></i>	<b>42</b>	<b>31</b>	<b>11</b>	<b>85</b>
<i>OTHER CREDITORS</i>	<b>2,680</b>	<b>95</b>	<b>315</b>	<b>3,090</b>
<i>SHORT-TERM DEBT</i>	<b>1,045</b>	<b>1</b>		<b>1,045</b>
<i>CLEARING DEBT (NON-CONVERTIBLE)</i>	<b>157</b>	<b>26</b>		<b>182</b>
<b>TOTAL DEBT</b>	<b>13,187</b>	<b>330</b>	<b>440</b>	<b>13,957</b>
o/w Kosovo and Metohija:	<b>1,149</b>	<b>21</b>	<b>58</b>	<b>1,228</b>

- (1) Bilateral negotiations with Italy and Japan have not been finalised yet, therefore only preliminary data are given.
- (2) Regular and late interest calculated in accordance with terms of original agreements.
- (3) In this table we show debt after the April 2005 Exchange Offer.
- (4) API - exit bonds which were issued in 1988 to creditors who did not want to participate in the refinancing according to the NFA agreement. This is a part of debt owed the London Club creditors which has not been regulated by any of the former republics of SFRY including Serbia and Montenegro.

## Public Debt Comparison

Set out below is a comparative analysis of the debt stock of the Republic of Serbia as of 31 May 2005 against 1 January 2005.

### PUBLIC DEBT OF THE REPUBLIC OF SERBIA

#### COMPARATIVE ANALYSIS OF DEBT STOCK OF THE REPUBLIC OF SERBIA AS OF JANUARY 01, 2004 AND MAY 31, 2005

##### A. DIRECT LIABILITIES

##### 1. INTERNAL DEBT

No	Debt	Curr	Contracted Amount	In EUR 01/01/2004	In EUR 31/05/2005	In USD 01/01/2004	In USD 31/05/2005
1	Long-Term Securities (Debt to NBS)	CSD	19,701,120,000.00	286,741,050.05	240,140,419.31	358,512,381.27	300,607,895.32
2	Conversion of Loans Approved by Banks for Primary Agricultural Production to Public Debt of Federation	CSD	1,092,075,823.21	14,561,314.20	8,119,824.48	18,206,013.50	10,164,400.29
3	Short-Term Securities (Tbills)	CSD	0.00	31,409,001.81	87,698,074.11	39,270,680.05	109,780,492.42
5	Frozen Foreign Currency Savings*	EUR	4,162,120,000.00	3,906,900,000.00	3,689,910,000.00	4,884,797,702.12	4,619,031,157.69
6	Loan for Rehabilitation	EUR	56,000,000.00	0.00	41,698,244.51	0.00	52,197,883.04
<b>TOTAL:</b>				<b>4,239,611,366.06</b>	<b>4,067,566,562.41</b>	<b>5,300,786,776.93</b>	<b>5,091,781,828.75</b>

##### 2. EXTERNAL DEBT (in contracted currencies)

No	Debt	Curr.	Contract Amount	In EUR 01/01/2004	In EUR 31./05/2005	In USD 01/01/2004	In USD 01/05/2005
	IBRD A	EUR	477,430,009.81	477,430,009.81	465,615,775.77	596,930,818.51	582,858,057.73
	IBRD B	EUR	907,264,030.56	907,264,030.56	907,264,030.56	1,134,352,364.20	1,135,713,560.87
	IBRD C	EUR	430,695,928.04	430,695,928.04	429,059,283.51	538,499,188.51	537,096,622.69

No	Debt	Curr.	Contract Amount	In EUR 01/01/2004	In EUR 31./05/2005	In USD 01/01/2004	In USD 01/05/2005
1.	<b>TOTAL FOR IBRD</b>	<b>EUR</b>	<b>1,815,389,968.41</b>	<b>1,815,389,968.41</b>	<b>1,801,939,089.84</b>	<b>2,269,782,371.22</b>	<b>2,255,668,241.29</b>
	SAC - Loan for Structural Adjustment 3599	SDR	55,500,000.00	65,709,502.89	65,846,244.51	82,156,650.00	82,426,380.00
	SAC II Loan for Structural Adjustment 4017	SDR	30,100,000.00	0.00	37,679,194.84	0.00	44,703,316.00
	PFSAC I - Loan for Development of Private and Financial Sector 3643	SDR	68,100,000.00	80,627,335.98	80,795,121.65	100,808,430.00	101,139,396.00
	PFSAC II -Loan for Development of Private and Financial Sector 3780	SDR	58,700,000.00	34,749,079.46	69,642,784.74	43,446,805.00	87,178,892.00
	SOSAC Social Sector Improvement - 3750	SDR	60,400,000.00	35,755,441.21	71,659,696.73	44,705,060.00	89,703,664.00
	MOES - Education 3636	SDR	8,000,000.00	1,790,590.97	3,810,547.73	2,238,777.49	4,770,046.60
	TTFSE - Trade and Transportation 3651	SDR	4,650,000.00	92,115.76	820,149.03	115,172.42	1,026,663.19
	SMEECA - Exports Insurance Fund 36930	SDR	9,100,000.00	0.00	2,407,253.28	0.00	3,013,401.52
	Loan for Privatization and Reconstruction of Banks and Project for Technical Assistance to Companies - 3723	SDR	8,400,000.00	702,677.25	2,114,218.51	878,557.99	2,646,580.37
	LABOR LIL - Unemployment 3753	SDR	2,000,000.00	69,737.66	673,750.00	87,193.06	843,400.77
	HEALTH HIP - Health System	SDR	14,700,000.00	0.00	719,350.06	0.00	900,482.97
	RPRCP Cadastres 2)	SDR	20,100,000.00	0.00	0.00	0.00	0.00
	HAP - Energy - Energy Efficiency 1)	SDR	14,100,000.00	0.00	374,731.13	0.00	469,088.72

