

INFORMATION MEMORANDUM

THE REPUBLIC OF ALBANIA

U.S.\$ 225,000,000 ZERO COUPON COLLATERALISED PAR BONDS DUE 2025

U.S.\$ 33,750,000 INCOME NOTES DUE 2025

24 August 1995

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Important Notice

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No person is authorised to give any information or to make any representation in connection with the offering and sale of the U.S.\$225,000,000 aggregate principal amount of Collateralised Zero Coupon Bonds due 2025 (the "**Bonds**") or the U.S.\$33,750,000 aggregate nominal amount of Income Notes due 2025 (the "**Notes**") other than such information and representations as are contained in this Information Memorandum or the 1995 Commercial Bank Restructuring Proposals (the "**Restructuring Proposals**") and, if given or made, any other such information or representations must not be relied upon as having been authorised by any of Albania, Charterhouse Bank Limited as closing agent or Union Bank of Switzerland as fiscal agent. To the extent that any information contained in the Restructuring Proposals is inconsistent with any information in this Information Memorandum, the information contained in the Restructuring Proposals shall be disregarded. Neither the delivery of this Information Memorandum nor the sale of the Bonds and Notes shall under any circumstances create any implication that there has been no change in the affairs of Albania since the date hereof.

Albania confirms that the information contained in this Information Memorandum is true, complete and accurate in all material respects, has been prepared by it in good faith and, to the best of its knowledge, such information does not contain any material misstatement of fact or fail to make any statement necessary to prevent such information from being materially misleading. Albania is not aware of any facts or circumstances that have not been disclosed to the Creditors (as defined in the Restructuring Proposals) which, in its reasonable opinion might, if disclosed, be of material and adverse consequence in the decision by the Creditors to purchase the Bonds or the Notes or to have the Bonds or the Notes purchased to their order. Certain projections contained in this Information Memorandum are based on assumptions and anticipated results which may or may not prove to be correct and may not be relied upon as a representation as to the future performance of the Albanian economy.

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds or Notes.

Application has been made to list the Bonds and the Notes on the Luxembourg Stock Exchange.

The Bonds and Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States.

The distribution of this Information Memorandum and the offering of the Bonds and Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum comes are required by Albania to inform themselves about and to observe any such restrictions. This

Information Memorandum may not be used for or in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

For a further description of certain restrictions on offerings and sales of the Bonds and Notes and on distribution of this Information Memorandum, see the section entitled "Subscription and Sale" below.

References herein to "dollars" and "\$" are to United States dollars, references to "Pounds Sterling" or "£" are to United Kingdom Pounds Sterling and references to "Lek" or "L" are to Albanian Lek. The spot rate between the Lek and the U.S. dollar on 24 August 1995, as quoted by Bank of Albania was L93 = U.S.\$1.00.

SECTION 1

SUMMARY

A. Restructuring Package

Albania and Charterhouse Bank Limited as closing agent (the "**Closing Agent**") have entered into an exchange agreement dated 27 July 1995 (the "**Exchange Agreement**") with, among others, the holders (the "**Creditors**") of certain outstanding external indebtedness of Bank of Albania ("**Eligible Debts**").

The Exchange Agreement provides, *inter alia*, for the issuance of Bonds and Notes as part of a restructuring package (the cost of which will be no more than U.S.\$100 million) designed to stabilise Albania's external commercial debt. This Information Memorandum outlines the restructuring package and the terms of issue of the Bonds and the Notes.

The Eligible Debts currently comprise in aggregate over U.S.\$350 million of obligations owed to over 40 financial institutions. The existing holders of the Eligible Debts were given the choice of participating in the following options (the "**Options**") :

- (a) a debt purchase option (the "**Debt Purchase Option**") involving the purchase by Albania of Eligible Debt at a price in U.S. dollars equal to 20% of the aggregate amount of such Eligible Debt when converted into dollars in the manner provided for in Part 6 of the Restructuring Proposals; and
- (b) a par bond option ("**the Par Bond Option**") involving the purchase by Albania of Eligible Debt and the issue by Albania of par bonds ("**Bonds**") and notes ("**Notes**"). The Bonds and Notes are to be issued to (or to the order of) each Creditor which participates in the Par Bond Option ("**Bond Creditor**"). The Bonds will have an aggregate face value equal to the aggregate principal amount of Eligible Debt committed by such Bond Creditor to the Par Bond Option, when converted into dollars in the manner provided for in Part 6 of the Restructuring Proposals (see the section below entitled "**Conditions of the Bonds**"). The Notes will have an aggregate nominal face value equal to 15% of the aggregate face value of the Bonds (see the section below entitled "**Conditions of the Income Notes**").

The Bonds will be represented by a zero coupon permanent global bond (the "**Global Bond**") issued pursuant to a fiscal agency agreement to be entered into by the Issuer, Union Bank of Switzerland, London branch, as fiscal agent and registrar and Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents (the "**Bond Fiscal Agency Agreement**"). The Global Bond will be registered in the name of, and deposited with, Union Bank of Switzerland as common depositary for Cedel Bank, société anonyme and Morgan Guaranty Trust Company of New York, Brussels office, as Operator of the Euroclear system on or about 31 August 1995 (the "**Closing Date**"). The Global Bond will only be exchangeable for definitive bonds in registered form in certain limited circumstances.

The Notes will be represented by a zero coupon permanent global note (the "Global Note") issued pursuant to a fiscal agency agreement to be entered into by the Issuer, Union Bank of Switzerland, London branch, as fiscal agent and registrar and Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents (the "Note Fiscal Agency Agreement"). The Global Note will be registered in the name of, and deposited with, Union Bank of Switzerland as common depositary for Cedel Bank, société anonyme and Morgan Guaranty Trust Company of New York, Brussels office, as Operator of the Euroclear system on or about the Closing Date. The Global Note will only be exchangeable for definitive notes in registered form in certain limited circumstances.

Albania shall purchase all interest arrears relating to Eligible Debt purchased pursuant to either the Debt Purchase Option or the Par Bond Option in consideration for payment of an amount in U.S. dollars equal to the Restructuring Cost (as defined below), less the sum of:

- (a) the total amount to be paid by Albania pursuant to the Debt Purchase Option;
- (b) the amount paid by Albania in purchasing the Principal Collateral for the Bonds; and
- (c) the initial amount of the Fund (as defined below).

"Restructuring Cost" means the amount equal to \$100 million multiplied by the aggregate amount of Eligible Debts committed to the Options and divided by the total amount of Eligible Debts, which Restructuring Costs shall be adjusted to reflect any increase or decrease in the aggregate amount of the Eligible Debts occurring after the date of the Restructuring Proposals.

B. Collateral

Albania and The Governor and Company of the Bank of England as security trustee (the "Security Trustee") will enter into a security trust deed (the "Bond Security Trust Deed") with Union Bank of Switzerland, London branch, as fiscal agent and Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents whereby Albania will agree to grant certain collateral for the Bonds.

Pursuant to the Bond Security Trust Deed, Albania's obligations in respect of the principal of the Bonds at their stated maturity will be collateralised by U.S. Treasury zero coupon bonds which mature on or before the stated maturity date of the Bonds and the aggregate face value of which is equal to the aggregate principal amount of the Bonds ("Principal Collateral"). Subject to certain exceptions, the holders of the Bonds shall accept the release or application of the Principal Collateral in complete satisfaction and discharge of the Issuer's obligations to repay the principal amount of the Bonds.

The Bonds will take the form of zero coupon bonds. In order to provide the bondholders with an investment approximately equal in value to the Debt Purchase Option price of 20%, Albania will issue in respect of each Bond a Note.

Each Note will entitle the holder to a *pro rata* share of an amount equal to distributions generated by The Albanian Income Fund Trust (the "Fund"). See paragraph C below for a description of the Fund.

Albania's entitlement to the Fund shall be held by the Security Trustee as collateral for Albania's payment obligations in respect of the Notes ("**Note Collateral**") pursuant to a security trust deed (the "**Note Security Trust Deed**") to be entered into by Albania, the Security Trustee, Union Bank of Switzerland, London branch, as fiscal Agent and Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents.

Subject to certain exceptions, the holders of the Notes shall accept the release or application of the Note Collateral in complete satisfaction and discharge of the Issuer's payment obligations on the Notes.

C. Description of The Income Fund

The Albanian Income Fund Trust (the "**Fund**") has been established by Albania in the Commonwealth of The Bahamas pursuant to a declaration of trust (the "**Declaration of Trust**") by Handelsfinanz - CCF Bank International Limited as trustee (the "**Trustee**") in favour of Albania as beneficiary (the "**Beneficiary**"). The Trustee is a bank and trust company incorporated in the Commonwealth of The Bahamas. It is a wholly owned subsidiary of Crédit Commercial de France ("**CCF**").

The Trustee will be the Fund's exclusive investment manager (the "**Investment Manager**") and will make all investment decisions on behalf of the Fund. However, pursuant to an investment advisory agreement (the "**Investment Advisory Agreement**") between the Investment Manager and Finely (the "**Investment Adviser**"), the Investment Adviser will provide investment advice to the Investment Manager in respect of the Fund on an exclusive basis. The Investment Adviser, a société anonyme incorporated in France, is a wholly owned subsidiary of CCF which, since its creation in 1989, has concentrated on investment banking and fund management activities in non-OECD countries. The Investment Adviser will provide administrative services, portfolio management, trading skills and advisory services in relation to the international capital markets to the Investment Manager.

The Trustee has determined that the initial custodian for securities and other instruments constituting the Fund will be CCF. Local sub-custodians for local instruments will be selected by the Investment Manager upon the recommendation of the Investment Adviser.

Investment Objectives

The primary investment objective of the Fund will be to generate a return which is sufficient (after payment of all taxes, costs and expenses payable or incurred in relation to the Fund) to enable semi-annual distributions from the Fund to be made in dollars to the Beneficiary, in amounts calculated on the basis of a 360-day year comprised of 12 months of 30 days each, by applying the rates set out in the table below for each period set out below to the aggregate nominal amount of the Notes from time to time outstanding:

Years	Applicable Rates
1-5	2% p.a.
6-10	3% p.a.
11-20	4% p.a.
21-30	5% p.a.

The Fund will be constituted by Albania on or prior to the Closing Date through the deposit with the Trustee of an amount in U.S. dollars equal to 15 per cent. of the aggregate nominal principal amount of the Bonds on their date of issue. No guarantee or assurance of return in respect of the Fund will be given by Albania, the Investment Manager, the Investment Adviser, CCF or any of their affiliates. The targeted payment stream set out above in respect of the Notes will represent in effect a total return after fees on the Fund of approximately 17.5% per year over 30 years. To try to reach this rate of return, the Fund will be primarily invested in emerging markets debt instruments, most of them non-rated or with a speculative rating, with a view to seeking high current income as well as capital appreciation.

Investment Policies

- (a) **Exchange Risk:** The Fund's portfolio will consist mainly of U.S. dollar denominated instruments. To mitigate exchange risk, no more than 20% (in principal amount) of the Fund's assets will at any time be invested in instruments denominated in currencies other than U.S. dollars and no more than 10% (in principal amount) of the Fund's assets will be invested in currencies not actively traded on liquid monetary markets.
- (b) **Interest Rate Risk:** The Fund will invest mainly in fixed rate instruments.
- (c) **Asset Diversification:** The following asset diversification rules will be applied by the Investment Manager:
 - (i) no more than 25% of the net asset value of the Fund will at any time be invested in issuers located in one country;
 - (ii) no single investment will comprise at any time more than 15 per cent. of the net asset value of the Fund; and
 - (iii) no more than 10% of the net asset value of the Fund will at any time be invested in instruments issued by a particular issuer unless that issuer is a sovereign issuer.

In respect of instruments which benefit from a guarantee, the restrictions set out above will be applied by reference to the guarantor, not the issuer, of the relevant instruments.

