

Published by Interfax Group



ISSN 1072-2645

August 29 - September 4, 2014

Vol. XXIV, Issue 34 (1153)

**CONTENTS****TOP STORIES****PRECIOUS METALS****NONFERROUS METALS****FERROUS METALS****PIPE****GEMSTONES****URANIUM****COAL****AUCTIONS & TENDERS****STATISTICS****CURRENCY RATES****PRESS REVIEW**

## Polymetal decides to develop Svetloye gold project, finalizes Kyzyl deal

Russian gold and silver producer Polymetal has decided to revise its priorities in developing new projects, the company said this week. "Following the acquisition of the Kyzyl project we have re-prioritised our project pipeline in order to focus our resources most effectively on low-risk and low-capital projects where we see clear scope for production growth and good upside potential. Going forward, we will continue to take a flexible view regarding our portfolio of development projects and will keep these under review," Polymetal CEO Vitaly Nesis said. Reserves at Svetloye are 7.3 million tonnes of ore with gold content of 2.8 grams per tonne (JORC) for a total of 0.7 million ounces of gold and construction of Svetloye could begin in as soon as 2015.

## Norilsk Nickel seeking Bystrinskoye financing from China in addition to Russian state bank

Arctic mining & smelting giant Norilsk Nickel expects to get approval by the end of the year from "one of the largest Russian state banks" to provide project financing for the development of the Bystrinskoye deposit in Trans-Baikal Territory, CFO Sergei Malyshev told reporters. Capital expenditures on the project are expected to total \$1 billion over the next three years and the delay on the part of the state bank has pushed Norilsk Nickel to seek financing from foreign banks, including Chinese lenders. It was reported earlier that Norilsk Nickel is considering several offers from Chinese companies to finance the project and ship its products under offtake contracts.

## Ukrainian govt buys 1 mln tonnes of South African coal - PM

The Cabinet of Ministers of Ukraine this week signed an agreement on the purchase of one million tonnes of South African coal. "They [militants] destroyed the main coalmines by bombing - the coalmines from which we supplied coal to Ukrainian thermal power plants. The government has signed an agreement on the supply of one million tonnes of coal from South Africa, and the first ship is being loaded. Private companies are also buying coal. The situation was difficult a month ago, and now we're maintaining the balance - it is hard to maintain it, but we're doing our best for the energy sector of the country to operate," Ukrainian Prime Minister Arseniy Yatsenyuk said. In August, coal output in Ukraine plummeted 50% to 3.492 million tonnes due to the military activity in the Donbas.

# CONTENTS

<b>TOP STORIES</b>	<b>4</b>
Polymetal decides to develop Svetloye gold project, finalizes Kyzyl deal	4
<b>PRECIOUS METALS</b>	<b>6</b>
Nordgold EBITDA jumps 42% to \$141 mln in Q2, exceeds forecast	6
Ukraine ready to decide future of Crimea's Scythian gold	8
Centerra considers Kyrgyzstan's claims about KGC dividend payments unfounded	8
<b>NONFERROUS METALS</b>	<b>10</b>
Norilsk Nickel seeking Bystrinskoye financing from China in addition to Russian state bank	10
Norilsk Nickel agrees to sell Australian nickel plant	11
Chelyabinsk Zinc Plant swings to net profit of 925 mln rubles in H1	12
Kazakhstan Electrolysis Plant expects 19% decrease in aluminum output in 2014	13
Zyryanovsk residents protest against Kazzinc plans to dispose of hazardous waste in mine	13
<b>FERROUS METALS</b>	<b>15</b>
Putin asks Evraz to reconsider building metallurgical plant in Yakutia	15
Revenue at manganese miner Consmin drops 22% in H1	15
Fitch assigns Koks Group 'B' rating with stable outlook	16
Kazakh president visits SSGPO, Evraz Caspian Steel	17
Top managers of Taraz Metal Plant accused of evading 333 mln tenge in taxes	17
<b>PIPE</b>	<b>18</b>
OMK ships 30,000 tonnes of pipes for construction of Power of Siberia, completing 2013 contract	18
<b>GEMSTONES</b>	<b>19</b>
Alrosa sees IFRS EBITDA fall 18% in Q2 to 21.27 bln rubles, below forecast	19
<b>URANIUM</b>	<b>22</b>
Kazakhstan launches search for lost cesium container	22
<b>COAL</b>	<b>23</b>
RZD hoping to receive 70 bln rubles from NWF to buy Mechel rail line	23
Rostec, Shenhua agree \$10 bln in coal mining, power projects	23
Ukrainian govt buys 1 mln tonnes of South African coal - PM	23
<b>AUCTIONS &amp; TENDERS</b>	<b>27</b>
Auction for Yaregskoye field to take place in 2014 - gov't order	27
<b>STATISTICS</b>	<b>28</b>
Russian international reserves down \$0.3 bln in week	28
Russia boosts gold production, concentrate exports 24% in 7M	28
Russia cuts aluminum exports 20%, copper up 5%, nickel - 0.6% in 7M	28
Russia boosts ferrous metal exports 1.15% in 7M	29
Ukraine cuts steel output 11% in 8M	30