No	Debt	Curr.	Contract Amount	In EUR 01/01/2004	In EUR 31./05/2005	In USD 01/01/2004	In USD 01/05/2005
2.	<b>TOTAL FOR IDA</b>	<b>SDR</b>	<b>353,850,000.00</b>	<b>219,496,481.18</b>	<b>336,543,042.21</b>	<b>274,436,645.96</b>	<b>418,821,312.14</b>
3	EU 225	EUR	223,796,611.00	223,796,611.00	223,796,611.00	279,812,938.94	280,148,708.02
4	EU 55	EUR	49,500,000.00	36,000,000.00	49,500,000.00	45,010,805.82	61,964,124.41
5	Paris Club	USD	2,622,116,051.00	2,097,189,243.93	2,120,298,203.97	2,653,232,556.84	2,654,190,337.35
6	London Club	USD	1,080,000,000.00	2,155,482,405.23	862,757,289.13	2,695,000,000.00	1,080,000,000.00
7	Government of Switzerland	EUR	16,232,688.00	16,232,688.00	16,232,688.00	20,295,732.43	20,320,086.84
<b>TOTAL FOR OTHER CREDITORS</b>				<b>4,528,700,948.16</b>	<b>3,272,584,792.09</b>	<b>5,693,352,034.04</b>	<b>4,096,623,256.62</b>
<b>TOTAL FOR IBRD+ IDA+ OTHER CREDITORS</b>				<b>6,563,587,397.75</b>	<b>5,411,066,924.14</b>	<b>8,237,571,051.23</b>	<b>6,771,112,810.05</b>
<b>TOTAL 1+2</b>				<b>10,803,198,763.81</b>	<b>9,478,633,486.55</b>	<b>13,538,357,828.16</b>	<b>11,862,894,638.81</b>

## B. CONTINGENT LIABILITIES

No	Debt	Curr.	Contracted Amount	In EUR 01/01/2004	In EUR 31/05/2005	In USD 01/01/2004	In USD 31/05/2005
	Loan to EPS	EUR	100,000,000.00	3,475,998.00	7,104,927.80	4,346,040.86	8,893,952.12
	Loan to ZTP	EUR	57,000,000.00	23,175,394.94	40,565,199.29	28,976,200.04	50,779,536.48
	Road Directorate	EUR	76,000,000.00	0.00	35,282,736.73	0.00	44,166,947.24
	Second Loan for Energy Sector	EUR	60,000,000.00	0.00	669,926.00	0.00	838,613.70
	Nis	EUR	5,000,000.00	1,555,983.38	4,901,769.24	1,945,446.27	6,136,037.15
	Novi Sad	EUR	6,000,000.00	623,914.62	1,594,562.09	780,080.55	1,996,073.61
	Kragujevac	EUR	5,000,000.00	713,927.80	3,196,574.97	892,624.04	4,001,474.12
	Air Traffic Control	EUR	33,500,000.00	0.00	0.00	0.00	0.00
	Subotica	EUR	9,000,000.00	0.00	0.00	0.00	0.00
1	<b>TOTAL FOR EBRD</b>	<b>EUR</b>	<b>351,500,000.00</b>	<b>29,545,218.74</b>	<b>93,315,696.12</b>	<b>36,940,391.77</b>	<b>116,812,634.42</b>
	Railway Infrastructure Reconstruction	EUR	70,000,000.00	47,000,000.00	65,000,000.00	58,764,107.60	81,367,032.05
	Road Rehabilitation - Road Directorate	EUR	95,000,000.00	0.00	36,350,000.00	0.00	45,502,947.93
	Energy Sector Rehabilitation -	EUR	59,000,000.00	0.00	0.00	0.00	0.00

No	Debt	Curr.	Contracted Amount	In EUR 01/01/2004	In EUR 31/05/2005	In USD 01/01/2004	In USD 31/05/2005
EPS							
	Reconstruction of Belgrade City Centre	EUR	90,000,000.00	0.00	0.00	0.00	0.00
	Urgent Traffic Sanation - Road Directorate	EUR	37,000,000.00	37,000,000.00	37,000,000.00	46,261,105.99	46,316,618.25
	Urgent Traffic Sanation - Airport	EUR	13,000,000.00	3,000,000.00	6,000,000.00	3,750,900.49	7,510,802.96
	Consolidated Loan for Old Debts - Road Directorate	EUR	49,103,579.00	41,109,516.31	36,808,043.00	51,399,234.89	46,076,326.38
	Consolidated Loan for Old Debts - ZTP	EUR	7,255,987.00	6,074,712.69	5,439,088.00	7,595,214.26	6,808,653.04
	EPS - Energy System Appliances	EUR	22,000,000.00	0.00	0.00	0.00	0.00
	Hospitals	EUR	50,000,000.00	0.00	4,200,000.00	0.00	5,257,562.07
	European Roads	EUR	120,000,000.00	0.00	0.00	0.00	0.00
	City of Nis	EUR	10,000,000.00	0.00	0.00	0.00	0.00
	City of Novi Sad	EUR	15,000,000.00	0.00	0.00	0.00	0.00
2	<b>TOTAL FOR EIB</b>		<b>637,359,566.00</b>	<b>134,184,229.00</b>	<b>190,797,131.00</b>	<b>167,770,563.23</b>	<b>238,839,942.68</b>
KfW							
	KfW 1	EUR	51,129,188.00	49,557,375.68	51,129,188.00	61,961,594.83	64,003,542.75
	KfW 2	EUR	25,000,000.00	0.00	0.00	0.00	0.00
3	<b>TOTAL FOR KfW</b>		<b>76,129,188.00</b>	<b>49,557,375.68</b>	<b>51,129,188.00</b>	<b>61,961,594.83</b>	<b>64,003,542.75</b>
Government of Poland							
4	Government of Poland	USD	50,000,000.00	6,669,813.99	34,684,409.46	8,339,269.51	43,417,960.87
				0.00	0.00		
5	TID - Transportation 2) - IDA 3909	SDR	37,500,000.00	0.00	2,435,239.38	0.00	3,048,434.54
<b>TOTAL FOR CONTINGENT LIABILITIES 1+2+3+4+5</b>				<b>219,956,637.41</b>	<b>372,361,663.96</b>	<b>275,011,819.34</b>	<b>466,122,515.27</b>
<b>TOTAL A+B</b>				<b>11,023,155,401.22</b>	<b>9,850,995,150.51</b>	<b>13,813,369,647.50</b>	<b>12,329,017,154.07</b>