- (d) **Other Policies:**
 - (i) **stop loss:** any decrease in the market value of an investment in excess of the risk parameter established by the Investment Manager for such investment will trigger an obligation on the Investment Manager to dispose of that investment as soon as reasonably practicable at the best price reasonably obtainable;
 - (ii) **counterparty risk:** the Fund will only enter into transactions with counterparties which are deemed to be creditworthy by the Investment Manager;
 - (iii) **investment liquidity:** priority will be given to investments in liquid instruments;

- (iv) **yield:** if, in respect of any period of six months falling between two Distribution Dates (as defined in the Declaration of Trust) of the Fund, the Investment Manager determines that amounts received during that period represent a yield on the investments then comprised in the Fund in excess of the targeted yield of 17.5% any additional amounts received in respect of the investments beyond that yield shall be invested in (i) debt securities issued by the United States Government or Treasury and any other obligations the timely payment of principal and interest on which are guaranteed by the full faith and credit of the United States Government or Treasury or (ii) demand and time deposits with, certificates of deposit and bankers' acceptances issued by, money market accounts in and other short-term unsecured debt obligations of, any depository institution, which in each case mature on or prior to the next following Distribution Date and which, in each case, are rated at least A-1 by Standard & Poor's or P-1 by Moody's Investor Service.
- (e) **Leverage:** The Fund will be authorised to borrow money in any currency from any person including the Investment Manager and any of its affiliates for the purpose of investment or for any other proper purpose of the Fund (provided that, at the time of the Fund's commitment to borrow, the short-term unsecured debt obligations of the relevant lender are rated at least A-1 by Standard & Poor's or P-1 by Moody's Investor Service) and by way of security therefor may pledge, charge or mortgage in any manner all or any part of the Fund. Borrowings by the Fund shall be restricted to ensure that amounts outstanding from time to time do not exceed 40% of the market value of the Fund at the date of the borrowing. The Investment Manager shall not be liable for any loss incurred by the Beneficiary by reason of any depletion in the value of the Fund which may result from any such borrowings.
- (f) **Derivatives:** The Investment Manager shall be entitled to enter into interest rate and/or currency swaps and may engage in options and other derivatives activities for the purposes of hedging its portfolio and enhancing its yields on investments. However, the Fund will be prohibited from selling uncovered put options.
- (g) **Fees:** To compensate for the services provided by the Trustee, the Custodian, the Investment Manager and the Investment Adviser, a total fee of 1.5% per annum of the average net asset value of the Fund (calculated twice-monthly) will be paid out of the Fund. As an incentive for the Investment Manager and the Investment Adviser, an additional fee equal to 25% of the Fund's revenues in excess of the targeted yield of 17.5% per annum (to be calculated annually, and not on a cumulative basis) will be annually remitted to them out of the Fund.
- (h) **Reporting:** The Investment Advisor will periodically (and at least semi-annually) submit reports to the Trustee on the performance of the Fund and the Trustee shall be instructed to deliver copies of any such reports to the offices of each of the paying agents and the registrar appointed pursuant to the Note Fiscal Agency Agreement, where such reports will be made available notwithstanding the terms and conditions of the Notes. In addition, such reports will be supplied to the Luxembourg Stock Exchange.

Distributions

The distributions made in respect of the Fund will be primarily derived from interest, fees and capital gains received from or in respect of the Fund's assets and the daily activities of the Fund, which

amounts will be deposited in and credited to a specific account known as the "Collection Account". Where on any Distribution Date there is a shortfall between the credit balance of the Collection Account and the amount targeted to be distributed in accordance with the Investment Objectives section above (such shortfall to be known herein as the "Note Shortfall"), the Investment Manager will be allowed to realise part or all of the assets of the Fund in order to pay such Note Shortfall.

However, the Investment Manager may decide that prevailing market conditions do not allow satisfactory realisation of the Fund's assets. In this case, part or all of the targeted distribution amounts will be postponed until the next Distribution Date. Further distributions which are made will be applied first to pay the Note Shortfall (if any) which has been deferred from the previous periods. Distributions may be deferred for up to 12 months after which the Investment Manager will be under an obligation to sell a sufficient amount of the existing assets of the Fund in order to pay the Note Shortfall. Accordingly, each time there is a distribution from the Fund, the Investment Manager will make payments in the following order of priority:

- (a) first, to pay fees and other remuneration due to the Trustee and all the expenses incurred by the Trustee in performing its duties and exercising its powers pursuant to the Declaration of Trust, together with interest thereon;
- (b) second, to pay to the Beneficiary any Note Shortfall;
- (c) third, to pay to the Beneficiary the targeted distribution amount in respect of the relevant Distribution Date, in accordance with the Investment Objectives section above;
- (d) fourth, to pay any other amounts which are due and payable in respect of the trust constituting the Fund.

Liquidation

The Fund will continue until 31 August 2025 unless one of the following events happens prior thereto:

- (a) a law is passed which renders it illegal to continue the trust constituting the Fund or if the Trustee gives at least six months' notice to the Beneficiary that in the opinion of the Trustee it is impracticable, inadvisable or contrary to the interests of the Beneficiary to continue the trust constituting the Fund or that by virtue of the terms of any official licence or authorisation that it is in the opinion of the Trustee impracticable, inadvisable or contrary to the interests of the Beneficiary to continue the trust constituting the Fund or for it to continue to be a Trustee of the trust constituting the Fund, provided that in such latter case no other person is appointed Trustee within six months of the Trustee giving such notice to the Beneficiary;
- (b) if the Trustee should have given notice of its intention to retire, or if the Trustee is placed in compulsory or voluntarily liquidation (other than for the purposes of amalgamation or reconstruction) and the Beneficiary is unable to procure the appointment of another person to act as Trustee within three months thereafter; or

- (c) if the Notes become repayable prior to their stated maturity in accordance with Condition 7.01 of the terms and conditions of the Notes.

If the trust is terminated:

- (a) the Trustee will realise the investments comprised in the Fund sufficient to repay all borrowing effected by the trust (together with interest thereon), discharge all other liabilities of the trust and to meet all costs, charges, expenses and demands of the trust; and
- (b) the Trustee shall distribute the remaining assets of the Fund to (or as directed by) the Beneficiary.

SECTION 2

ALBANIA

Historical and Political Background

For nearly 500 years Albania formed part of the Ottoman Empire until it declared independence in 1912. During the Second World War, Albania was first annexed by Italy in 1939, and was later occupied by Germany. Towards the end of the war, the communists, led by Enver Hoxha, came to power. His dictatorship lasted until his death in 1985, when he was succeeded by Ramiz Alia.

Until 1991, Albania was a communist state with legislative power vested in a 250-member Unicameral People's Assembly, elected every four years. Executive authority was held by the PLA politbureau and Council of Ministers elected by the Assembly.

The fall of communism occurred later in Albania than in other central and eastern European countries. In March 1991, the first pluralist elections were won by the communists again, and it was only in June 1991 that economic and political chaos compelled the last communist government to resign, allowing a coalition government to be formed. New elections were held in March 1992 for the 140 seat People's Assembly and the Democratic Party (centre-right) won a two thirds majority, with Sali Berisha as President and Alexander Meksi as Prime Minister. The new government publicly endorsed structural reforms and announced its intention to accelerate the pace of their implementation.

The Government democratically elected in 1992 remains in office, with Sali Berisha as President and Alexander Meksi as Prime Minister. The government continue to give political stability and the strong running of internal affairs high priority. The next democratic government elections are scheduled to take place in March 1996.

The Albania foreign policy in an unsettled region is peaceful and constructive, as it comes from the firm conviction that this is an important part of the way to stability and prosperity. This is not only an intention but is demonstrated in the practical performance in relation to the present circumstances in the region.

These policies are supported by international institutions such as the IMF, World Bank and the EU and by a number of foreign governments.

Geography, Population and Climate

Albania is located in the southern part of eastern Europe, and is bordered by the Adriatic and Ionic Seas to the west, Greece to the south, Macedonia to the east, and the Yugoslav provinces of Kosovo and Montenegro to the east and north. About 70% of the Albanian territory is mountainous.

Albania is a small country covering an area of 28,748 square kilometres and has a population of approximately 3.2 million. In recent years, population growth has been approximately 2% per annum. This implies a very young population by European standards, particularly in rural areas, where in 1989 the average size of households was 5.3 persons against 3.9 in urban areas. In 1989, one-third of the population was less than 15 years old. However, demographic growth has slowed

down since 1991, owing to the difficult economic conditions. The principal towns are Tirana, the capital (population approximately 0.5 million), Durrësi (population approximately 100,000) and Shkodra (population approximately 70,000).

Albanians are descendants of Illyrians, a non-Slavic population, and were living in the present area before Roman times. Many ethnic Albanians reside in Kosovo, Macedonia and Montenegro, and also, in smaller numbers, in Italy, Turkey, Greece and the United States. In the southern part of Albania there is a small group of ethnic Greeks. Currently, about 70% of the Albanian population is Muslim, 20% Orthodox, and 10% Catholic. The different religious groups have lived in harmony in Albania for centuries.

Despite its mountainous topography, Albania has a Mediterranean climate with an annual average temperature of 16°C. Major agricultural products include trees, livestock, grain and various vegetables. Albania is rich in mineral resources, having the world's third largest deposit of chromium. Other deposits include copper, nickel and a number of non-ferrous metals. There are significant on-shore oil and gas reserves and prospecting for off-shore fields in the Adriatic Sea has commenced.

Economic Performance

Until 1990, Albania had been directed by a highly centralised regime. Decades of central planning and isolation eroded the country's productive base. Practically all economic activities were controlled by the state, while prices and wages remained systematically unchanged. The government's strict policy of self-sufficiency shaped production and investment decisions.

By the late 1980's, growing inefficiencies caused output to fall continuously, and the external position of the country came increasingly under pressure. Limited economic reforms which had been started in 1988 were unable to halt the decline. Some measures even exacerbated the imbalances and, as a result, *per capita* incomes fell steeply. In 1990-91, the collapse of trade and financial relations with the other Eastern European countries, combined with a severe drought, further increased the difficulties. Work stoppages reduced industrial production severely; the disintegration of co-operative farms, moreover, caused a dramatic decline in agricultural production and widespread food shortages.

The fall of communism in June 1991 caused Albania severe economic problems. Real GDP - already the lowest in Europe - fell by 50% from its 1989 peak. Agricultural production collapsed and inflation was high (104% in 1991). These difficulties were exacerbated by the onset of a severe drought and the disruption of Albania's traditional trading partners in the former CMEA member countries. The collapse of production also contributed to a fiscal crisis as tax collection from enterprises nearly disappeared and the government continued to provide subsidies to state-owned enterprises. The fiscal deficit widened significantly in 1991 and early 1992. The deficit was financed by monetary expansion which contributed further to the inflation problem.

The democratically elected government in 1992 recognised the need for immediate response to the economic crisis and adopted an ambitious reform programme to control the decline in the economy and move towards positive economic results for Albania.

The medium-term strategy adopted by the government in this context included efforts to reduce financial imbalances and bring about a structural transformation of the economy. The programme

was intended to bring about a sustained revival of growth, a gradual reduction of inflation toward international levels, and progress towards balance of payments viability. Key measures in the strategy were the liberalisation of prices and of the exchange rate, the curbing of government spending, changes in the composition of government expenditure and monetary restraint. A comprehensive set of structural reforms were implemented to privatise agricultural land, to reform public enterprise (including the divestiture of all public enterprises) and the financial sector, and to create a legal framework to establish a market economy and a growing private sector. Comprehensive price and exchange rate reforms were introduced. A modern central bank was established, budgetary management was strengthened and tax reforms were introduced. A foreign investment law was passed and a civil code and land legislation was submitted to the Assembly in 1993 and later passed.

Progress under this programme was stronger than expected, with real GDP growth reaching 11% in 1993 and a further 7.4% in 1994. It included strong private sector activity in agriculture and construction. The fiscal deficit was sharply reduced to 22% of GDP in 1992, 16% in 1993 and 8.3% in 1994. Inflation fell from 237% at the end of 1992 to 31% in the following year and 15.82% at the end of 1994, beating the government's projected figures.

The trade and exchange rate systems were liberalised in 1992. Import and export licences on almost all products as well as restrictions on foreign exchange for current transactions were removed. The exchange rate was permitted to float and trade monopolies of most state trading companies were abolished. The main trading partners for Albania are now Italy, France, Greece, Bulgaria and Germany. During 1993 and 1994 some signs of recovery were apparent. On the import side, agricultural sector production increases shifted imports away from basic foodstuffs to consumer durable and investment goods. Private remittances were estimated at U.S.\$264.5 million in 1994. The external current account deficit, excluding official transfers, which amounted to 66% of GDP, in 1992, shrank to 27% in 1993 and was U.S.\$ 287.5 million, representing 14% of GDP, in 1994. Gross official reserves were increased to three months of imports and continued progress was made towards balance of payments viability. The exchange rate, after appreciating to about 100 Lek per U.S.\$ in 1992, was stable throughout 1993 and during the last quarter of 1994 remained between Lek 84.7 and Lek 94.9 per U.S.\$. In real terms, the Lek appreciated against the dollar during 1993 and it was stable during 1994, due to the improved macroeconomic situation, the liberalisation of the exchange and trade policies and the high interest rate differential.

Legislation permitting the privatisation of state owned enterprises in Albania was introduced in August 1991. To date, almost all agriculture, road transport and retail trade enterprises have been privatised. Substantial progress has been made in services, housing and small and medium-sized enterprise privatisation. The privatisation programme has also been extended to road transport enterprises with the purchasing right given, in the first instance, to the vehicle operators.