<b>CURRENCY RATES</b>	<b>31</b>
Official exchange rates for CIS and Baltic nations as of 04.09.2014	31
<b>PRESS REVIEW</b>	<b>32</b>
Russian press on the Metals & Mining sector for August 29	32
Russian press on the Metals & Mining sector for September 2	32
Russian press on the Metals & Mining sector for September 3	32
Russian press on the Metals & Mining sector for September 4	32

## TOP STORIES

### Polymetal decides to develop Svetloye gold project, finalizes Kyzyl deal

MOSCOW. Sept 2 (Interfax) - Russian gold and silver producer OJSC Polymetal has decided to revise its priorities in developing new projects, the company said in a statement.

"Polymetal International plc [...] is pleased to announce an update on its plans for the development and construction of the Svetloye gold project, and for the development of the Albazino-2, Kutyn and Maminskoye projects," the company said.

"Following the acquisition of the Kyzyl project we have re-prioritised our project pipeline in order to focus our resources most effectively on low-risk and low-capital projects where we see clear scope for production growth and good upside potential. Going forward, we will continue to take a flexible view regarding our portfolio of development projects and will keep these under review," Polymetal CEO Vitaly Nesis is quoted in the statement as saying.

"[The company has decided to] proceed with the construction and development of the Svetloye gold project - a 1,000 Ktpa open pit heap leach operation with initial mine life of 8 years. Svetloye is a capital-light, low-risk project, which will provide low-cost production and cash flows in the medium-term. Production is expected to commence in Q3 2017 and is expected to run at nameplate capacity for the first full year. Svetloye is expected to add 70 Koz of gold to production at an average all-in sustaining cost of \$750-\$800/oz. Pre-production capital expenditures are estimated at \$90 million," the statement says.

Reserves at Svetloye are 7.3 million tonnes of ore with gold content of 2.8 grams per tonne (JORC) for a total of 0.7 million ounces of gold.

As reported, construction of Svetloye could begin in as soon as 2015.

#### 3G assets

Polymetal has decided to suspend work on remaining "third generation" assets: Albazino-2, Kutyn and Maminskoye.

"[It has been decided to] terminate the development of the Albazino expansion project and incorporate additional resources into the life of mine with the existing processing capacity of the Albazino flotation plant. Polymetal will consider resuming work on the expansion should there be sufficient capital availability. Currently, mineral resources (in addition to reserves) are estimated at 25 Mt grading 4.8 g/t Au containing 3.6 Moz of gold. A new reserve and resource estimate is in progress and is expected in Q1 2015 as a part of an annual update of the reserves and resource statement," the company said.

The company has decided to slow the development of the Kutyn gold project. Polymetal has ceased further exploration and is now working on completion of a statutory permitting and the pre-feasibility study by the end of Q2 2015. Assumed reserves fit for open production are estimated at 5.5 million tonnes with gold content of 4.1 grams per tonne (0.7 million ounces).

Polymetal has also decided to slow the development of the Maminskoye gold project. Polymetal has ceased exploration and postponed the pre-feasibility study, the company said. Reserves are estimated at 14.7 million tonnes of ore with gold content of 1.9 grams per tonne (0.9 million ounces).

## Kyzyl project

The company decided to revise its priorities in connection with the purchase of the large Kyzyl project.

Polymetal on Thursday finalized the acquisition of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan, Polymetal said in a statement.

The initial cost of the acquisition was \$318.5 million in cash funds and another \$300 million in shares from an additional issue. As a result, the seller - Sumeru Gold, which is owned by Timur Kulibayev, the son-in-law of the President of Kazakhstan - received 7.45% of Polymetal's increased equity.