Notes: For data as of January 1, 2004, we applied exchange rate list no. 252 as of December 30, 2003  
For data as of May 31, 2005, we applied exchange rate list no. 99 as of May 30, 2005



Since March 2004 we have signed loans contracted in previous years

EIB - Road Directorate, at the amount of 120 million EUR

EIB - City of Novi Sad and City of Nis - Water Supply Project

IDA - Contract on Transferring Funds for Energy Efficiency Project at the amount of 14.1 million SDR

IDA - Contract on Transferring Funds for Cadastre Project at the amount of 20.1 million SDR

IDA - Contract on Transferring Funds for Transportation Project at the amount of 37.5 million SDR

\* The repayment of FFC Bonds, series A2005, has started on May 31, 2005. The amount of more than 100 million EUR has been repaid, but it is not deducted in this table.

### **External Debt Restructuring**

The new democratic government that came to power in October 2000 followed ten years of economic mismanagement, regional conflict and crises. One consequence of this period of economic isolation was that Serbia had been unable to service its debt and therefore as at July 2001 more than 80% of the outstanding external debt was in arrears. Furthermore, as a result of both significant economic contraction over the period since 1990 and the accrual of late interest, the debt burden was unsustainable and needed to be restructured.

#### **Paris Club**

In December 2001, the Government concluded a comprehensive agreement with the Paris Club covering the total stock of pre cut-off date debt due to Paris Club creditors, or about U.S.\$4.5 billion. Under the terms of this agreement (repayment over 22 years with 6 years of grace), 51% of the debt was cancelled in March 2002 with an additional 15% of the debt to be cancelled in 2005 upon completion of the final review of a three-year arrangement by the IMF. This is expected to occur in December 2005.

#### **London Club**

The U.S.\$2,612 million of outstanding London Club debt was the subject of an exchange for Existing 2024 Bonds and is the subject of the issue of 2024 Bonds (to be fungible in all respects with the Existing 2024 Bonds) as contemplated in this Prospectus. An additional U.S.\$85 million represents API bonds and is not eligible to participate in such exchange for 2024 Bonds.

#### **Other Creditors**

Certain arrears outstanding at end 2000 and owed to multilateral institutions were refinanced and rescheduled as set out under "Republic of Serbia - Public Debt - Cooperation with the International Financial Institutions".

Furthermore, a portion of the debt to the International Finance Corporation was reduced by write-off to U.S.\$105 million in July 2004 from U.S.\$237.7 million at the end of June 2004. In addition, short-term claims of U.S.\$520 million, owing in respect of natural gas and oil deliveries, were reduced to U.S.\$243 million in June 2004 as a result of a partial write-off of these claims by "Sinochem International Oil Company Ltd, China".

The negotiations on regulation of debt to the non- Paris Club government creditors (China, Libya, Kuwait and other creditors) will be continued in 2005.