In order to facilitate the privatisation of small and medium-sized enterprises, the National Agency of Privatisation was established in August 1991. The Agency is empowered to implement the privatisation of these companies through auction, with minimum bids based on the book value of firms. Over 2,500 units have been sold so far, realising U.S.\$16.5 million. No significant large enterprise was privatised in 1992 or 1993, and in general the pace of privatisation in this sector has not matched the achievements witnessed in relation to smaller and medium-sized companies. However, in order to facilitate the process of restructuring and privatisation of 32 large enterprises, an Enterprise Restructuring Agency (ERA) was established in the first half of 1994. The government has decided to proceed with privatisation of the water, electricity and telecommunications utilities.

Over 60 oil, gas, mining and other enterprises will need technical assistance for restructuring before they can be privatised.

Albania has a two-tier banking system consisting of a central bank, the Bank of Albania (BOA), and a commercial banking sector with three state-owned commercial banks, two joint venture banks and one privately owned bank. The state-owned commercial banks account for almost the whole of the sector's assets. The commercial banking system is being supported by International Development Association Enterprise and Financial Sector Credit.

A well-performing banking system and money market is absent, so the conduct of monetary policy must continue to rely on bank-to-bank credit ceilings. The continuing deterioration of loan portfolios highlights the urgent need to restructure the state-owned commercial banks and to attract private banks. Auctions for three-, six- and twelve-month maturity T-bills have been launched bi-monthly since September 1994. Only three foreign banks have entered the country: Banca Italo-Albanese, Arab Albania Islamic Development Bank and Dardania Bank. No domestic private banks have been established yet, but new guidelines for the creation of private banks were approved in June 1994 with relatively low capital requirements. Under technical assistance from the EU, the IMF and other bilateral donors, the Bank of Albania has continued working to improve bank supervision and statistical reporting.

According to the foreign exchange regulations relating to the capacity of Bank of Albania in respect of monetary restrictions, there are no restrictions for payments in foreign currency which are related to balance of payment current account transactions.

Capital transfers are subject to the prior written approval of the Bank of Albania except for the following capital transfers which may be made freely:

- 1- inward capital transfers by residents and nonresidents;
- 2- outward capital transfers representing previously recorded capital inflows;
- 3- transfers of proceeds of the withdrawal of nonresident deposits;
- 4- transfers undertaken in accordance with the Law for Foreign Investment (Law No. 7746 dated November 2, 1993); and
- 5- Transfers of the proceeds of liquidation of Albanian assets by an emigrant on departure from Albania.

A target has been set for the remaining restrictions relating to capital transfers to be removed and full capital account convertibility to be achieved by the end of the first quarter of 1996.

In light of the positive results of the reform efforts, the Albanian government has deepened its commitment to reform and has adopted even more ambitious macroeconomic objectives for the medium-term. The objectives include reducing inflation to under 10% over the medium term and attaining an increase in real GDP growth of 5-6 % in the same period and a strengthening of the balance of payments. Structural reforms will be continued in order to attract foreign investment and create a market economy.

To meet these targets, a macroeconomic strategy has been developed by the Albanian government in collaboration with the IMF and the World Bank which aims at the continued development of market forces, further increases in public sector savings and investments, strict limits on credit expansion,

incomes policy, and the mobilisation of adequate foreign resources. The government is following a broad catalogue of Priority Structural Policy Measures (PSPM) until the end of 1997. PSPM relate to: fiscal and monetary policies, price reform, the financial and external sector, infrastructure and environment policies, public enterprises and privatisation, agricultural and social aspects. Successful implementation of PSPM will require both continued political will and intensive technical assistance and training.

Significant progress has been made in normalising relations with Albania's official bilateral external creditors. By early 1992 Albania's external debt in convertible currency amounted to an estimated U.S.\$546 million. The current external debt outstanding remains large at 59% of GDP in 1994 and at 726% of export earnings in 1994. The principal owed to commercial banks amounts to approximately 37% of total outstanding debt and the amount owed to the Paris Club is 4% of outstanding debt. The Paris Club has rescheduled Albania's public external debt obligations through to December 2000.

The government's reform programme has been supported by a standby arrangement followed by a three-year Enhanced Structural Arrangement Facility with the IMF, a technical assistance programme provided by the International Development Association, EU-PHARE funding for assistance programmes and project funding by the European Investment Bank and the European Bank of Reconstruction and Development.

Albania is determined in continuing with the economic reforms undertaken by the Albanian Government towards a market oriented economy, the establishment of democracy and steering the country towards Europe. On 29 June 1995 the application of Albania to join the Council of Europe was approved.

Investment Considerations

Prospective purchasers of the securities offered hereby should consider all the information contained in this Information Memorandum, including the investment considerations set forth below.

Historically, political uncertainty within Albania and in certain neighbouring countries has been one of the potential risks associated with investment in Albania. Albania has been governed by the same government under a parliamentary democracy since 1992, however, government elections are due in March 1996 and the outcome of those elections may result in a change of government. In addition, the region around Albania is at present unsettled. Of particular concern currently is the continuing unrest in the former Yugoslavia and the continuing conflict which has heightened tensions in the region.

In 1992 the banking system in Albania was rearranged to produce a two-tier banking system. The resulting state bank, the Bank of Albania, has made good progress since 1992 in assuming the functions of a central bank with the support of technical assistance. However, the development of commercial banking has been slow, and most transactions remain based on cash. In addition, the financial sector remains structurally weak and has a large portfolio of non-performing loans. Albania is currently receiving assistance from the World Bank in respect of the development of its banking system.

In respect of balance of payments, after 1991 the collapse of the centrally planned system in Albania affected the nearly balanced foreign trade producing a sharp rise in trade deficits. Substantial investments are needed to increase production and restore the export potential of Albania. Foreign direct investment has been hampered by absent legal provisions, administrative hurdles, lack of experience and by poor infra-structure. However, a large number of laws and administrative measures have been passed in the last year in an attempt to redress this problem.

Albania's dilapidated infra-structure could be regarded as an obstacle to private sector development and to foreign investment. Better roads and a well-functioning irrigation network are required to uphold the productive effects which are stemming from privatisation and price liberalisation in agriculture. Without a reliable provision of electricity and water in cities, prospects for new manufacturing activities could be affected. Although public investment amounted to 7% of GDP in 1993, this amount would need to be increased to guarantee the rebuilding of the infra-structure. The government's 3-year Public Investment Programme over 1994-1996 largely depends on the availability of foreign aid.

TABLE 1
SOCIAL AND DEMOGRAPHIC INDICATORS

	1990	1991	1992	1993	1994
Area					
28,748 sq. km					
Population (thousands)	3293	3260	3190	3167	3202
Density (per sq. km)					111
GDP per capita (in USD)	638	632	207	338	545
Population Characteristics					
Life expectancy at birth (years) ¹					
Women					74,3
Men					68,5
Crude death rate (per thousand) ²					5,6
Infant mortality rate (per thousand) ²					28,3
Non-working age population (thousands)					1363
Working age population (thousands)					1839
Urban					41
Rural					59

¹ Estimations for 1991-1995 period.

² As of end of 31.12.1990.

Sources: Albanian Institute of Statistics

TABLE 2
ALBANIA GDP BY SECTOR OF ORIGIN, 1990-94

	1990	1991	1992	1993	1994
In millions of lek at current prices					
Gross Domestic Product	16813	16473	49519	113041	166297
Industry	6253	5206	8442	15624	209666
Agriculture	6762	7202	26812	63076	92254
Construction	1114	1050	3742	9989	15732
Transportation	550	524	1481	3432	5546
Other services	2135	2491	9042	20919	31799
In millions of lek at 1990 constant prices					
Gross Domestic Product	16813	12156	10974	12182	13086
Industry	6253	3842	1871	1684	1650
Agriculture	6762	5315	5942	6797	7260
Construction	1114	775	829	1077	1238
Transportation	550	387	328	370	436
Other services	2135	1838	2004	2254	2502
Percentage change over previous period					
Gross Domestic Product	-10	-27,7	-9,7	11	7,4
Industry	-15,8	-38,6	-51,3	-10	-2
Agriculture	-4,1	-21,4	11,8	14,4	6,8
Construction	-12	-30,4	7	29,8	15
Transportation	-10	-29,7	-15,1	12,7	18
Other services	-8	-13,9	9	12,5	11
Share of total GDP at 1990 constant prices					
Gross Domestic Product	100	100	100	100	100
Industry	37,2	31,6	17	13,8	12,6
Agriculture	40,2	43,7	54,1	55,8	55,5
Construction	6,6	6,4	7,6	8,8	9,5
Transportation	3,3	3,2	3	3	3,3
Other services	12,7	15,1	18,3	18,5	19,1
Selected economic indicators					
Net exports of goods & services	...	...	...	-57789	-50030
Total expenditures (absorption)	...	...	...	170815	216327
Gross Domestic Investment	...	988	2476	15826	26608
Gross National Saving	...	-2306	-27235	-33912	-8315
Exchange Rate (lek/dollar)(annual average)	80.00	80.00	75.033	105.530	95.366

Sources: Albanian Ministry of Finance and staff estimates.

TABLE 3
BALANCE OF PAYMENTS

	1989	1990	1991	1992	1993	1994
	(in millions of USD)					
Exports of Goods and Non-Factor Services	433,90	353,60	82,20	90,30	189,10	224,50
Merchandise	393,70	322,10	73,00	70,00	111,60	141,40
Non-factor services	40,20	31,50	9,20	20,30	77,50	83,10
Imports of Goods and Non-Factor Services	-483,70	-485,00	-314,40	-629,70	-763,50	-772,40
Merchandise	-455,80	-455,90	-281,00	-540,50	-601,50	-601,00
Non-factor services	-27,90	-29,10	-33,40	-89,20	-162,00	-171,40
Resource balance	-49,80	-131,40	-232,20	-539,40	-574,40	-547,90
Net-Factor income	-0,10	-1,90	-25,10	-35,10	33,90	1,70
Factor receipts	0,40	0,00	0,80	2,60	64,90	43,00
Factor payments	-0,50	-1,90	-25,90	-37,70	-31,00	-41,30
Total interest due	0,00	0,00	-25,90	-36,00	-31,00	-41,30
Other factor payments	-0,50	-1,90	0,00	-1,70	0,00	0,00
Net private current transfers	10,60	15,00	89,30	523,70	555,20	377,80
Current receipts	10,60	15,00	89,30	524,00	556,90	383,40
Workers remittances	0,00	0,00	0,00	150,00	274,80	264,50
Other current transfers	10,60	15,00	89,30	374,00	282,10	118,90
Current payments	0,00	0,00	0,00	-0,30	-1,70	-5,60
Current account balance	-39,30	-118,30	-168,00	-50,80	14,70	-168,40
Long term capital inflows	-2,00	27,10	21,40	20,00	125,10	180,20
Direct investments	0,00	0,00	0,00	20,00	58,00	53,00
Net long-term borrowing	-2,00	27,10	21,40	0,00	67,10	127,20
Disbursements	0,00	29,10	21,40	N/A	81,20	144,10
Repayments	-2,00	-2,00	0,00	N/A	-14,10	-16,90
Net other long-term loans						
Adjustment to scheduled debts						
Arrears	0,00	206,00	196,00	49,00	49,50	26,10
Other capital flows	361,40	61,20	-6,60	-25,60	-15,00	119,30
Net short-term capital flows	361,40	61,20	-6,60	49,00	60,30	17,10
Other capital flows	0,00	0,00	0,00	-74,60	-75,30	102,20
Errors and omissions	4,80	-2,00	125,20	44,80	-9,70	141,00
Changes in net reserves						
Net credit from IMF	N/A	N/A	N/A	13,90	16,60	22,20
Reserve changes	-266,50	201,70	28,00	-24,70	-114,90	54,90
Escrow accounts	N/A	N/A	N/A	4,99	0,16	0,24
Gross reserves of BoA	N/A	N/A	N/A	N/A	147,41	204,74

Sources: Bank of Albania

TABLE 4
ALBANIA: GOVERNMENT BUDGET
(in millions of Albanian Lek)

	1989	1990	1991	1992	1993	1994	1995 ²
Taxes	8250	7090	4394	8452	22606	29992	19147
Nontax receipts ¹	753	776	774	4048	8993	9999	5359
Total Current Revenue	9003	7866	5168	12500	31599	39991	24506
Interest on external debt	-	-	-	-	-	2162	403
Interest on domestic debt	70	-	-	650	2942	3663	1770
Other current transfers	1500	1536	2228	6080	19140	7764	0
Subsidies	1617	2637	3345	4045	2524	7765	10078
Consumption	1976	3114	3622	10476	16814	25262	13807
Total Current Expenditure	5163	7287	9195	21251	41420	46616	26058
Budgetary Savings	3840	579	-4027	-8751	-9821	-6625	-1552
Budgetary Investments	5474	3162	1007	2154	8538	6415	1832
Arrears: external & to enterprises	605	1955	-2160	93	250	0	0
Fiscal Deficit financing	-1029	-628	-7194	-10812	-18109	-13040	-3384
External borrowing	-	-	-	150	6722	620	671
Domestic borrowing	1029	628	7194	10662	11387	12420	2713

PUBLIC DEBT

	1993	1994	1995 ²
	(in billions of Albanian Lek)		
Domestic Public Debt	31,4	43,5	51,0
Foreign Public Debt	n.a.	4,1	4,2

1 Including grants

2 July 1995

Sources: IMF Economic Review 1994 and Bank of Albania

TABLE 5.1
ALBANIA: AGRICULTURAL PRODUCTION 1990-1994

	1990	1991	1992	1993	1994 (est.)
Total gross agricultural production	7253	5698	6373	7289	7784
Crop production	3715	2380	2808	3431	3485
Grains	1428	687	583	1075	1168
Maize	499	283	343	387	332
of which for food	499	278	201	240	226
Rice	21	6	3	2	-
Potatoes	161	172	157	202	172
Vegetables	747	688	1073	1102	1112
Tobacco	197	98	175	182	182
Sunflower seeds	66	19	14	7	7
Cotton	72	24	8	1	1
Sugarbeet	54	19	15	9	19
Distic barley	20	13	22	16	12
Soybean	49	21	14	7	11
Dried beans	98	91	175	161	112
Fodder	25	7	10	40	44
Forages	276	258	359	388	420
Fruits and olives	433	350	255	291	318
Apples, pears, peaches, figs	142	79	68	84	90
Citrus	31	33	39	40	39
Grapes	236	150	98	104	114
Olives	25	88	51	63	75
Livestock	3105	2968	3309	3567	3980
Meat	1102	1004	1087	1154	1272
Wool	135	130	138	150	155
Milk	1552	1582	1836	2012	2292
Eggs	308	244	243	249	257
Honey	8	8	5	2	5

Sources: Albanian Ministry of Agriculture and staff estimates.