According to Interfax's calculations, the stake of Polymetal's largest shareholder, Peter Kellner's PPF Group, fell to 18.97% from 20.5% as a result of the additional issue. The stake of Alexander Nesis' ICT Group fell to 17.11% from 18.49%, while Alexander Mamut's went to 9.21% from 9.95%.

"The initial consideration for this acquisition comprised \$318.5 million in cash and \$300 million payable through the issue to Sumeru Gold B.V. of 31,347,078 new ordinary shares of the Company (the "Consideration Shares"), representing approximately 7.45% of the Company's enlarged issued share capital. The number of shares issued was determined by dividing \$300 million by the unweighted mean average closing price of Polymetal shares on the Main Market of the London Stock Exchange in the twelve calendar months ending three trading days before Completion which comprised \$9.57027 per share. Deferred additional cash consideration up to an agreed cap, contingent on certain conditions being met and dependent on the relative dynamics of the gold price and the price of Polymetal's shares, may be payable over up to the next seven years. Sumeru Gold B.V. is entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the Consideration Shares by notice to Polymetal during the one month period immediately following the first anniversary of Completion at a price per Consideration Share equal to \$9.57027," the statement says.

The Kyzyl gold project comprises the Bakyrchik and Bolshevik gold deposits and is located in north-eastern Kazakhstan.

The acquisition will increase Polymetal's gold equivalent reserves by approximately 50% to 19.7 million ounces with a single large high-grade property containing 6.7 Moz gold at 7.5 g/t (JORC), and a life of mine of 20 years based on reserves at Bakyrchik. Resources will increase 23%, or 20.6 million ounces.

Polymetal hopes by the end of 2015 to finish appraising the project's reserves and drafting a feasibility study. Construction might begin early 2016 and production, according to preliminary estimates, in 2018.

Based on Polymetal's preliminary estimate, production at Kyzyl could total 100,000-150,000 ounces of gold in as soon as 2018 with overall production totaling 1.45-1.5 million ounces. In addition, Production at Kyzyl in 2019 could reach 325,000-375,000 ounces with overall production of 1.55-1.6 million ounces.

Investments are estimated at \$440-\$640 million. A total of \$40 million may be spent in 2015, including on design and a feasibility study, \$200-\$250 million in 2016, \$150-\$250 million in 2017 and \$50-\$100 million in 2018, materials say.

Polymetal International plc is Russia's largest silver producer and one of the country's largest gold miners. The London- and Moscow-listed Polymetal's free float is 50.16%. Major shareholders include PPF Group (20.5%), Alexander Nesis's ICT Group (18.49%) and Alexander Mamut (9.5%). Management and employees own 0.91% of the shares. The company has operations in Magadan and Sverdlovsk regions, Khabarovsk Territory, Chukotka and Kazakhstan.

## PRECIOUS METALS

### Nordgold EBITDA jumps 42% to \$141 mln in Q2, exceeds forecast

MOSCOW. Aug 29 (Interfax) - Nordgold, an emerging markets gold miner that was spun off from Russian steelmaker Severstal, increased earnings before interest, tax, depreciation and amortization (EBITDA) by 42% year-on-year to \$141.3 million in the second quarter of 2014, the company reported.

Analysts at six investment banks polled by Interfax had expected Nordgold to post quarterly EBITDA of \$125 million.

#### Results

The company's EBITDA grew 24% year-on-year to \$244.8 million in the first half of 2014.

Despite lower gold prices, Nordgold boosted revenue 7% in Q2 2014 to \$342.1 million. Revenue in H1 2014 was flat at \$617 million, with a 14% increase in production offsetting a 13% decline in prices.

Nordgold posted a net profit of \$49.1 million in the second quarter and \$73.7 million in the first half, compared to losses a year earlier.

The company's board has decided to set aside part of the net profit for dividends. Nordgold shareholders will get 3.81 cents per share or GDR for the second quarter.

Including the first quarter interim dividend, Nordgold shareholders will receive 5.34 cents per share or GDR for the entire first half.