**Schedule of Repayments of Principal and Interest with the External Debt Status of Serbia**

(preliminary data as of 31 March 2005)																	In millions of US dollars	
		Out stand ing debt as of Mar ch 31, 200 5	Re pai d* 1 Q 20 05	200 5	200 6	200 7	200 8	200 9	201 0	201 1	201 2	201 3	201 4	201 5	201 6	201 7	Oth er yea rs	Total repay ment schedu le
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17(3- 16)
Multilateral institutions	pri nci pal	4,8 39. 61	71 .0 3	233 .77	185 .91	254 .02	346 .94	390 .06	326 .64	238 .77	194 .13	209 .59	225 .46	230 .14	228 .47	161 .04	1,5 99. 79	4,824. 72
	inte rest	-	42 .0 2	157 .66	190 .46	181 .57	169 .25	155 .48	142 .20	127 .64	118 .44	110 .19	101 .85	93. 21	84. 50	75. 87	489 .89	2,198. 22
IMF	pri nci pal	876 .69	60 .5 5	150 .95	40. 84	75. 40	175 .94	219 .92	157 .09	56. 55	-	-	-	-	-	-	-	876.69
	inte rest	-	7. 72	21. 27	23. 05	21. 60	18. 35	13. 01	7.4 2	1.3 6	0.0 6	-	-	-	-	-	-	106.13
IBRD consolidated debt	pri nci pal	2,3 50. 09	4. 63	13. 42	53. 21	70. 64	82. 41	92. 77	92. 77	92. 77	92. 77	92. 77	92. 77	92. 77	92. 77	1,2 95. 48	2,350. 09	
	inte rest	-	26 .8 9	88. 67	116 .99	114 .09	110 .39	106 .11	101 .44	96. 77	92. 09	87. 42	82. 75	78. 08	73. 41	68. 74	471 .83	1,688. 78
IDA	pri nci pal	428 .28	-	-	-	-	-	-	-	-	13. 95	28. 86	38. 10	42. 83	42. 83	42. 83	218 .88	428.28
	inte rest	-	0. 91	2.3 8	3.2 1	3.2 1	3.2 1	3.2 1	3.2 1	3.2 1	3.2 0	3.0 7	2.8 2	2.5 2	2.2 0	1.8 8	4.7 3	42.09
EUROFIMA	pri nci pal	151 .90	-	16. 71	21. 53	34. 27	15. 03	16. 71	30. 92	16. 71	-	-	-	-	-	-	-	151.90
	inte rest	-	2. 12	4.0 7	5.0 8	4.0 3	2.6 6	1.8 7	1.5 9	0.5 5	-	-	-	-	-	-	-	19.85
IFC	pri nci pal	113 .61	-	13. 54	21. 84	20. 55	19. 23	9.9 7	2.9 6	2.9 6	0.1 4	0.1 6	0.1 9	0.2 2	0.2 5	0.2 8	6.4 2	98.73
	inte rest	-	-	4.2 6	3.6 9	2.6 8	1.7 4	1.1 1	0.8 0	0.8 2	0.6 9	0.6 7	0.6 5	0.6 3	0.6 0	0.5 8	2.4 5	21.37
EIB	pri nci pal	268 .54	-	7.9 4	11. 51	14. 37	19. 30	22. 54	22. 77	22. 88	13. 86	12. 92	12. 92	12. 92	12. 57	12. 46	69. 60	268.54
	inte rest	-	1. 83	12. 35	13. 83	13. 11	12. 14	10. 97	9.6 4	8.2 6	7.0 4	6.3 9	5.7 5	5.1 2	4.4 9	3.8 7	10. 53	123.50
EC - EU	pri nci pal	336 .96	-	-	-	-	-	-	-	-	58. 05	58. 05	67. 39	67. 39	67. 39	9.3 4	9.3 4	336.96
	inte rest	-	0. 13	12. 11	12. 26	12. 26	12. 29	12. 26	12. 26	12. 26	12. 29	10. 19	8.0 8	5.6 3	3.1 8	0.7 3	0.3 5	126.15
CEB consolidated debt	pri nci pal	27. 51	-	3.9 3	3.9 3	3.9 3	3.9 3	3.9 3	3.9 3	3.9 3	-	-	-	-	-	-	-	27.51
	inte rest	-	-	0.9 4	0.8 0	0.6 6	0.5 2	0.3 8	0.2 4	0.1 0	-	-	-	-	-	-	-	3.67
EBRD	pri nci pal	286 .04	5. 86	27. 28	33. 04	34. 87	31. 10	24. 21	16. 20	42. 95	15. 34	16. 82	14. 09	14. 02	12. 66	3.3 7	0.0 7	286.04

	pal																		
	inte	-	2.	11.	11.	9.9	7.9	6.5	5.6	4.3	3.0	2.4	1.7	1.2	0.6	0.0	0.0	66.69	
	rest		42	60	54	2	4	5	0	2	6	5	9	3	1	8	0		
Governments - Paris Club	pri	2.9	5.	33.	45.	52.	54.	63.	53.	52.	58.	61.	64.	71.	105	91.	1.4	2,289.	
	nci	37.	29	02	74	65	86	91	21	55	56	47	25	63	.79	43	80.	27	
	pal	00														19			
	inte	-	25	52.	85.	95.	105	101	98.	94.	91.	87.	72.	57.	54.	50.	283	1,330.	
	rest		.5	83	34	66	.21	.64	01	77	58	91	10	01	33	32	.72	43	
			7																
Paris Club (consolidated debt)	pri	2.7	-	0.6	8.5	15.	29.	45.	43.	40.	46.	53.	61.	69.	79.	91.	1.4	2,067.	
	nci	14.		1	8	99	54	88	05	83	83	43	07	91	85	43	19	19	
	pal	92																	
	inte	-	23	46.	78.	90.	101	98.	95.	92.	90.	86.	71.	56.	53.	50.	283	1,296.	
	rest		.8	23	86	58	.40	58	50	74	06	90	36	37	64	32	.72	24	
			8																
Credits concluded after December 20, 2000	pri	222	5.	32.	37.	36.	25.	18.	10.	11.	11.	8.0	3.1	1.7	25.	-	-	222.08	
	nci	.08	29	41	16	66	33	03	17	72	72	4	8	2	94				
	pal																		
	inte	-	1.	6.6	6.4	5.0	3.8	3.0	2.5	2.0	1.5	1.0	0.7	0.6	0.6	-	-	34.19	
	rest		.69	1	8	8	1	6	1	3	3	1	5	4	9				
Other Governments	pri	701	-	0.2	1.8	2.9	2.9	2.9	2.9	2.9	7.1	7.7	8.4	9.2	10.	11.	195	266.38	
	nci	.03		3	0	1	1	1	1	1	2	3	2	3	15	18	.96		
	pal																		
	inte	-	-	0.3	8.1	8.7	9.4	15.	15.	20.	19.	19.	18.	18.	17.	16.	70.	258.35	
	rest			1	0	6	4	49	47	28	95	34	73	08	42	63	35		
London Club - NFA and TDFA	pri	1,0	-	-	-	-	-	-	71.	71.	71.	71.	71.	71.	71.	71.	502	1,076.	
	nci	76.							77	77	77	77	77	77	77	77	.37	51	
	pal	51																	
	inte	-	-	43.	40.	40.	40.	40.	71.	66.	61.	56.	52.	47.	42.	37.	127	768.36	
	rest			73	37	37	37	37	45	61	77	92	08	23	39	54	.16		
London Club - API bonds	pri	84.	-	-	-	-	-	-	-	-	0.5	0.6	0.7	0.8	0.9	1.0	24.	28.77	
	nci	62									4	2	1	1	3	6	10		
	pal																		
	inte	-	-	-	0.9	1.0	1.1	1.9	1.9	2.5	2.4	2.4	2.3	2.2	2.1	2.0	8.7	31.95	
	rest				7	6	4	0	0	1	7	0	2	5	7	7	9		
Other Creditors	pri	3.0	50	407	384	424	214	455	164	66.	49.	78.	47.	16.	17.	12.	245	2,586.	
	nci	90.	.5	.01	.42	.21	.81	.57	.87	42	94	98	54	80	75	11	.60	03	
	pal	04	6																
	inte	-	20	73.	98.	76.	63.	53.	38.	37.	33.	30.	26.	23.	22.	21.	93.	693.14	
	rest		.3	26	54	92	24	31	58	43	84	60	30	91	73	36	12		
			7																
Short-term debt	pri	1,0	5.	303	9.2	-	-	-	183	183	183	183	-	-	-	-	-	1,045.	
	nci	45.	57	.21	2				.24	.24	.24	.24					40		
	pal	40																	
	inte	-	0.	8.0	40.	40.	40.	40.	38.	28.	17.	151	-	-	-	-	-	407.07	
	rest		.50	8	97	83	83	83	28	07	86	.32							
Debt in non-convertible currency	pri	182	-	-	-	-	-	-	-	-	1.1	1.3	1.5	1.7	2.0	2.2	51.	62.04	
	nci	.46									7	3	3	5	0	9	97		
	pal																		
	inte	-	-	-	2.1	2.3	2.5	4.3	4.3	5.6	5.5	5.4	5.2	5.0	4.8	4.6	19.	72.05	
	rest				9	9	9	0	0	6	7	1	4	6	8	7	79		
TOTAL DEBT	pri	13,	13	977	627	733	619	912	802	615	566	614	419	402	436	350	4,0	12,179	
	nci	956	2.	.25	.09	.79	.53	.45	.65	.66	.47	.72	.67	.13	.86	.88	99.	.13	
	pal	.67	45														99		
	inte	-	88	335	466	447	432	413	410	382	351	464	278	246	228	208	1,0	5,759.	
	rest		.4	.88	.95	.55	.06	.32	.20	.97	.47	.09	.62	.75	.42	.47	92.	57	
			6														82		