TABLE 5.2
ALBANIA: TOTAL INDUSTRIAL PRODUCTION TOTAL OUTPUT SOLD AND
CHANGES OF STOCK IN THE STATE SECTOR, 1992-1994

	1992			1993			1994		
	Output Sold	Stock Change	Production	Output Sold	Stock Change	Production	Output Sold	Stock Change	Production
Energy	7.318	504	7.822	10.457	523	10.980	11.726	586	12.312
Oil and gas	2.027	140	2.167	2.941	147	3.088	3.706	185	3.891
Oil processing	3.107	214	3.321	4.635	232	4.867	5.121	256	5.377
Electric power	2.184	150	2.334	2.881	144	3.025	2.899	145	3.044
Mining	3.378	233	3.610	4.543	227	4.770	4.056	202	4.258
Chromium	1.571	108	1.679	2.371	119	2.490	2.547	127	2.674
Copper	1.164	80	1.244	1.427	71	1.498	1.030	51	1.081
Iron	7	-	7	-	-	-	-	-	-
Bitium	10	-	10	65	4	69	48	2	50
Coal	503	35	538	536	26	562	372	19	391
Other	123	9	132	144	7	151	59	3	62
Manufacturing	12.242	271	12.513	19.178	958	20.136	14.845	745	15.589
Mining	231	15	246	510	26	536	839	-702	137
processing									
Chemical	724	51	775	1.681	83	1.764	1.520	76	1.596
Timber	1.078	-489	589	1.420	71	1.491	372	19	391
Paper	46	3	49	58	2	60	28	1	29
Engineering	1.335	92	1.427	2.019	101	2.120	1.916	840	2.756
Building material	1.414	98	1.512	2.595	130	2.725	2.620	131	2.751
Durable									
consumer goods	126	8	134	121	6	127	138	7	145
Textile and	1.922	133	2.055	2.290	115	2.405	1.497	75	1.572
Footwear									
Foodstuffs	4.707	323	5.030	7.058	353	7.411	4.333	217	4.550
Printing	264	18	282	474	24	498	512	26	538
publishing									
Other	395	19	414	952	47	999	1.070	54	1.124
Total	22.937	1.008	23.945	34.178	1.708	35.886	30.627	1.533	32.159

Sources: Albanian Institute for Statistics, and staff estimates.

Stock is defined as total production in current prices minus total output sold. A positive figure means an increase in stock, a negative figures means reduction in stock.

TABLE 6
ALBANIAN DOMESTIC EMPLOYMENT
 (thousands)

<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
1821	1483	1070	987	1079

ALBANIAN LABOUR FORCE
 (thousands)

<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
1972	1732	1664	1674	1692

ALBANIAN CONSUMER PRICES INDEX
 (annual percentage change)

<u>1993</u>	<u>1994</u>	<u>1995</u>
30,90	15,80	2,10

ALBANIAN WAGE TRENDS
 (average wage per employee in U.S. dollars)

<u>1993</u>	<u>1994</u>	<u>1995</u>
31	50	63

Sources: Albanian Institute of Statistics

TABLE 7
GROSS OFFICIAL RESERVES OF BANK OF ALBANIA*

	1993	1994	1995
	(in millions of USD)		
JAN	72,10	148,40	216,29
FEB	72,58	150,09	221,14
MAR	73,56	146,17	231,99
APR	81,37	146,37	237,70
MAY	80,81	161,66	235,29
JUN	81,80	167,64	272,06
JUL	93,19	168,67	
AUG	140,60	170,93	
SEP	144,31	175,93	
OCT	144,51	188,12	
NOV	146,26	200,55	
DEC	147,41	204,74	

* Excluding gold

CURRENCY AND GOLD RESERVES OF BANK OF ALBANIA

	1993	1994	1995
	(in millions of USD)		
Reserves in Gold	3,00	3,10	3,11
Useable reserves in Currency	146,11	204,59	271,66
USD	77,13	121,24	155,30
ECU	29,92	36,28	55,42
DEM	35,23	41,79	55,56
CHF	3,49	4,50	5,05
Others	0,34	0,79	0,33

Sources: Bank of Albania

TABLE 8
FOREIGN TRADE STRUCTURE BY COMMODITIES
(in thousands of Lek)

EXPORTS 1993			IMPORTS 1993		
	12,498,861,0	100,0%		60,893,315,0	100,0%
Meat and animal products	365,431,0	2,9%	Food, beverages and tobacco	16,086,761,0	26,4%
Other foods, beverages, tobacco	2,009,147,0	16,1%	Minerals, chemicals, plastics	8,236,159,0	13,5%
Minerals, chemicals, plastics	3,251,539,0	26,0%	Manufactures	4,099,557,0	6,7%
Manufactures	1,612,314,0	12,9%	Textiles	4,296,386,0	7,1%
Shoes and other foot wear	2,230,648,0	17,8%	Metals and metal manufactures	2,436,542,0	4,0%
Textiles	1,258,919,0	10,1%	Machinery	9,925,855,0	16,3%
Metals and metal manufactures	713,729,0	5,7%	Transport equipment	11,693,612,0	19,2%
Other exports	1,057,134,0	8,5%	Other imports	4,118,443,0	6,8%
EXPORTS 1994			IMPORTS 1994		
	14,963,265,5	100,0%		59,334,155,3	100,0%
Meat and animal products	590,125,5	3,9%	Food, beverages and tobacco	15,251,739,4	25,7%
Other foods, beverages, tobacco	707,751,4	4,7%	Minerals, chemicals, plastics	8,993,963,8	15,2%
Minerals, chemicals, plastics	4,020,773,5	26,9%	Manufactures	5,499,396,2	9,3%
Manufactures	684,179,6	4,6%	Textiles	4,885,449,9	8,2%
Shoes and other foot wear	3,275,955,2	21,9%	Metals and metal manufactures	2,416,644,2	4,1%
Textiles	2,636,748,6	17,6%	Machinery	11,948,563,6	20,1%
Metals and metal manufactures	651,207,2	4,4%	Transport equipment	6,268,120,6	10,6%
Other exports	2,396,524,5	16,0%	Other imports	4,070,277,5	6,9%

Sources: Statistical Department, Bank of Albania

TABLE 9
FOREIGN TRADE STRUCTURE BY COUNTRIES OF ORIGIN, 1993
(in thousands of Lek)

EXPORTS			IMPORTS		
	12.429.436,0	100,0%		58.995.951,0	100,0%
ITALY	5.124.661,0	41,2%	ITALY	18.745.357,0	31,8%
GREECE	2.237.838,0	18,0%	GREECE	10.397.017,0	17,6%
MACEDONIA	1.397.058,0	11,2%	GERMANY	7.522.146,0	12,8%
BELGIUM	755.501,0	6,1%	FRANCE	5.092.876,0	8,6%
OTHER COUNTRIES OF O.E.C.D.	707.842,0	5,7%	BULGARIA	3.088.809,0	5,2%
GERMANY	535.433,0	4,3%	MACEDONIA	1.954.974,0	3,3%
OTHER COUNTRIES OF ASIA	368.207,0	3,0%	TURKEY	1.776.129,0	3,0%
EASTERN EUROPE	361.401,0	2,9%	SH.B.A.	1.772.178,0	3,0%
FRANCE	219.975,0	1,8%	UNITED KINGDOM	1.534.049,0	2,6%
TURKEY	169.775,0	1,4%	SWITZERLAND	957.650,0	1,6%
SWITZERLAND	156.500,0	1,3%	OTHER COUNTRIES OF		
OTHER COUNTRIES	395.245,0	3,2%	EASTERN EUROPE	774.988,0	1,3%
			BELGIUM	643.708,0	1,1%
			HUNGARY	643.475,0	1,1%
			AUSTRIA	520.422,0	0,9%
			OTHER COUNTRIES	3.572.173,0	6,1%

Sources: Statistical Department, Bank of Albania

SECTION 3

CONDITIONS OF THE COLLATERALISED ZERO COUPON BONDS

The following is the text of the conditions of the Bonds substantially in the form in which it will be endorsed on the Bonds (if issued in definitive form).

The U.S.\$ 225,000,000 Collateralised Zero Coupon Bonds due 2025 (the "**Bonds**") of the Republic of Albania (the "**Issuer**" or "**Albania**") are issued pursuant to a fiscal agency agreement dated 23 August 1995 (the "**Fiscal Agency Agreement**") and made between the Issuer, Union Bank of Switzerland, London branch, as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Bonds), Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds) and Union Bank of Switzerland as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Bonds).

The Bonds are collateralised as to payment of principal in full at maturity to the extent provided in a security trust deed dated 23 August 1995 (the "**Security Trust Deed**") and made between, *inter alia*, the Issuer and The Governor and Company of the Bank of England as security trustee (the "**Security Trustee**", which expression shall include any successor thereto) and agreed to by Union Bank of Switzerland as Fiscal Agent. The Bondholders (as defined in Condition 1.02) are entitled to the benefit of, are bound by and are deemed to have notice of all of the provisions of the Security Trust Deed and of a deed of covenant dated 23 August 1995 (the "**Deed of Covenant**") and entered into by the Issuer with respect to the Bonds.

Each Bondholder will be deemed to have notice of all of the provisions of the Fiscal Agency Agreement, which will be binding upon them.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement and the Security Trust Deed.

Copies of the Fiscal Agency Agreement, the Security Trust Deed and the Deed of Covenant will be available for inspection at the office of each of the Paying Agents and the Registrar specified in accordance with the provisions of the Fiscal Agency Agreement (each a "**Specified Office**").

References herein to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

Capitalised terms used in these Conditions have the meanings given to them in the Fiscal Agency Agreement unless otherwise defined herein.

1. Form, Denomination and Title

1.01 The Bonds do not bear interest, are issued in registered form in amounts of U.S.\$1,000 and higher integral multiples of U.S.\$1.00 (each an "authorised denomination"), are serially numbered, and are transferable in accordance with the provisions of Condition 8.

1.02 The Issuer shall cause to be kept at the Specified Office of the Registrar a register (the "Register") on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds. Title to the Bonds will pass by and upon registration in the Register. In these Conditions, "Bondholder" and "holder" means the person in whose name a Bond is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Bond will (except as otherwise requested by such holder 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 notwithstanding any notice of ownership, trust or any interest therein, any writing thereon by any person (other than a duly executed instrument of transfer thereof in the form available from the Registrar or any Paying Agent) or any notice of any previous theft or loss thereof, and no person will be liable for so treating the holder.

2. Status, Limited Recourse and Covenant of the Issuer

2.01 The Bonds rank and will at all times rank *pari passu* amongst themselves and without any preference one over the other by reason of priority of date of issue or otherwise.

2.02 The Bonds are direct and general obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual performance of all obligations of the Issuer in connection with the Bonds.

2.03 The Issuer represents and warrants that, as at the date of issue of the Bonds, all action has been taken and all requisite conditions precedent have been satisfied so that the Bonds and all the obligations herein contained shall be legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms.

2.04 Except in relation to any Bonds that become due and payable under Condition 7.01 at any time prior to the Bond Maturity Date (as defined in Condition 4.01), the Bondholders shall accept the release or application of the Collateral (as defined in Condition 3.01) in accordance with the Security Trust Deed in complete satisfaction and discharge of the Issuer's obligation to repay the principal amount of the Bonds.