#### Nordgold IFRS financial highlights:

	Q2 2014	Q2 2014/ Q2 2013	Q2 2014/ Q1 2014	H1 2014	H1 2014/ H1 2013
Revenue, \$ mln	342.1	7%	24%	617.0	0%
EBITDA, \$ mln	141.3	42%	37%	244.8	24%
EBITDA margin	41.3%	10.2 p.p.	4 p.p.	39.7%	7.7 p.p.
Net profit, \$ mln	49.1	-	99%	73.7	-
normalized net profit attributable to shareholders, \$ mln	48.0	86%	149%	67.3	94%
Cash flows from operating activity, \$ mln	83.8	33%	68%	133.7	30%
Capex, \$ mln	48.2	(26%)	115%	70.6	(46%)
Incl. exploration, \$ mln	4.7	(82%)	(14%)	10.0	(75%)
Free cash flow, \$ mln	49.6	-	116%	72.6	-
cash and cash equivalents, \$ mln*	306.9	34%	13%	306.9	34%
Total debt, \$ mln*	993.8	(4%)	(1%)	993.8	(4%)
Net liabilities, \$ mln *	687.0	(14%)	(6%)	687.0	(14%)
TCC, \$ mln	185.1	(8%)	23%	336.0	(44%)
TCC, \$ per oz	702	(20%)	(2%)	708	(22%)
AISC, \$ per oz	905	(18%)	1%	899	(22%)

\*at end of period

## 7

Total cash costs (TCC) and all-in sustaining costs (AISC) per oz declined 22% to \$708 and \$899 respectively. The company revised the AISC forecast for full-year 2014 to \$950-\$1,000 per oz.

Net debt totaled \$687 million as of June 30, down 6% from \$729.8 million as of March 31.

### Capex, costs

Nordgold has reduced its capital expenditures guidance for 2014 by 10% to \$180 million, the company said.

Nordgold CEO Nikolai Zelensky said in mid-May that capex might actually turn out to be lower than the initially planned \$200 million, but that the company had not made a decision on this.

Nordgold is investing \$30 million in exploration in 2014, expenditures on maintaining capacity will total \$80 million, and expenditures on development and introduction of new technologies will total \$27 million.

Capex dropped 46% year-on-year to \$70.6 million in the first half of 2014, including \$10 million on exploration and evaluation. This included \$24.8 million invested in the Lefa deposit and \$11.4 million in Bissa, which were the two largest targets of capex.

In light of a substantial decrease in all-in sustaining costs in the first half of 2014, by 22% to \$899 per ounce, Nordgold has revised its 2014 forecast for this figure downward to \$950-\$1,000 from the initially planned \$1,050-\$1,100.

Nordgold produced 476,100 ounces of gold equivalent in the first half of 2014, 14% more than in the same period of last year.

Nordgold has raised its production forecast for 2014 to 900,000-950,000 ounces of gold equivalent from 870,000-920,000 ounces.

Nordgold produced 476,100 ounces of gold equivalent in the first half of 2014, 14% more than in the same period of last year.

### Burkina Faso

Nordgold is planning to produce 140,000 ounces of gold per year at the Bouly field in Burkina Faso using the process of heap leaching, the company said in a presentation.

In the second quarter of 2014 Nordgold completed its own preliminary economic assessment on the Bouly project. Australian company Lycopodium is preparing a feasibility study, which is planned to be finished in Q2 2015.

"We have also delivered a robust preliminary economic assessment of the Bouly project in Burkina Faso, moving the project into the feasibility study phase. Finally, pilot stage production at Gross is progressing according to schedule with preliminary leaching data tracking results of the feasibility study," the company has said.

International engineering company Knight Piesold will design the heap leaching unit at Bouly.

Measured and indicated resources of the Bouly asset, which is located close to Nordgold's current Bissa field, total 1 million ounces with gold content of 0.75 grams per tonnes. Nordgold estimates that this figure could grow to 2-3 million ounces in the future.

Nordgold is the former gold producing subdivision of Severstal's resource division, and it was spun off in January 2012. Steel magnate Alexei Mordashov is Nordgold's principal beneficiary with a stake of 85.4%, and free float is around 15%. The company operates nine active mines in four countries - Russia, Kazakhstan, Guinea, and Burkina Faso - as well as a number of projects at the development and exploration stages.

## Ukraine ready to decide future of Crimea's Scythian gold

KYIV. Aug 29 (Interfax) - The Ukrainian Culture Ministry hopes that the collection of Scythian gold will be returned from the Netherlands to Ukraine this September.

Its exhibition at the Allard Pierson Museum in the Netherlands ends on August 31, said Svetlana Fomenko, Deputy Minister of Culture for European Integration.

"On September 1, staff from the (Ukrainian) National Historical Museum will be in Amsterdam to dismantle, pack and return the exhibition to Ukraine," she said.