\* In millions of USD on the date of transaction.

## **Borrowing abroad**

According to balance of payment data, the use of medium-term and long-term loans by Serbia rose to U.S.\$2.125 million over the period January to December 2004 from U.S.\$1.191 million in the same period of 2003 (a rise of 78.5%). At the same time the repayments of principal under those loans have been increased to U.S.\$605 million from U.S.\$191 million (a rise of 216%). Net inflow of the financial assets from abroad on the basis of short-term credits and deposits has increased to U.S.\$212 million from U.S.\$28 million.

The use of the medium-term and long-term loans by Serbia increased in net amount (after principal repayments) to U.S.\$1.520 million in the period January to December 2004 from U.S.\$220 million in 2001.

## **Financial claims abroad**

NBS foreign exchange reserves at the end of 2004 amounted to approximately U.S.\$4,244.5 million, whereas foreign exchange assets of licenced commercial banks stood at U.S.\$901.8 million, total foreign exchange reserves of Serbia thus amounting to U.S.\$5,146.3 million.

## **Internal debt**

The public debt of Serbia, denominated in a foreign currency, as of 31 December 2004, amounted to U.S.\$12.7 billion, or around EUR 9 billion, that is, 56% of GDP. Within that amount the internal debt accounted for U.S.\$5.53 billion, or around EUR 4.06 billion, with FFCDs being the largest item.

A comparative analysis of the debt situation of the Republic of Serbia as of 31 December 2000 and 31 December 2004 shows the value of the total internal debt, when observed in euros, to have changed marginally from approximately EUR 4,000 million to EUR 4,108 million (when calculated in US dollars, the debt value rose to approximately U.S.\$5,534 million from U.S.\$4,106 million).

The structure of the internal debt of the Republic of Serbia as of 31 December 2004 was constituted by:

- Liabilities to NBS;
- The Republic of Serbia's shares of the former public debt of the former FRY in respect of the credits granted by banks relating to primary agricultural activity;
- FFCDs; and
- T-bills issued by the Ministry of Finance- Treasury.

The internal debt structure of the Republic of Serbia as of 1 December 2004 was changed both quantitatively and qualitatively. Except for the elements mentioned, the internal debt was also contracted on the basis of short-term securities and a loan for the economic recovery.

Debt title	31 December 2000		31 December 2004	
	Million U.S.\$	Million EUR	Million U.S.\$	Million EUR
Liabilities to the NBS	92.99	86.59	340.05	249.74
The Republic of Serbia's share of the former public debt of the former FRY in respect of the credits granted by the banks relating to primary agricultural activity	31.70	34.13	11.5	8.44
Short-term securities	0.00	0.00	108.38	79.59
Long-term securities	0.00	0.00	0.00	0.00
Frozen foreign currency bonds	4.073,81	4.073,81	5021,16	3687,69
Loan for economic recovery	0,00	0,00	53,11	39,00

Source: Bulletin of the public finance for September 2004, the Ministry of Finance.

Disbursements on due dates in the course of the calendar year (in millions of euros)

Debt title	2000	2001	2002	2003	2004	Total
Total disbursement of the frozen FC bond	37	102	144	214	214,2	711,8

The loan for economic recovery involves special-purpose foreign exchange deposits and bonds in foreign currency, and the current contemplated frequency of providing funds in the budget of the Republic in this connection is scheduled to be:

- 2005 – approximately EUR 8 million,
- 2006 – approximately EUR 11 million,
- 2007 – the remaining portion of liabilities.

### Cooperation with International Financial Institutions

NBS directly cooperates with the International Monetary Fund, Bank for International Settlements, and the central banks of numerous countries. Together with the Government of the Republic of Serbia, NBS takes part in negotiations, preparations and implementation of the programs relating to use of the financial support of the other financial and other international organizations such as the International Bank for Reconstruction and Development, the Organisation for Economic Co-operation and Development, EIB, the United Nations Conference on Trade and Development, the World Trade Organisation, EBRD, EU, etc.