2.05 The Issuer shall not at any time request that the Bonds (either in whole or in part) be (i) rescheduled, refinanced, restructured or subject to any debt relief request, or (ii) used as the basis for a request by the Issuer for any new money or other financial accommodation of whatsoever nature.

3. Security

3.01 Under the Security Trust Deed, the Issuer has agreed that, for so long as any Bond remains outstanding, payment in full to the Bondholders of the principal amount of the Bonds on maturity will be secured by a first priority security interest created by the Issuer over zero coupon

U.S. Treasury bonds (and over certain other U.S. dollar denominated collateral permitted under the Security Trust Deed) and the proceeds thereof (together, the "Collateral"), maturing on or before the Bond Maturity Date (as defined in Condition 4.01 below) and the aggregate face value of which is equal to the aggregate principal amount of the Bonds.

3.02 The Collateral will be held by the Security Trustee for the benefit of the Bondholders pursuant to the terms of the Security Trust Deed.

3.03 Unless the Bonds become due and payable under Condition 7.01 and are unpaid on the Early Redemption Date (as defined in Condition 7.01), the Bondholders will not have recourse to the Collateral until the Bond Maturity Date, at which time the proceeds of the Collateral will be available to pay the full principal amount of the Bonds.

3.04 Unless the Issuer has made available to the Fiscal Agent, prior to the Bond Maturity Date, the full amount required to redeem the Bonds on that date, the Security Trustee shall, pursuant to the Security Trust Deed, cause the proceeds of the Collateral to be remitted to the Fiscal Agent on the Bond Maturity Date for payment to the Bondholders of the principal amount of each Bond.

3.05 The Security Trust Deed contains provisions for the release from time to time of Collateral in certain circumstances. The Security Trustee is not a general trustee for the Bondholders and does not have the same responsibilities or duties to act for the Bondholders as such a trustee would have. Neither the Bank of England, as the initial Security Trustee, nor any successor Security Trustee shall have any obligation hereunder or under the Security Trust Deed to make any payment in respect of any Bond to the holder thereof or to the Fiscal Agent, other than the remittance of the proceeds (if any) of the Collateral to the Fiscal Agent, in accordance with the terms of the Security Trust Deed.

3.06 The rights of the Bondholders and the Security Trustee with respect to the Collateral are governed by the Security Trust Deed.

4. Redemption and Purchase

4.01 Unless previously redeemed under Condition 7.01 or purchased and cancelled, in each case as provided in these Conditions, the principal amount of each Bond will be repaid in full on the Bond Maturity Date. In these Conditions, the "Bond Maturity Date" means 31 August 2025, or, if such date is a business day on which the United States Department of the Treasury, the Federal Reserve Bank of New York and the Bank of England are closed, on the immediately succeeding business day on which the United States Department of the Treasury, the Federal Reserve Bank of New York and the Bank of England are not closed.

4.02 The Issuer may purchase Bonds by tender (available to all Bondholders alike) or in the open market at any price Provided that:

- (i) any Bonds purchased or otherwise acquired by, or on behalf of, the Issuer shall be surrendered forthwith to the Registrar or any Paying Agent and cancelled and may not be reissued or resold; and

- (ii) there is no subsisting Mandatory Redemption Event (as defined in Condition 7.01) relating to the Bonds to be so purchased.

For the avoidance of doubt, none of the above provisions of this Condition 4.02 shall affect any of the obligations of the Issuer in connection with Condition 7.

4.03 In the event of redemption of the Bonds in full pursuant to Condition 7.01 or any purchase of any portion of the Bonds by the Issuer pursuant to this Condition 4, the Issuer may request the release of all of the Collateral or (as the case may be) such portion of the Collateral as corresponds to the portion of the Bonds so purchased, in each case in accordance with the provisions of the Security Trust Deed.

5. Payments

5.01 Payments of principal in respect of the Bonds will be made on the due date against presentation and surrender thereof at the Specified Office of any Paying Agent. All payments of principal in respect thereof shall be made in U.S. dollars to the Bondholder shown on the Register at the close of business on the fifteenth day prior to the relevant date for any such payment and shall be made, at the option of such Bondholder, either by cheque drawn on a bank in New York City and delivered to such Bondholder at the Specified Office of any Paying Agent or mailed to it at its address appearing in the Register or by transfer to such U.S. dollar account maintained by such Bondholder as appears in the Register in relation to the name of such Bondholder, in each case at least fifteen days prior to the relevant date for such payment.

5.02 All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other local laws and regulations applicable thereto, but without prejudice to the provisions of Condition 6.

5.03 If no account is specified or no option is selected by a Bondholder as referred to in Condition 5.01, the related payment shall be made to the account specified by such Bondholder in the last such notice received by the Fiscal Agent. Provided that:

- (i) if no such notice was given, or
- (ii) if no notice has been given in respect of the first payment to which Condition 5.01 applies,

the payment shall be made by U.S. dollar cheque drawn on a bank in New York City and posted to such Bondholder at its address as shown on the Register.

5.04 All payments in respect of the Bonds will be made in such coin or currency of the United States of America as at the time of payment is legal tender therein for the payment of public and private debts.

5.05 If the due date for payment of any amount in respect of any Bond is not a business day at any place of payment, then the Bondholder shall not be entitled to payment at such place of payment of the amount due until the immediately succeeding business day at such place of payment, and shall not be entitled to any further payment in respect of any such delay. In this Condition,

"business day" means any day (other than a Saturday or Sunday) on which banks are open for business in the relevant place of payment and, in the case of payment by transfer to a U.S. dollar account as referred to in this Condition 5, on which dealings in foreign currencies may be carried on both in New York City and in such place of payment.

6. Taxation

6.01 The Issuer will pay or procure the payment of all amounts due from it under the Bonds free and clear of, and without deduction or withholding for or on account of, any and all present or future taxes, levies, assessments, imposts, charges, fees, deductions or withholdings and all liabilities with respect thereto imposed by the Issuer or any political subdivision or taxing authority thereof or therein or any organisation or federation of which the Issuer is at any time a member ("**Albanian Taxes**") unless such deduction or withholding is required by law. Provided, however, that Albanian Taxes shall not include, in the case of any Bondholder, taxes imposed on or measured by its net income or capital by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organisation or federation of which such jurisdiction is at any time a member) under the laws of which such Bondholder is organised or in which the principal place of business is located, including without limitation any jurisdiction in which such Bondholder is, through an office or other fixed place of business, deemed to be doing business or maintaining a permanent establishment for taxation purposes.

6.02 If the Issuer is required to make any deduction or withholding in respect of any Albanian Taxes with respect to any sum payable by it to any Paying Agent or Bondholder, then the sum so payable in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, such person receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which such person would have received and so retained had no such deduction or withholding been made or been required to have been made.

7. Mandatory Redemption

7.01 If any one or more of the following events (each a "**Mandatory Redemption Event**") occurs:

- (i) within 30 days after having received a notice from the Security Trustee requiring it to do so, the Issuer fails to do, fulfil or perform any act, condition or thing to the satisfaction of the Security Trustee which is required in order to ensure that the security over the Collateral (as defined in the Security Trust Deed) is and shall, at all times until the Bond Maturity Date, remain (a) legally valid, binding and enforceable against the Issuer, (b) perfected in all relevant jurisdictions and binding on all relevant third parties and (c) a first priority security interest under English law; or
- (ii) any act, condition or thing required to be done, fulfilled or performed pursuant to any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval or other authority necessary in Albania ("**Albanian Law**") in order (a) to enable the Issuer lawfully to enter into, exercise its rights under and perform the obligations expressed to be assumed by it in these Conditions, the Security Trust Deed, the Fiscal Agency Agreement or the Deed of Covenant (together, the

"Documents") or (b) to ensure that the obligations expressed to be assumed by the Issuer in the Documents are legal, valid and binding under Albanian Law is not done, fulfilled or performed and such failure materially affects the ability of the Issuer under Albanian Law to perform its payment obligations under the Documents,

then at any time thereafter the Fiscal Agent shall, upon receipt of written requests to the Issuer at the Specified Office of the Fiscal Agent (each an "Acceleration Request") from holders of Bonds representing not less than 25 per cent. of the principal amount of the Bonds then outstanding, demand by notice in writing to the Issuer (an "Acceleration Notice") repayment of the Bonds, whereupon the same shall become due and payable, at their Redemption Price (together with all other amounts payable in respect thereof), on the date (the "Early Redemption Date") which is five business days after that on which the Acceleration Notice is given Provided that:

- (1) an Acceleration Notice may not be given in relation to any such event which is no longer continuing or has been remedied in a manner satisfactory to holders of Bonds representing not less than 50 per cent. of the principal amount of the Bonds then outstanding, as indicated by written notices withdrawing and annulling any previous Acceleration Requests and given by such Bondholders to the Fiscal Agent at its Specified Office; and
- (2) after an Acceleration Notice has been given, if all amounts then due and payable in respect of the Bonds (other than those amounts due solely as a result of the demand contained in such notice) are paid and all other Mandatory Redemption Events are cured, such Acceleration Notice may be withdrawn and annulled by written notice to the Issuer from the Fiscal Agent evidencing receipt by the Fiscal Agent at its Specified Office of notices requiring withdrawal and annulment of such Acceleration Notice from holders of Bonds representing not less than 50 per cent. of the principal amount of the Bonds then outstanding.

7.02 The Fiscal Agent shall promptly give notice in writing to the Issuer and the Security Trustee of any Acceleration Request or notices from Bondholders which are received by it as provided in Condition 7.01, and shall give notice to the Bondholders and the Security Trustee of the giving of any Acceleration Notice or any withdrawal or annulment thereof.

7.03 In this Condition 7:

"business day" means a day (other than a Saturday or Sunday) on which banks are open for business in London and New York City; and

"Redemption Price" means at any time in relation to the Bonds (net of the costs and expenses, if any, incurred by the Security Trustee for the account of the Issuer in dispensing of such Collateral): (i) if and to the extent that at such time the Collateral is or was most recently comprised of zero coupon U.S. Treasury bonds, the highest bid price quoted to the Security Trustee by three recognised market makers in U.S. Treasury securities selected by the Security Trustee, at or about 4.00 p.m. (London time) on the business day following the date on which any Acceleration Notice is given for settlement on the business day immediately preceding the Early Redemption Date, for zero coupon U.S. Treasury bonds having the same maturity date and face amount as those which then comprise or previously comprised the Collateral; and/or (ii) if and to the extent that at such

time the Collateral is or was most recently comprised of other property (whether securities, cash or otherwise), the aggregate realisable market value in U.S. dollars of such property, for settlement on or prior to the business day immediately preceding the Early Redemption Date, as determined by the Security Trustee on the second business day following the date on which any Acceleration Notice is given following consultation with such banks, brokers or market makers (or by such other methods) as the Security Trustee shall select.

7.04 No delay or omission of the holders of Bonds to exercise any right or remedy accruing upon any Mandatory Redemption Event shall impair any such right or remedy or constitute a waiver of any such Mandatory Redemption Event or an acquiescence therein. Every right and remedy given in these Conditions or by law to the holders of Bonds may be exercised from time to time, and as often as may be deemed expedient, by such holders.

8. Transfer of Bonds

8.01 Subject to the relevant provisions of the Fiscal Agency Agreement and applicable law, the Bonds are transferable in whole or in part in an authorised denomination by delivery to the Registrar or any Paying Agent at its Specified Office of the Bond and an instrument of transfer executed by the transferor.

8.02 The Bond and the instrument of transfer must be delivered to the Registrar or any Paying Agent at its Specified Office accompanied by:

- (i) such evidence as the Registrar or such Paying Agent may reasonably require to prove the title of the transferor and the authority of the person (or persons) or those of its officers who executed the instrument of transfer on its behalf; and
- (ii) such other documents or agreements (including, without limitation, a signature guarantee) as the Registrar or such Paying Agent may from time to time require.

8.03 Upon receipt by the Registrar or any Paying Agent of a request to effect a transfer of a Bond together with the Bond and the documents specified in Condition 8.02 (and subject as provided in Condition 8.01), the Registrar shall make a notation on the Register recording such transfer and shall, within five business days (as defined in Condition 7.03) thereafter, deliver at its Specified Office or at the Specified Office of the relevant Paying Agent, or despatch by mail to the transferee (at the risk and expense of the transferee) to such address as the transferee may request, a new Bond or new Bonds, as the case may be, of a like aggregate principal amount. In the case of a transfer of part only of the Bonds held by a Bondholder, both the part transferred and the balance not transferred must be in an authorised denomination and a new Bond in respect of the balance not so transferred will be issued to the transferor.

8.04 The Issuer, the Paying Agents and the Registrar shall (except in the case of the issue of replacement Bonds) make no charge to the Bondholders for the registration of any holding of a Bond or any transfer thereof or for the issue of any Bond or for the delivery of Bonds at the Specified Office of the Registrar or any Paying Agent.