The whole collection on display (2,111 items) will return to Ukraine, the deputy minister said.

There are 19 exhibits at the center of the collection: "the most valuable exhibits are the Scythian helmet and sword which are the nucleus of the exposition," she said.

"We are planning to have the whole exhibition returned as early as September. If we fail to reach a principled agreement while our museum's representatives are there, we are ready to decide the future of the exhibition through a court of arbitration," said the deputy minister of culture.

If the collection is not returned to Ukraine, then starting from October "it will be considered to have been removed (from the country) illegally," Fomenko said.

The Netherlands is neither handing the collection over to mainland Ukraine, nor to the Crimean museums, she said.

At the same time, the Ukrainian Ministry of Culture has disagreed with the Dutch museum, which stated that the exhibits cannot be returned to Ukraine unless the issue is resolved by a court.

"We understand that this is because of the museum's fear of facing legal action on the part of the Crimean museums and Russia," the deputy minister said.

The exhibition entitled, "The Crimea: Gold and the Secrets of the Black Sea," opened at the Allard Pierson Museum, an archeological museum at Amsterdam University, in early February. It included collections from five museums - one in Kyiv and four in Crimea. It displayed over 500 archeological finds, including artifacts of Scythian gold, a ceremonial helmet, precious stones, swords, armor, and home ware of the ancient Greeks and Scythians.

Since the Netherlands does not recognize Crimea's reunification with Russia, which took place after the exhibition opened, the question now concerns who the collection should be returned to after the exhibition closes in August.

## Centerra considers Kyrgyzstan's claims about KGC dividend payments unfounded

BISHKEK. Sept 4 (Interfax) - Canadian mining company Centerra Gold Inc. considers the Kyrgyz authorities' claims about illegal dividend payments from its subsidiary, CJSC Kumtor Gold Company (KGC), which is developing the republic's largest gold mine, Kumtor, unfounded, Centerra said in a statement.

This is the first official comment of Centerra Gold regarding the payment of \$200 million in dividends in December 2013, which was given in response to criticism from the Kyrgyz authorities, who are accusing KGC's management of illegally sending funds abroad.

On December 6, 2013, KGC's board of directors, without the consent and without notifying the Kyrgyz government, decided to recommend that its single shareholder, Centerra Gold, announce a dividends payment of \$200 million for 2012.

Based on this decision, on December 20, the sum was transferred to the account of Centerra Gold, in which Kyrgyzstan holds a 32.75% stake via state-owned OJSC Kyrgyzaltyn, and the remaining shares belong to international investment funds.

The General Prosecutor's Office of Kyrgyzstan felt that the payment of dividends was illegal. In March this year, the prosecutor's office opened a criminal investigation into the removal of funds from KGC. The general prosecutor feels that the decision concerning the transfer of funds should have been made with the agreement of the Kyrgyz government, because the Kumtor mine is a strategic asset.

As part of this criminal case, the CEO of Kyrgyzaltyn and KGC Board Chairman Dilger Zhaparov was arrested in May and later removed from his post. He was charged with abuse of office.

Centerra Gold considers all announcements made by some Kyrgyz officials regarding dividend payments incorrect and that the transfer of funds fully complied with Kyrgyz legislation.

Over the years of its work in Kyrgyzstan, Centerra Gold has invested about \$2 billion in KGC for the development and operation of the Kumtor mine. The Canadian company is the only shareholder in KGC, and according to Kyrgyz law, the subsidiary has the full right to pay dividends to the parent company from its own profit, which it receives from production and gold sales.

Different Kyrgyz regulations and laws, including the law, On Investments, stipulate such a type of payment. According to Centerra Gold, similar provisions were laid down in the agreement governing the activities of the Kumtor project, each of which was approved by the Kyrgyz Parliament in 2009.

"The payment of such dividends is a legal and recognized mechanism so that Centerra can recoup its investments and receive income from its investments," the announcement said.

The company also is calling the attention of the authorities to the fact that Kyrgyzaltyn, as a shareholder of Centerra, in the case of KGC dividend payments, is receiving its share of income. In particular, since 2010, Centerra Gold has paid Kyrgyzstan more than \$67 million in dividends, the announcement said.

## NONFERROUS METALS

### Norilsk Nickel seeking Bystrinskoye financing from China in addition to Russian state bank

MOSCOW. Aug 29 (Interfax) - Norilsk Nickel expects to get approval by the end of the year from "one of the largest Russian state banks" to provide project financing for the development of the Bystrinskoye deposit in Trans-Baikal Territory, the Russian mining giant's CFO, Sergei Malyshev told reporters.