The former SFRY was one of the participating countries at the Bretton Woods conference, as well as one of the founder countries of the IMF and WB. After the break up of the former SFRY, its membership in the IMF also ceased, but the terms have been set on which the successor countries (Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Slovenia and FRY) could partially inherit the former SFRY membership in the IMF. After an eight-year break FRY (which is now the State Union of Serbia and Montenegro), exercised its right and renewed its membership in the IMF. The State Union of Serbia and Montenegro accepted the obligations under Article VIII as of May 2002.

The State Union of Serbia and Montenegro signed three arrangements with the IMF within the period of only 18 months after the renewal of membership in the IMF on 20 December 2000.

The IMF approved the first financial facility, Emergency Post - Conflict Assistance, on 20 December 2000, as support for the economic stabilization and renewal of the national institutions and administration. Approved financial resources in the amount of 116.9 million of the Special Drawing Rights ("**SDR**") were disbursed and utilized for the settlement of due outstanding financial obligations to the IMF.

The second financial facility, the Stand-by arrangement (SBA) was approved on 11 June 2001, in the amount of SDR 200 million. This SBA represented financial support for further macroeconomic and structural reforms and formed the basis for initiating negotiations with the Paris Club on debt relief. The SBA (consisted of four tranches) was fully disbursed , after the successful conclusion of quarterly reviews under the program.

The Extended Arrangement ("**EA**") was approved on 13 May 2002, in the amount of SDR 650 million. This three-year financial arrangement was approved as support for the economic program of stabilization and reforms in SM, over the period 2002-2005. The approval of the EA made possible the implementation of the first phase of the reduction of the country's debt to Paris Club Creditors in the amount of 51%. The remaining cancellation of 15% of the debt to the Paris Club Creditors is scheduled to be written off after the finalization of this arrangement. The expectation is that assets available under the EA will be used in 12 tranches (8 of SDR 50 million and 4 of SDR 62,5 million). In each case disbursement would be conditional on satisfactory results being achieved under the economic and structural reform programme. Program performance and results achieved are assessed biannually. The fifth semi-annual review under the EA was successfully completed in June 2005. So far eleven instalments in the total amount of SDR 587.5 million have been disbursed. There is one more tranche of SDR 62.5 million to be drawn until the end of the arrangement duration by the end of 2005.

#### **Serbia and Montenegro - History of Lending Arrangements with IMF** (as of 29 June 2005)

Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn
(In thousands of SDRs)				
Emergency Post Conflict Assistance	20 December 2000	20 December 2000	116,925	116,925
Stand-by arrangement	11 June 2001	31 May 2002	200,000	200,000
Extended Fund Arrangement	14 May 2002	31 December 2005	650,000	587,5
<b>Total</b>			<b>966,925</b>	<b>904,425</b>

#### **The World Bank Group**

SM regulated its membership in the International Bank for Reconstruction and Development (the "**World Bank**") and the International Development Association (the "**IDA**") in the middle of 2001. Due and outstanding obligations owed to the World Bank in the amount of about

U.S.\$1.8 billion were rescheduled at end-2001 with the conclusion of the consolidated loan with a repayment period of 30 years.

Within the first three year program of financial assistance, from 2002 to end-2004, the World Bank approved SM resources under especially concessional terms, so-called "the IDA terms", in the amount of approximately U.S.\$656 million, (approximately U.S.\$451 million was disbursed). This financial assistance has significantly assisted the achievement of a stable economic growth rate, implementation of structural reforms, as well as poverty reduction. The most significant loans disbursed by the Republic of Serbia were in 2002: *SAC* – structural adjustment credit (approximately U.S.\$83 million); *PFSAC* – Private and Financial Sector Adjustment Credit (approximately U.S.\$101 million); in 2003: *SOSAC* – Social Sector Adjustment Credit (approximately U.S.\$90 million); *PFSAC II* – Private and Financial Sector Adjustment Credit II (approximately U.S.\$87 million); in December 2004: *SAC II* – Structural Adjustment Credit II (approximately U.S.\$45 million).

The World Bank has, for the purpose of continuing assistance to SM for economic development, in compliance with the program of integration of the country into the European Union, prepared a program of activities for the period from 2005 to 2007, called a Country Assistance Strategy ("CAS"). The object of this program is to assist in the reduction of the public sector, increase the efficiency of the private sector and to provide assistance to the most affected parts of the population, and will be supported by resources in the total amount of U.S.\$550 million, of which U.S.\$225 million will be allocated by the International Development Association – under IDA terms and U.S.\$325 million by the International Bank for Reconstruction and Development – under regular terms (market interest rate, shorter repayment period). The CAS will support the implementation of two complementary government strategies the Stabilization and Association process with the EU and the Poverty Reduction Strategy with the shared overall objective of EU integration.

### **Bank for International Settlements**

The National Bank of the Kingdom of Yugoslavia was admitted into membership of the Bank for International Settlements ("**BIS**") in 1931.

The FRY was admitted into membership of the BIS on 10 June 2001, with the distribution of shares, gold and foreign exchange of the former SFRY among the central banks of the five successor states to the former SFRY – Bosnia and Herzegovina, Croatia, Macedonia, Slovenia and FRY. In this distribution, FRY was allocated 2,920 shares, as well as gold and foreign exchange in the amount of about U.S.\$160 million, and the foreign exchange reserves of the country were thereby increased by this amount.

After the establishment of the State Union Serbia and Montenegro, the right of representation and the financial resources of the National Bank of Yugoslavia in the BIS were frozen pending the final decision of the Committee for the distribution of the assets and liabilities.