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

8.06 All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be sent by the Registrar or any Paying Agent to any Bondholder who so requests.

9. Replacement of Bonds

9.01 If any Bond at any time becomes mutilated, defaced, destroyed, stolen or lost, upon provision of evidence satisfactory to the Issuer that such Bond (if such was the case) was destroyed, stolen or lost, together with such indemnity or security as the Issuer, the Registrar and/or the relevant Paying Agent may reasonably require and upon payment of such amount as the Registrar and/or the relevant Paying Agent shall certify as the reasonable cost incurred in connection therewith, the Issuer shall execute and cause the delivery by the Registrar and/or the relevant Paying Agent (on behalf of the Issuer) of a replacement Bond in an amount equal to and on the same terms as that replaced. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

9.02 The replacement of Bonds under Condition 9.01 shall be governed by the provisions of the Fiscal Agency Agreement and will be subject to compliance with such procedures as may be required by any applicable law and stock exchange requirements.

10. Notices

10.01 All notices to the Bondholders regarding the Bonds will be valid if published in one leading English language daily newspaper with circulation in London and, so long as the Bonds are listed on the Luxembourg Stock Exchange, in one leading daily newspaper in Luxembourg. It is expected that publication of notices will normally be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the earliest date when such publication has first been made. If publication is not practicable in such newspaper, notice will be validly given if published in an English language daily newspaper with general circulation in Europe or may be made directly to the Bondholders at their addresses specified in the Register instead of published as above. Any notice to the Issuer or the Fiscal Agent shall be given to it at the Specified Office of the Fiscal Agent for the time being. Any notice to the Registrar shall be given to it at its Specified Office for the time being.

10.02 A copy of each notice given in accordance with Condition 10.01 shall also be given in writing to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System, Cedel Bank, société anonyme and any additional or successor clearing systems which may be relevant.

11. Modifications

11.01 The Fiscal Agent may agree, without the consent of the Bondholders, (i) to any modification of these Conditions which is necessary to correct a manifest error or (ii) to any modification of the Fiscal Agency Agreement which in its opinion is not materially prejudicial to the interests of the Bondholders or is necessary for the purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein.

11.02 Any modification of these Conditions or the Fiscal Agency Agreement duly effected pursuant to this Condition 11 shall be binding on all Bondholders and the Issuer shall cause notice of any such modification to be given promptly to the Bondholders.

12. Prescription

Claims against the Issuer for amounts payable in respect of the Bonds will be void upon the expiry of six years from the Relevant Date relating thereto. In this Condition, the "**Relevant Date**" in relation to any payment means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount of the moneys payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which the full amount of such moneys having been so received, notice to that effect shall have been duly published in accordance with Condition 10.

13. Fiscal Agent, Paying Agents and Registrar

13.01 The names of the initial Fiscal Agent, Paying Agent and Registrar and their respective Specified Offices are set out at the end of the Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any Paying Agent or the Registrar and to appoint another fiscal agent, paying agent, registrar and/or additional paying agents Provided that the Issuer will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) so long as the Bonds are listed on the Luxembourg Stock Exchange, a Paying Agent (which may be the Fiscal Agent) having a Specified Office in Luxembourg.

13.02 Notice of any variation, appointment or termination of appointment and of any changes in the Specified Offices of the Fiscal Agent, any Paying Agent or the Registrar will be published in accordance with Condition 10.

14. Governing Law and Jurisdiction

14.01 The Bonds are governed by, and shall be construed in accordance with, English law.

14.02 The Issuer agrees for the benefit of the Bondholders that any legal action or proceedings arising out of or in connection with any of the Bonds may be brought in the High Court of Justice in England or the United States District Court for the Southern District of New York and any appellate court therefrom and for such purposes irrevocably submits to the jurisdiction of each such court and hereby irrevocably designates, appoints and empowers:

- (i) Legibus Secretaries Limited, presently of 200 Aldersgate Street, London EC1A 4JJ, England, to receive, for it and on its behalf, service of process issued out of the High Court of Justice in England in any legal action or proceedings arising out of or in connection with the Bonds; and
- (ii) CT Corporation System, presently of 1633 Broadway, New York, N.Y. 10019, U.S.A., as its authorised agent to accept and acknowledge, for it and on its behalf, service of process issued out of the United States District Court for the Southern District of New York and any appellate court therefrom in

any legal action or proceedings arising out of or in connection with the Bonds.

14.03 Nothing in this Condition 14 shall affect the right of any Bondholder to serve any writ, judgment or other notice of legal process in any other manner permitted by applicable law.

14.04 The submission to the said jurisdictions shall not (and shall not be construed so as to) limit the right of any Bondholders to take proceedings against the Issuer in whatsoever jurisdictions shall to them or it seem fit, nor shall the taking of proceedings in any one or more such jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not, if and to the extent permitted by applicable law.

14.05 The Issuer hereby consents generally for the purposes of the State Immunity Act 1978 in respect of any legal action or proceedings arising out of or in connection with the Bonds to the giving of any relief or the issue of any process in connection with such action or 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 action or proceedings.

14.06 To the extent that the Issuer may in respect of any legal action or proceedings arising out of or in connection with the Bonds be entitled to claim for itself or its assets immunity from suit, from the jurisdiction of any court (including the courts referred to in Condition 14.02), execution, attachment (whether in aid of execution of a judgment, before judgment or otherwise) or any other relief or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent now or hereafter permitted by the laws of the jurisdiction in which such legal action or proceedings may be commenced.

14.07 The designations and appointments made in Condition 14.02 shall, to the fullest extent permitted by law, be irrevocable until all principal and other amounts payable by the Issuer under the Bonds shall have been paid in full in accordance with the Conditions, but if either of the persons appointed in Condition 14.02 shall cease to act as the agent of the Issuer for the service of process the Issuer shall without delay appoint another such agent satisfactory to the Fiscal Agent, shall promptly notify the Bondholders thereof in accordance with Condition 10 and shall promptly deliver to the Fiscal Agent evidence in writing of such other Agent's acceptance of such appointment. With respect to any such designation and appointment (whether made now or at any time hereafter), the Issuer hereby irrevocably waives any immunity or privilege to which the person or officer so designated and appointed may now or at any time be entitled.

14.08 The Issuer irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any court referred to in Condition 14.02 and any claim that any such suit, action or proceedings brought in any such court has been brought in an inconvenient or inappropriate forum.

14.09 The Issuer agrees that a final judgment in any suit, action or proceedings of the nature referred to in Condition 14.02 brought in any such court shall be conclusive and binding upon it and may be enforced in the High Court of Justice in England, the Courts of the United States of America

and, to the extent permitted by applicable law, in Albania (or any other courts to the jurisdiction of which the Issuer is or may be subject) by a suit upon such judgment Provided that service of process in connection with any such suit, action or proceeding shall have been effected upon the Issuer in one of the manners specified in Condition 14.02 or as otherwise permitted by applicable law.

SECTION 4

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Bond contains provisions which apply to the Bonds represented thereby while they are in global form, some of which modify the effects of the Conditions of the Bonds set out in this Information Memorandum. The following is a summary of certain of these provisions:

1. Exchange

The Issuer undertakes to the registered holder to exchange beneficial interests in the Global Bond without charge in whole (but not in part only) for Definitive Bonds and to instruct the Registrar to issue and deliver, in full exchange for such beneficial interests in the Global Bond, such Definitive Bonds in an aggregate principal amount equal to the aggregate principal amount of the beneficial interest in the Global Bond (a) if the Bonds become immediately due and repayable by reason of the occurrence of a Mandatory Redemption Event or (b) in circumstances where either Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") or Cedel Bank, société anonyme ("Cedel") 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 (c) at the election of the Issuer, if, as a result of any amendment to, or change in, the laws or regulations of the Republic of Albania (or of any political sub-division thereof) or of any taxing authority therein or thereof following the interpretation or administration of such laws or regulations which become effective on or after 31 August 1995, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of any of the Bonds which would not be required were the relevant Bonds in definitive form.

2. Payments

Payments of principal in respect of the Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds represented thereby, surrender of the Global Bond to or to the order of the Registrar or such other Paying Agent as shall be notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds.

3. Redemption and Purchase

Each Bond called for redemption pursuant to Condition 7.01 shall become due and payable at the Redemption Price on the Early Redemption Date (as defined in Condition 7.01) upon presentation and endorsement of the relevant schedule to the Global Bond. After payment of the Redemption Price, the Global Bond will be cancelled. If the Issuer shall purchase or otherwise acquire any beneficial interest in the Global Bond, the Issuer shall forthwith request the Registrar to cancel such beneficial interest and direct the Common Depositary to reflect such cancellation of such beneficial interest in the schedule to such Global Bond in accordance with the terms of the Bond Fiscal Agency Agreement.

4. Transfer of Bonds

While the Bonds are in global form, beneficial interests therein may be transferred in amounts of U.S.\$1,000 and higher integral multiples of U.S.\$1.00 and otherwise in accordance with the rules of Euroclear and Cedel.

SECTION 5

CONDITIONS OF THE NOTES

The following is the text of the conditions of the Notes substantially in the form in which it will be endorsed on the Notes (if issued in definitive form).

The U.S.\$ 33,750,000 Income Notes due 2025 (the "**Notes**") of the Republic of Albania (the "**Issuer**" or "**Albania**") are issued pursuant to a fiscal agency agreement dated 23 August 1995 (the "**Fiscal Agency Agreement**") and made between the Issuer, Union Bank of Switzerland, London branch, as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Union de Banques Suisses (Luxembourg) S.A. and Union Bank of Switzerland as paying agents (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and Union Bank of Switzerland as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes).

The holder of each Note is entitled to an amount equal to its Relevant Proportion of the amount of any distribution (each a "**Fund Distribution**") made from time to time in respect of an income fund (the "**Fund**") known as "The Albanian Income Fund Trust" and established in the Commonwealth of The Bahamas under a declaration of trust dated 23 August 1995 (the "**Declaration of Trust**") by Handelsfinanz - CCF Bank International Limited as trustee (the "**Fund Trustee**"). Investment advice to the Fund Trustee in relation to the investment management of the Fund will be provided by Finely (the "**Investment Adviser**") pursuant to an investment advisory agreement dated 23 August 1995 (the "**Investment Advisory Agreement**") between the Fund Trustee and the Investment Adviser.

In these Conditions, "**Relevant Proportion**" means, in relation to any Note or Noteholder at any time, the proportion which the face value of the relevant Note bears to the aggregate face value of all Notes outstanding at such time.

The Notes are collateralised as to payment to each Noteholder of an amount equal to its Relevant Proportion of each Fund Distribution to the extent provided in the security trust deed dated 23 August 1995 (the "**Security Trust Deed**") and made between the Issuer and The Governor and Company of the Bank of England as security trustee (the "**Security Trustee**", which expression shall include any successor thereto) and agreed to by Union Bank of Switzerland, London branch, as Fiscal Agent. The Noteholders (as defined in Condition 1.02) are entitled to the benefit of, are bound by and are deemed to have notice of all of the provisions of the Security Trust Deed and of a deed of covenant dated 23 August 1995 (the "**Deed of Covenant**") and entered into by the Issuer with respect to the Notes.

Each Noteholder will be deemed to have notice of all of the provisions of the Fiscal Agency Agreement, which will be binding upon them.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement, the Security Trust Deed, the Deed of Covenant, the Declaration of Trust and the Investment Advisory Agreement.

Copies of the Fiscal Agency Agreement, the Security Trust Deed, the Deed of Covenant, the Declaration of Trust, the Investment Advisory Agreement and any periodic reports issued by the Investment Adviser on the performance of the Fund which are received will be available for inspection at the office of each of the Paying Agents and the Registrar specified in accordance with the provisions of the Fiscal Agency Agreement (each a "**Specified Office**").

References herein to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

Capitalised terms used in these Conditions have the meanings given to them in the Fiscal Agency Agreement unless otherwise defined herein.

1. Form, Denomination and Title

1.01 The Notes do not bear interest, are issued in registered form with face values of U.S.\$1,000 and higher integral multiples of U.S.\$1.00 (each an "**authorised denomination**"), are serially numbered, and are transferable in accordance with the provisions of Condition 8.

1.02 The Issuer shall cause to be kept at the Specified Office of the Registrar a register (the "**Register**") on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers of Notes. Title to the Notes will pass by and upon registration in the Register. In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Note will (except as otherwise requested by such holder 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 notwithstanding any notice of ownership, trust or any interest therein, any writing thereon by any person (other than a duly executed instrument of transfer thereof in the form available from the Registrar or any Paying Agent) or any notice of any previous theft or loss thereof, and no person shall have any liabilities to any third party for so treating the holder.

2. Status, Limited Recourse and Covenant of the Issuer

2.01 The Notes rank and will at all times rank *pari passu* amongst themselves and without any preference one over the other by reason of priority of date of issue or otherwise.