The delay on the part of the state bank has pushed Norilsk Nickel to seek financing from foreign banks, including Chinese lenders.

"We expect to receive a positive decision on financing by the end of the year from one of the largest state banks," Malyshev said.

Capital expenditures on the project are expected to total \$1 billion over the next three years. After declaring Bystrinskoye a first-class asset in the spring of 2014, Norilsk Nickel confirmed plans to build a mine and processing plant, which it intends to finance with project financing. The company applied for financing to state development bank VEB.

"Concurrently, we are working actively with potential Chinese consumers of Bystrinskoye's products and with foreign, including Chinese, banks, in order to diversify sources of financing and reduce its cost," Malyshev said.

"For now we're talking only about financing [not equity investment]," Malyshev said.

Norilsk Nickel said earlier that it hoped to raise the whole amount of capex for the project in the form of project financing from the state bank.

#### Asian promise

It was reported earlier that Norilsk Nickel is considering several offers from Chinese companies to finance the project and ship its products under offtake contracts.

Asked about the diversification of cash into Asian currencies, Malyshev said that Norilsk Nickel works with various currencies, including Asian ones, within the context of expanding the geography of its sales.

"The lion's share of funds is held in U.S. dollars and hard currencies. The Hong Kong dollar is such a currency, and we have placed some funds in this currency. This does not increase our currency risks," Malyshev said.

Norilsk Nickel plans to be producing 66,000 tonnes of copper concentrate, 3.1 million tonnes of iron ore concentrate and 219,000 ounces of gold in concentrate annually under the project at a processing plant with capacity for 10 million tonnes starting in the third quarter of 2017. The life of the deposit will be more than 30 years.

Norilsk Nickel exported 60% more nickel to Asian customers in the latest year, Malyshev said. Rising demand in Asia gives Norilsk Nickel room for maneuver in the event it is a target of sanctions by the EU and the U.S.

"We have good opportunities for diversifying deliveries, first and foremost to Asia, where demand is growing strongly," he said.

"By imposing sectoral sanctions - as one of the heads of a Western steel mill aptly put it - the West would be shooting itself in the foot. Norilsk has a 45% share of the nickel market in Western Europe and 20% of the palladium market in the U.S. It is not difficult to forecast the effect on local producers of a simultaneous withdrawal from the market of those raw material volumes," Malyshev said.

China will account for 49% of global nickel demand in 2014 (941,000 tonnes) and the rest of Asia will account for 20% (375,000 tonnes), according to Norilsk Nickel materials. China consumes 45% of global copper production (9.953 million tonnes) and the rest of Asia consumes 20% (4.4 million tonnes).

### **Eurobond buyback**

Meanwhile, Norilsk Nickel believes that it does not currently make sense to buy back Eurobonds it placed on the market in 2013, Malyshev told reporters.

"We considered the possibility of an early buyback of our Eurobonds, but there is no big benefit for us from this transaction. This is both our observation and the result of consultations with banks. We don't deny such a possibility, but for now we don't see big potential from this deal, because investors really value our bonds," Malyshev said.

Norilsk Nickel's board of directors authorized a potential early buyback of the company's Eurobonds in mid-April.

Norilsk Nickel places two Eurobond issues last year - a five-year issue of \$750 million at 4.375% in April and a seven-year issue of \$1 billion at 5.55% in October. The second offering was coordinated by Bank of America Merrill Lynch, Barclays, Citigroup, Sberbank CIB and Societe Generale. Norilsk Nickel placed its previous Eurobond issue, totaling \$500 million, in 2004 and redeemed it on schedule in 2009.

## **Norilsk Nickel agrees to sell Australian nickel plant**

MOSCOW. Sept 3 (Interfax) - MMC Norilsk Nickel has signed an agreement to sell the Lake Johnston nickel plant in western Australia to Poseidon Nickel Limited, the company said in a statement.

"The project encompasses the Maggie Hays and Emily Ann underground mines and associated infrastructure. The project has been on care and maintenance since April 2013," the statement says.

"Citigroup has acted as Norilsk Nickel's financial advisor on the divestment of its portfolio of Australian assets," Norilsk Nickel said.

The statement does not disclose the value of the deal.