### **European Investment Bank**

Up to end of May 2005, the EIB approved resources in the amount of about approximately EUR 646 million for the Republic of Serbia (of which approximately EUR 168 million has

been disbursed). The underlying projects relate to electricity, transport – especially repair of roads and railway tracks, as well as providing finance to small and medium-sized enterprises.

### **European Bank for Reconstruction and Development**

In the period from October 2000 to end of May 2005, the EBRD approved loans to the Republic of Serbia in the total amount of about EUR 581 million for projects in the telecommunications, transport, energy and infrastructure of local communities. Up to the end of May 2005, the resources disbursed amounted to approximately EUR 267 million.

### **Financial assistance from the European Union**

During 2001 and 2002 the European Union provided macro financial assistance in the total amount of EUR 345 million (EUR 225 million being loan facility and EUR 120 million being a grant). In November 2002, the European Council approved new macro-financial assistance to SM in the amount of EUR 130 million (EUR 55 million being loan facility and EUR 75 million being a grant). The resources were granted as further assistance to the implementation of the program of economic stabilization and reforms in the country, but the disbursement of the resources was conditional on achievement of satisfactory results in the implementation of the current financial arrangement with the International Monetary Fund. During 2002 and 2003, two tranches of macro-financial assistance were disbursed in the total amount of EUR 105 million.

At the end of 2004, the European Union gave a positive assessment of the achieved improvement in the implementation of reforms in the financial sector, the banking industry and privatization, enabling the disbursement of resources from the third tranche of macro-financial assistance in the total amount of EUR 25 million. A part of this tranche in the amount of EUR 10 million (being a grant) was disbursed on 29 December 2004, while the amount of EUR 15 million (being a loan facility) was disbursed on 4 May 2005 after completion of the required procedure by the EU.

The European Union, by its Decision of 24 November 2003, increased the total amount of the new macro-financial assistance of EUR 130 million by an additional EUR 70 million (EUR 25 million being a loan facility and EUR 45 million being a grant). The deadline for the disbursement of the additionally approved amount of EUR 70 million was extended to 30 June 2006. Negotiations with the representatives of the European Union are required to take place in connection with the agreement on the terms for the disbursement of this additional amount of macro – financial assistance.



## **TAXATION**

### **Serbian Taxation**

#### **General**

The following is a summary of certain Serbian tax considerations relevant to the ownership and disposition of 2024 Bonds. This summary is based on the laws of the Republic of Serbia, including administrative regulations and interpretations, in effect on the date of this Prospectus.

Unless specifically indicated otherwise, this summary is limited to the tax treatment of "non-resident holders" of 2024 Bonds. For these purposes, a "non-resident holder" is a legal person or organisation that is not organised under Serbian law and holds and disposes of 2024 Bonds otherwise than through a permanent establishment in the Republic of Serbia. Generally, a legal person or organisation will not have a permanent establishment in the Republic of Serbia 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 Republic of Serbia. A holder of a 2024 Bond will not be deemed to have a permanent establishment in Serbia solely by virtue of having acquired a 2024 Bond.

This summary does not address the availability of, or procedures for claiming, double tax treaty relief or the practical difficulties involved in claiming such relief. Prospective investors should consult their own tax advisors regarding an investment in 2024 Bonds.

#### **Interest on 2024 Bonds**

No withholding tax will apply to interest received on the 2024 Bonds by non-resident holders.

#### **Disposal or Redemption of 2024 Bonds**

Any gain on the disposal or redemption of the 2024 Bonds will not be subject to income or profits tax within Serbia so far as non-resident holders are concerned.

#### **Other taxes**

Payments made to non-resident holders of the 2024 Bonds pursuant to the terms under which they were issued will not be subject to value added tax.

Except as described in this Prospectus, including as set out under "General Information" (i) no stamp, registration, documentary or similar taxes are payable in Serbia by reason of the issue of the 2024 Bonds or in relation to any enforcement proceedings in respect of the 2024 Bonds brought in Serbian courts (ii) non-resident holders of 2024 Bonds will not incur tax or income or capital gain, stamp duty, registration, transfer or other similar taxes by reason only of the acquisition, ownership or disposal of 2024 Bonds and (iii) all payments by Serbia of principal and interest on 2024 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 Serbia.

## **Luxembourg Taxation**

*The comments below do not relate to any form of Luxembourg taxation other than taxation withheld at source.*

Withholding tax is applicable under Luxembourg law on interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) another EU Member State, pursuant to European Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, or (ii) certain non-EU countries and territories which have agreed to adopt similar measures than those provided for under European Council Directive 2003/48/EC. Responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent and not by the Issuer. Save as mentioned above, under Luxembourg tax law there is currently no withholding tax on payments of principal, premium or interest, nor on accrued but unpaid interest, in respect of the 2024 Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the 2024 Bonds. The Issuer assumes no responsibility for withholding of taxes at source other than as described in Condition 10 of the 2024 Bonds.

## SUBSCRIPTION AND SALE

### Subscription of the 2024 Bonds

Pursuant to a private placement agreement dated 27 July 2005 the Issuer has agreed to issue the 2024 Bonds to one sole investor, subject to certain customary closing conditions. Other than the expenses referred to in paragraph 12 under "General Information", no costs, expenses or underwriting fees are payable in connection with the issue of the 2024 Bonds.