2.02 The Notes are direct and general obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual performance of all obligations of the Issuer in connection with the Notes.

2.03 The Issuer represents and warrants that, as at the date of issue of the Notes, all action has been taken and all requisite conditions precedent have been satisfied so that the Notes and all the obligations herein contained shall be legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms.

2.04 Except in relation to any Notes that become due and payable under Condition 7.01 at any time prior to the Final Distribution Date (as defined in Condition 4.01), the Noteholders shall accept the release or application of the Collateral (as defined in Condition 3.01) in accordance with the Security

Trust Deed in complete satisfaction and discharge of the Issuer's payment obligations in respect of the Notes.

2.05 The Issuer shall not at any time request that the Notes (either in whole or in part) be (i) rescheduled, refinanced, restructured or subject to any debt relief request, or (ii) used as the basis for a request by the Issuer for any new money or other financial accommodation of whatsoever nature.

3. Security

3.01 Under the Security Trust Deed, the Issuer has agreed that, for so long as any Note remains outstanding, payment in full to the Noteholders of an amount equal to each Fund Distribution will be secured by a first priority security interest created by the Issuer over its entire undivided beneficial interest in the Fund (the "Collateral"). The assets of the Fund will be managed in accordance with the terms of the Declaration of Trust and the Investment Advisory Agreement with the aim of generating distributions at the rates specified in the Declaration of Trust.

No guarantee or assurance of return can be given by the Issuer, the Security Trustee, the Fund Trustee or the Investment Adviser in relation to the performance of the Fund or the amount or frequency of any Fund Distributions.

3.02 The Collateral will be held by the Security Trustee for the benefit of the Noteholders pursuant to the terms of the Security Trust Deed.

3.03 Unless the Notes become due and payable under Condition 7.01 and are unpaid on the Early Redemption Date (as defined in Condition 7.01), the Noteholders will not have access to the Collateral until the Final Distribution Date, at which time the Fund will be liquidated and the proceeds thereof will be distributed to the Fiscal Agent.

3.04 Pursuant to the Security Trust Deed, the Security Trustee shall cause any sums distributed by the Fund from time to time (including the proceeds of the liquidation of the Fund) to be remitted to the Fiscal Agent for payment to the Noteholders in their respective Relevant Proportions.

3.05 The Security Trust Deed contains provisions for the release from time to time of Collateral in certain circumstances. The Security Trustee is not a general trustee for the Noteholders and does not have the same responsibilities or duties to act for the Noteholders as such a trustee would have. Neither The Governor and Company of the Bank of England, as the initial Security Trustee, nor any successor Security Trustee shall have any obligation hereunder or under the Security Trust Deed to make any payment in respect of any Note to the holder thereof or to the Fiscal Agent, other than the remittance of a sum equal to the amount of each Fund Distribution (if any) and the proceeds (if any) of the Collateral to the Fiscal Agent in accordance with the terms of the Security Trust Deed.

3.06 The rights of the Noteholders and the Security Trustee with respect to the Collateral are governed by the Security Trust Deed.

4. Liquidation of the Fund, Redemption and Purchase of Notes

4.01 The Declaration of Trust provides that the then remaining assets of the Fund will be liquidated and an amount equal to the proceeds of liquidation (if any) will be distributed on the Final Distribution Date. In these Conditions, "Final Distribution Date" means 31 August 2025 or, if that date is not a business day (as defined in Condition 7.03), the immediately succeeding date which is a business day.

4.02 The Issuer may purchase Notes by tender (available to all Noteholders alike) or in the open market at any price Provided that:

- (i) any Notes purchased or otherwise acquired by, or on behalf of, the Issuer shall be surrendered forthwith to the Registrar or any Paying Agent and cancelled and may not be reissued or resold; and
- (ii) there is no subsisting Mandatory Redemption Event (as defined in Condition 7.01) relating to the Notes to be so purchased.

For the avoidance of doubt, none of the above provisions of this Condition 4.02 shall affect any of the obligations of the Issuer in connection with Condition 7.

4.03 In the event of redemption of the Notes in full pursuant to Condition 7.01 or any purchase of any portion of the Notes by the Issuer pursuant to this Condition 4, the Issuer may request the release of all of the Collateral or (as the case may be) such portion of the Collateral as corresponds to the portion of the Notes so purchased, in each case in accordance with the provisions of the Security Trust Deed.

5. Payments

5.01 All payments in respect of the Notes will be made in U.S. dollars to the Noteholder shown on the Register at the close of business on the fifteenth day prior to the relevant date for any such payment and shall be made, at the option of such Noteholder, by cheque drawn on a bank in New York City and delivered to such Noteholder at the Specified Office of any Paying Agent or mailed to it at its address appearing in the Register or by transfer to such U.S. dollar account maintained by such Noteholder as appears in the Register in relation to the name of such Noteholder, in each case at least fifteen days prior to the relevant date for such payment, save that any payment made to the Noteholders on or after the Final Distribution Date shall be made against presentation and surrender of the Notes at the Specified Office of any Paying Agent.

5.02 All payments in respect of the Notes are subject in all cases to any applicable fiscal or other local laws and regulations applicable thereto, but without prejudice to the provisions of Condition 6.

5.03 If no account is specified or no option is selected by a Noteholder as referred to in Condition 5.01, the related payment shall be made to the account specified by such Noteholder in the last such notice received by the Fiscal Agent Provided that:

- (i) if no such notice was given, or

- (ii) if no notice has been given in respect of the first payment to which Condition 5.01 applies,

the payment shall be made by U.S. dollar cheque drawn on a bank in New York City and posted to such Noteholder at its address as shown on the Register.

5.04 All payments in respect of the Notes will be made in such coin or currency of the United States of America as at the time of payment is legal tender therein for the payment of public and private debts.

5.05 If the due date for payment of any amount in respect of any Note is not a business day at any place of payment, then the Noteholder shall not be entitled to payment at such place of payment of the amount due until the immediately succeeding business day at such place of payment, and shall not be entitled to any further payment in respect of any such delay. In this Condition, "**business day**" means any day (other than a Saturday or Sunday) on which banks are open for business in the relevant place of payment and, in the case of payment by transfer to a U.S. dollar account as referred to in this Condition 5, on which dealings in foreign currencies may be carried on both in New York City and in such place of payment.

6. Taxation

6.01 The Issuer will pay or procure the payment of all amounts due from it under the Notes free and clear of, and without deduction or withholding for or on account of, any and all present or future taxes, levies, assessments, imposts, charges, fees, deductions or withholdings imposed by the Issuer or any political subdivision or taxing authority thereof or therein or any organisation or federation of which the Issuer is at any time a member ("**Albanian Taxes**"), unless such deduction or withholding is required by law. Provided, however, that Albanian Taxes shall not include, in the case of any Noteholder, taxes imposed on or measured by its net income or capital by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organisation or federation of which such jurisdiction is at any time a member) under the laws of which such Noteholder is organised or in which the principal place of business is located, including without limitation any jurisdiction in which such Noteholder is, through an office or other fixed place of business, deemed to be doing business or maintaining a permanent establishment for taxation purposes.

6.02 If the Issuer is required to make any deduction or withholding in respect of any Albanian Taxes with respect to any sum payable by it to any Paying Agent or Noteholder, then the sum so payable in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, such person receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which such person would have received and so retained had no such deduction or withholding been or been required to have been made.

7. Mandatory Redemption

7.01 If any one or more of the following events (each a "**Mandatory Redemption Event**") occurs:

- (i) within 30 days after having received a notice from the Security Trustee requiring it to do so, the Issuer fails to do, fulfil or perform any act, condition or thing to the

satisfaction of the Security Trustee which is required in order to ensure that the security over the Collateral (as that term is defined in the Security Trust Deed) is and shall, at all times until the Final Distribution Date, remain (a) legally valid, binding and enforceable against the Issuer, (b) perfected in all relevant jurisdictions and binding on all relevant third parties and (c) a first priority security interest under English law; or

- (ii) any act, condition or thing required to be done, fulfilled or performed pursuant to any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval or other authority necessary in Albania ("**Albanian Law**") in order (a) to enable the Issuer lawfully to enter into, exercise its rights under and perform the obligations expressed to be assumed by it in these Conditions, the Security Trust Deed, the Fiscal Agency Agreement or the Deed of Covenant (together, the "**Documents**") or (b) to ensure that the obligations expressed to be assumed by the Issuer in the Documents are legal, valid and binding under Albanian Law is not done, fulfilled or performed and such failure materially affects the ability of the Issuer under Albanian Law to perform its payment obligations under the Documents,

then at any time thereafter the Fiscal Agent shall, upon receipt of written requests to the Issuer at the Specified Office of the Fiscal Agent (each an "**Acceleration Request**") from holders of Notes representing not less than 25 per cent. of the face values of the Notes then outstanding, demand by notice in writing to the Issuer (an "**Acceleration Notice**") repayment of the Notes, whereupon the same shall become due and payable, at their Redemption Price (together with all other amounts payable in respect thereof), on the date (the "**Early Redemption Date**") which is five business days after that on which the Acceleration Notice is given Provided that:

- (1) an Acceleration Notice may not be given in relation to any such event which is no longer continuing or has been remedied in a manner satisfactory to holders of Notes representing not less than 50 per cent. of the face values of the Notes then outstanding, as indicated by written notices withdrawing and annulling any previous Acceleration Requests and given by such Noteholders to the Fiscal Agent at its Specified Office; and
- (2) after an Acceleration Notice has been given, if all amounts then due and payable with respect to the Notes (other than those amounts due solely as a result of the demand contained in such notice) are paid and all other Mandatory Redemption Events are cured, such Acceleration Notice may be withdrawn and annulled by written notice to the Issuer from the Fiscal Agent evidencing receipt by the Fiscal Agent at its Specified Office of notices requiring withdrawal and annulment of such Acceleration Notice from holders of Notes representing not less than 50 per cent. of the face values of the Notes then outstanding.

7.02 The Fiscal Agent shall promptly give notice in writing to the Issuer and the Security Trustee of any Acceleration Request or notices from Noteholders which are received by it as provided in Condition 7.01, and shall give notice to the Noteholders and the Security Trustee of the giving of any Acceleration Notice or any withdrawal or annulment thereof.

7.03 In this Condition 7:

"business day" means a day (other than a Saturday or Sunday) on which banks are open for business in London and New York City; and

"Redemption Price" means, at any time in relation to the Notes, the aggregate realisable market value in U.S. dollars (net of the costs and expenses, if any, incurred by the Security Trustee for the account of the Issuer in disposing of such Collateral) of (i) whichever is the higher of (a) the realisable market value of the Fund, and (b) the realisable market value of the assets comprising the Fund or (ii) if the Early Redemption Date occurs after the liquidation of the Fund or the sale of the Issuer's beneficial interest therein, the proceeds of such liquidation or sale, for settlement (in each case) on or prior to the business day immediately preceding the Early Redemption Date, as determined by the Security Trustee on the second business day following the date on which any Acceleration Notice is given, following consultation with such banks, brokers or market makers (or by such other methods) as the Security Trustee shall select.

7.04 No delay or omission of the holders of Notes to exercise any right or remedy accruing upon any Mandatory Redemption Event shall impair any such right or remedy or constitute a waiver of any such Mandatory Redemption Event or an acquiescence therein. Every right and remedy given in these Conditions or by law to the holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by such holders.

8. Transfer of Notes

8.01 Subject to the relevant provisions of the Fiscal Agency Agreement and applicable law, the Notes are transferable in whole or in part in an authorised denomination by delivery to the Registrar or any Paying Agent at its Specified Office of the Note and an instrument of transfer executed by the transferor.

8.02 The Note and the instrument of transfer must be delivered to the Registrar or any Paying Agent at its Specified Office accompanied by:

- (i) such evidence as the Registrar or such Paying Agent may reasonably require to prove the title of the transferor and the authority of the person (or persons) or those of its officers who executed the instrument of transfer on its behalf; and
- (ii) such other documents or agreements (including, without limitation, a signature guarantee) as the Registrar or such Paying Agent may from time to time require.

8.03 Upon receipt by the Registrar or any Paying Agent of a request to effect a transfer of a Note together with the Note and the documents specified in Condition 8.02 (and subject as provided in Condition 8.01), the Registrar shall make a notation on the Register recording such transfer and shall, within five business days (as defined in Condition 7.03) thereafter, deliver at its Specified Office or at the Specified Office of the relevant Paying Agent, or despatch by mail to the transferee (at the risk and expense of the transferee) to such address as the transferee may request, a new Note or new Notes, as the case may be, of a like aggregate face value. In the case of a transfer of part only of the Notes held by a Noteholder, both the part transferred and the balance not transferred must be in

an authorised denomination and a new Note in respect of the balance not so transferred will be issued to the transferor.