### Selling Restrictions

#### United States

The 2024 Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may be offered and sold only in transactions that are exempt from, or are not subject to, the registration requirements of the Securities Act. The Existing 2024 Bonds were offered in the United States only to Qualified Institutional Buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act) and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

#### 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**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") no offer of the 2024 Bonds may be made to the public in that Relevant Member State, except that, with effect from and including the Relevant Implementation Date, an offer of the 2024 Bonds may be made to the public in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to those 2024 Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of 2024 Bonds to the public" in relation to any 2024 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 2024 Bonds to be offered so as to enable an investor to decide to purchase or subscribe the 2024 Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus

Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **General**

This Prospectus is not an offer to any other person or the public generally. Distribution of this Prospectus to any person other than a Holder or an advisor to such a Holder is not authorised by The Republic of Serbia except to the extent required after the date of issuance of the 2024 Bonds by the rules and regulations of the Luxembourg Stock Exchange. This Prospectus is not an offer to the public in any jurisdiction. See also "Transfer Restrictions".

## GENERAL INFORMATION

1. The 2024 Bonds will be accepted for clearance through DTC, Euroclear and Clearstream. The CUSIP numbers, ISIN numbers and Common Codes of the 2024 Bonds are as follows:

	2024 Bonds	
	Restricted Global 2024 Bonds	Unrestricted Global 2024 Bonds
CUSIP	817477 AA O	X77765 AA 7
ISIN	US 817477 AA 09	XS0214240482
Common Code	021424099	021424048

The 2024 Bonds represented by interests in the Restricted Global 2024 Bonds have been accepted for trading in PORTAL. The PORTAL reference number is SERBNP24.

2. Application has been made to list and admit to trading the 2024 Bonds on the market of the Luxembourg Stock Exchange appearing on the list of regulated markets issued by the E.C.. So long as the 2024 Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Republic of Serbia will maintain a paying agent and transfer agent in Luxembourg. Copies (and English translations where the documents in question are not in English) of the following documents with respect to the 2024 Bonds may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of the Paying Agent in Luxembourg so long as any 2024 Bonds are listed on the Luxembourg Stock Exchange:
  - (a) The Fiscal Agency Agreement, which includes the forms of the Global Bonds and the Bond Certificates;
  - (b) The authorisations referred to in item 4 below; and
  - (c) The Deed of Covenant.
3. The Republic of Serbia will obtain prior to the Settlement Date all necessary consents, approvals and authorisations in the Republic of Serbia in connection with the issue of, and performance of its obligations under, the 2024 Bonds and the Deed of Covenant.
4. The issue of the 2024 Bonds and the execution of the Deed of Covenant were authorised pursuant to Law on Ratification of the Memorandum of Understanding on the Restructuring of the NFA and TDFA between the Republic of Serbia and the International Coordinating Committee, "Official Herald of the Republic of Serbia", No 84 dated 24 July 2004.
5. The Republic of Serbia is not and has not during the previous 12 months, been involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the 2024 Bonds nor so far as the Republic of Serbia is aware is any such litigation or arbitration pending or threatened.

6. Article 1105 of the Contract Law, "Official Gazette of the SFRY" Nos. 29/78, 39/85, 57/89 and "Official Gazette of the FRY", No. 31/93 provide that the parties to any foreign economic transaction may choose the governing law of the particular transaction provided it is relevant to the transaction. Article 1105 will apply with respect to the choice of English law to govern the rights and obligations in respect of the 2024 Bonds in the case of any 2024 Bond held by a foreign person.
7. Under current Serbian law, state duty may be payable upon the initiation of any action or proceeding arising out of the 2024 Bonds in any court of the Republic of Serbia.
8. Enforceability in the Republic of Serbia of a final judgement for the payment of a sum of money rendered by the English courts will be recognised by a court of the Republic of Serbia under the international treaty between the Republic of Serbia and the United Kingdom as a basis upon which to approve enforcement of a judgement against the Republic of Serbia or its assets, properties or revenues in the Republic of Serbia.
9. Upon receipt of the relevant dinar counter-value payment from the Ministry of Finance, the National Bank of Serbia will be obliged to provide the Ministry of Finance with the relevant foreign currency held by the National Bank of Serbia, necessary for the Ministry of Finance to make payments under the 2024 Bonds.
10. Save as disclosed in this Prospectus, since the end of the last budgetary year, there have been no significant changes to public finance and trade.
11. For the life of this Prospectus, copies of the following documents may be inspected at the offices of the Paying Agent in Luxembourg:
  - (a) financial reports for the Republic of Serbia covering the last two fiscal years and the budget for the current fiscal year; and
  - (b) Additional Deed of Covenant and the Fiscal Agency Agreement.
12. An estimate of the total expenses relating to the admission to trading of the 2024 Bonds is U.S.\$100,000.
13. The Republic of Serbia does not wish to obtain any certificates for public offers in any European country other than Luxembourg.
14. A copy of this Prospectus will be published on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).
15. The yield, calculated as the internal rate of return on the Existing 2024 Bonds with which the 2024 Bonds are to be fungible, was 6.57% on 14 September 2005.

## ANNEX A

### INDEX OF CERTAIN DEFINITIONS

**"New Financing Agreement"** or **"NFA"** means the new financing agreement dated as of September 20, 1988, among the National Bank of Yugoslavia, certain other Yugoslav Banking Institutions, the former Socialist Federative Republic of Yugoslavia as Guarantor, the Creditors identified therein and J.P.Morgan Europe Limited (as successor to Chase Manhattan International Limited who in turn was successor to Manufacturers Hanover Limited), as Agent.

**"Trade Deposit Facility Agreement"** or **"TDFA"** means the trade deposit facility agreement, dated as of September 20, 1988, among the National Bank of Yugoslavia, certain other Yugoslav Banking Institutions, the Creditors identified therein and J.P.Morgan Europe Limited (as successor to Chase Manhattan International Limited who in turn was successor to Manufacturers Hanover Limited), as Agent and Collateral Agent.

The following terms have the meanings given to them on the relevant page of this Prospectus identified below:

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**Issuer**

**The Republic of Serbia**  
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Serbia

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**Registrar**

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**Transfer Agents**

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**Legal Advisers to the Issuer as to English and New York Law**

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