8.04 The Issuer, the Paying Agents and the Registrar shall (except in the case of the issue of replacement Notes) make no charge to the Noteholders for the registration of any holding of a Note or any transfer thereof or for the issue of any Note or for the delivery of Notes at the Specified Office of the Registrar or any Paying Agent.

8.05 No Noteholder may request the transfer of a Note to be registered during the period of 15 calendar days ending on the due date for any payment in respect of such Note.

8.06 All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be sent by the Registrar or any Paying Agent to any Noteholder who so requests.

9. Replacement of Notes

9.01 If any Note at any time becomes mutilated, defaced, destroyed, stolen or lost, upon provision of evidence satisfactory to the Issuer that such Note (if such was the case) was destroyed, stolen or lost, together with such indemnity or security as the Issuer, the Registrar and/or the relevant Paying Agent may reasonably require and upon payment of such amount as the Registrar and/or the relevant Paying Agent shall certify as the reasonable cost incurred in connection therewith, the Issuer shall execute and cause the delivery by the Registrar and/or the relevant Paying Agent (on behalf of the Issuer) of a replacement Note in an amount equal to and on the same terms as that replaced. Mutilated or defaced Notes must be surrendered before replacements will be issued.

9.02 The replacement of Notes under Condition 9.01 shall be governed by the provisions of the Fiscal Agency Agreement and will be subject to compliance with such procedures as may be required by any applicable law and stock exchange requirements.

10. Notices

10.01 All notices to the Noteholders regarding the Notes will be valid if published in one leading English language daily newspaper with circulation in London and, so long as the Notes are listed on the Luxembourg Stock Exchange, in one leading daily newspaper in Luxembourg. It is expected that publication of notices will normally be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the earliest date when such publication has first been made. If publication is not practicable in such newspaper, notice will be validly given if published in an English language daily newspaper with general circulation in Europe or may be made directly to the Noteholders at their addresses specified in the Register instead of published as above. Any notice to the Issuer, the Fiscal Agent or any Paying Agent shall be given to it at the Specified Office of the Fiscal Agent for the time being. Any notice to the Registrar shall be given to it at its Specified Office for the time being.

10.02 A copy of each notice given in accordance with Condition 10.01 shall also be given in writing to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System, Cedel Bank, société anonyme and any additional or successor clearing systems which may be relevant.

11. Modifications

11.01 The Fiscal Agent may agree, without the consent of the Noteholders, (i) to any modification of these Conditions which is necessary to correct a manifest error or (ii) to any modification of the Fiscal Agency Agreement which in its opinion is not materially prejudicial to the interests of the Noteholders or is necessary for the purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein.

11.02 Any modification of these Conditions or the Fiscal Agency Agreement duly effected pursuant to this Condition 11 shall be binding on all Noteholders and the Issuer shall cause notice of any such modification to be given promptly to the Noteholders.

12. Prescription

Claims against the Issuer for amounts payable in respect of the Notes will be void upon the expiry of six years from the Relevant Date relating thereto. In this Condition, the "**Relevant Date**" in relation to any payment means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount of the moneys payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which the full amount of such moneys having been so received, notice to that effect shall have been duly published in accordance with Condition 10.

13. Fiscal Agent, Paying Agents and Registrar

13.01 The names of the initial Fiscal Agent, Paying Agents and Registrar and their respective Specified Offices are set out at the end of the Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any Paying Agent or the Registrar and to appoint another fiscal agent, paying agent, registrar and/or additional paying agents Provided that the Issuer will maintain (i) a Fiscal Agent, (ii) a Registrar and (iii) so long as the Notes are listed on the Luxembourg Stock Exchange, a Paying Agent (which may be the Fiscal Agent) having its Specified Office in Luxembourg.

13.02 Notice of any variation, appointment or termination of appointment and of any changes in the Specified Offices of the Fiscal Agent, any Paying Agent or the Registrar will be published in accordance with Condition 10.

14. Governing Law and Jurisdiction

14.01 The Notes are governed by, and shall be construed in accordance with, English law.

14.02 The Issuer agrees for the benefit of the Noteholders that any legal action or proceedings arising out of or in connection with any of the Notes may be brought in the High Court of Justice in England or the United States District Court for the Southern District of New York and any appellate

court therefrom and for such purposes irrevocably submits to the jurisdiction of each such court and hereby irrevocably designates, appoints and empowers:

- (i) Legibus Secretaries Limited, presently of 200 Aldersgate Street, London EC1A 4JJ, England, to receive, for it and on its behalf, service of process issued out of the High Court of Justice in England in any legal action or proceedings arising out of or in connection with the Notes; and
- (ii) CT Corporation System, presently of 1633 Broadway, New York, N.Y. 10019, U.S.A., as its authorised agent to accept and acknowledge, for it and on its behalf, service of process issued out of the United States District Court for the Southern District of New York and any appellate court therefrom in any legal action or proceedings arising out of or in connection with the Notes.

14.03 Nothing in this Condition 14 shall affect the right of any Noteholder to serve any writ, judgment or other notice of legal process in any other manner permitted by applicable law.

14.04 The submission to the said jurisdictions shall not (and shall not be construed so as to) limit the right of any Noteholders to take proceedings against the Issuer in whatsoever jurisdictions shall to them or it seem fit, nor shall the taking of proceedings in any one or more such jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not, if and to the extent permitted by applicable law.

14.05 The Issuer hereby consents generally for the purposes of the State Immunity Act 1978 in respect of any legal action or proceedings arising out of or in connection with the Notes to the giving of any relief or the issue of any process in connection with such action or 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 action or proceedings.

14.06 To the extent that the Issuer may in respect of any legal action or proceedings arising out of or in connection with the Notes be entitled to claim for itself or its assets immunity from suit, from the jurisdiction of any court (including the courts referred to in Condition 14.02), execution, attachment (whether in aid of execution of a judgment, before judgment or otherwise) or any other relief or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent now or hereafter permitted by the laws of the jurisdiction in which such legal action or proceedings may be commenced.

14.07 The designations and appointments made in Condition 14.02 shall, to the fullest extent permitted by law, be irrevocable until all amounts payable by the Issuer under the Notes shall have been paid in full in accordance with the provisions hereof, but if either of the persons appointed in Condition 14.02 shall cease to act as the agent of the Issuer for the service of process the Issuer shall without delay appoint another such agent satisfactory to the Fiscal Agent, shall promptly notify the Noteholders thereof in accordance with Condition 10 and shall promptly deliver to the Fiscal Agent evidence in writing of such other Agent's acceptance of such appointment. With respect to any such designation and appointment (whether made now or at any time hereafter), the Issuer hereby

irrevocably waives any immunity or privilege to which the person or officer so designated and appointed may now or at any time be entitled.

14.08 The Issuer irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any court referred to in Condition 14.02 and any claim that any such suit, action or proceedings brought in any such court has been brought in an inconvenient or inappropriate forum.

14.09 The Issuer agrees that a final judgment in any suit, action or proceedings of the nature referred to in Condition 14.02 brought in any such court shall be conclusive and binding upon it and may be enforced in the High Court of Justice in England, the Courts of the United States of America and, to the extent permitted by applicable law, in Albania (or any other courts to the jurisdiction of which the Issuer is or may be subject) by a suit upon such judgment Provided that service of process in connection with any such suit, action or proceeding shall have been effected upon the Issuer in one of the manners specified in Condition 14.02 or as otherwise permitted by applicable law.

SECTION 6

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Note contains provisions which apply to the Notes represented thereby while they are in global form, some of which modify the effects of the Conditions of the Notes set out in this Information Memorandum. The following is a summary of certain of these provisions:

1. Exchange

The Issuer undertakes to the registered holder to exchange beneficial interests in the Global Note without charge in whole (but not in part only) for Definitive Notes and to instruct the Registrar to issue and deliver, in full exchange for such beneficial interests in the Global Note, such Definitive Notes in an aggregate principal amount equal to the aggregate principal amount of the beneficial interest in the Global Note (a) if the Notes become immediately due and repayable by reason of the occurrence of a Mandatory Redemption Event or (b) in circumstances where either Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") or Cedel Bank, société anonyme ("Cedel") 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 (c) at the election of the Issuer, if, as a result of any amendment to, or change in, the laws or regulations of the Republic of Albania (or of any political sub-division thereof) or of any taxing authority therein or thereof following the interpretation or administration of such laws or regulations which become effective on or after 31 August 1995, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of any of the Notes which would not be required were the relevant Notes in definitive form.

2. Payments

Payments in respect of the Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes represented thereby, surrender of the Global Note to or to the order of the Registrar or such other Paying Agent as shall be notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

3. Purchase

Each Note called for redemption pursuant to Condition 7.01 shall become due and payable at the Redemption Price on the Early Redemption Date (as defined in Condition 7.01) upon presentation and endorsement of the relevant schedule to the Global Note. After payment of the Redemption Price, the Global Note will be cancelled. If the Issuer shall purchase or otherwise acquire any beneficial interest in the Global Note, the Issuer shall forthwith request the Registrar to cancel such beneficial interest and direct the Common Depositary to reflect such cancellation of such beneficial interest in the schedule to such Global Note in accordance with the terms of the Note Fiscal Agency Agreement.

4. Transfer of Notes

Whilst the Notes are in global form, beneficial interests therein may be transferred in amounts of U.S.\$1,000 and higher integral multiples of U.S.\$1.00 and otherwise in accordance with the rules of Euroclear and Cedel.

SECTION 7

SUBSCRIPTION AND SALE

Pursuant to the Exchange Agreement U.S.\$ 225,000,000 aggregate principal amount of Bonds and U.S.\$ 33,750,000 aggregate nominal amount of Notes will be issued to (or to the order of) holders of Eligible Debt committed to the Par Bond Option in consideration for the tender of such Eligible Debt by holders thereof for the Bonds and Notes. The aggregate principal amount of the Bonds shall be equal to 100% of the principal amount of the Eligible Debt exchanged therefor (after conversion into U.S. dollars as provided for in Part 6 of the Restructuring Proposals), and the aggregate nominal amount of the Notes shall be equal to 15% of the initial aggregate principal amount of the Bonds.

Selling Restrictions

United States

The Bonds and the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds or Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Creditor has agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds or the Notes in, from or otherwise involving the United Kingdom.

The Bonds and the Notes may not be directly or indirectly offered, sold or delivered, and this Information Memorandum may not be distributed, in any jurisdiction except in compliance with applicable law.

This document does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Reference should be made to the Exchange Agreement for a complete description of the restrictions on offers, sales and deliveries of Bonds and Notes and on distribution of documents including this Information Memorandum.

SECTION 8

GENERAL INFORMATION

1. The issue of the Bonds and Notes was authorised by the Council of Ministers of Albania on 7 May 1995.
2. All consents, approvals, authorisations or other orders of, or registrations with, regulatory authorities required under the laws of Albania in connection with the issue of the Bonds and Notes in the manner described herein have been obtained or will be obtained before issue.
3. Application has been made to list the Bonds and Notes on the Luxembourg Stock Exchange.
4. The Bonds and Notes have been accepted for clearance through Euroclear and Cedel with the following International Securities Identification Numbers ("ISIN") and Common Codes:

	ISIN	Euroclear and Cedel Common Code
Bonds	XS0059746155	5974615
Notes	XS0059746585	5974658

5. Albania has entered into, or will enter into on or before the Closing Date, the following contracts which are or may be material and which directly concern the issue of the Bonds:
 - (a) Exchange Agreement;
 - (b) Bond Security Trust Deed;
 - (c) Bond Fiscal Agency Agreement; and
 - (d) Bond Deed of Covenant.
6. Albania has entered into, or will enter into on or before the Closing Date, the following contracts which are or may be material and which directly concern the issue of the Notes:
 - (a) Exchange Agreement;
 - (b) Note Security Trust Deed;
 - (c) Note Fiscal Agency Agreement;
 - (d) Note Deed of Covenant;
 - (e) Declaration of Trust; and
 - (f) Investment Advisory Agreement.

7. So long as any of the Bonds remain outstanding, a copy of each of the documents listed in 5(a) to (d) above relating to such Bonds and for so long as any of the Notes remain outstanding a copy of each of the documents listed in 6(a) to (f) above relating to such Notes will be available for inspection. So long as any of the Bonds or Notes are listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, Albania will maintain a Paying Agent in Luxembourg.

8. Since 27 July 1995 there has been no material adverse change, or any development which would be likely to lead in due course to any material adverse change, in the financial condition of Albania.

9. To the best of its knowledge and belief after making all due investigations, no action or administrative proceedings of or before any court or governmental agency which, if adversely decided, would have a material adverse effect on the economic or financial condition of Albania or on the ability of Albania to perform its obligations under and in connection with the issue of the Bonds and Notes or which questions the legality, validity or binding effect of any provision of the documents relating to the Bonds or Notes has been started or threatened.

THE ISSUER

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Ministry of Finance
Tirana
Albania

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REGISTRAR

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