"Norilsk Nickel expects to realize a material gain upon the sale of the asset with the transfer of associated environmental obligations to Poseidon and the receipt of relevant cash consideration," the statement reads.

"In 2013 as part of our new strategy we committed to shift focus to our Tier 1 mining assets to maximize returns to our shareholders and dispose non-Tier 1 assets through a competitive process. The sale of Lake Johnston completes the divestment process of our former operating assets

in Australia," Pavel Fedorov, Norilsk Nickel First Deputy CEO, is quoted in the statement as saying.

"The sale is subject to regulatory approvals and satisfaction of other customary closing conditions and is expected to close in the second half of 2014," Norilsk Nickel said.

## Chelyabinsk Zinc Plant swings to net profit of 925 mln rubles in H1

CHELYABINSK. Aug 29 (Interfax) - Chelyabinsk Zinc Plant posted a net profit of 924.667 million rubles in the first half of 2014 compared with a net loss of 108.796 million rubles in the same period last year, the company said in its IFRS earnings statement.

"Significant net income growth was due to the increase of revenue with a simultaneous decrease of cost of sales and also to the reversal of previously accrued impairment loss related to LLP Nova Zinc [Kazakhstan]," the statement says.

Revenue was up 8.85% to 6.773 billion rubles.

Gross profit increased 130% to 1.837 billion rubles. Pretax profit was 1.218 billion rubles compared with a pretax loss of 71 million rubles a year earlier.

Earnings before taxes, depreciation, and amortization (EBITDA) for H1 totaled 1.175 billion rubles versus 399 million rubles a year before.

"In H1 2014, CZP's revenue from sale of zinc and zinc alloys decreased by 6% as compared to the H1 2013 and amounted to 3.387 billion rubles. Decrease of the revenue was due to decline of sales on the domestic market by 20.3% (H1 2014: 41.9 thousand tonnes; H1 2013: 52.6 thousand tonnes)," the company said.

"Revenue of the Brock Metal Company Limited for H1 2014 amounted to 1.392 billion rubles, 58% higher than in H1 2013. This increase was due to 32.5% growth of zinc alloys sales (H1 2014: 15.9 thousand tonnes; H1 2013: 12.0 thousand tonnes) and 22.4% growth of Pound Sterling (GBP)/Russian ruble average exchange rate (H1 2014: 58.55 rubles; H1 2013: 47.83 rubles)," the statement says.

"CZP received revenue of 1.007 billion rubles under tolling agreement in H1 2014, which is 75.4% higher compared to H1 2013. The increase of tolling's volume (H1 2014: 37.3 thousand tonnes; H1 2013: 21.3 thousand tonnes) was due to decrease of zinc and zinc alloys sales on the domestic market. Fixed processing fee amounted to 27,000 rubles/tonne," Chelyabinsk Zinc Plant said.

Revenue from lead concentrate sales for H1 2014 amounted to 249 million rubles (H1 2013: 270 million rubles), the statement says.

In H1 2014, revenue from CZP's other by-products decreased by 20% to 698 as compared to H1 2013. The main reason of revenue decrease was the temporary interruption of precious metals sales due to prices reduction (average official prices for gold in H1 2014: 1,458 rubles/gram, in H1 2013: 1,515 rubles/gram; silver in H1 2014: 22.6 rubles/gram, in H1 2013:

26.5 rubles/gram), the company said.

"In H1 2014, costs of utilities and fuel decreased by 45% to 597 million rubles mainly due to decrease of expenses on electricity transmission services. In H1 2014 expenses on electricity transmission services were accrued applying tariffs of OJSC FSK UES while during H1 2013 -

applying tariffs of OJSC MRSK-Ural. As the result electricity tariff for CZP in H1 2014 was 1.81 rubles per kWh while in H1 2013 - 2.23 rubles per kWh," the statement reads.

"Besides cost of sales for H1 2014 includes adjustment for the expense for electricity transmission services accrued for the period from May 1, 2013, until December 31, 2013, for the amount of 359 million rubles due to termination of litigation between JSC CZP and JSC FSK," Chelyabinsk Zinc Plant said.

"The average LME zinc price in H1 2014 increased by 6% as compared to the relevant period of the previous year and amounted to \$2,051/tonne. The average LME lead quotes decreased by 3.5% to \$2,101/tonne. US Dollar/Russian ruble average exchange rate increased by 13% to 34.98 rubles/US Dollar," the company said.

Chelyabinsk Zinc Plant is the leading Russian zinc and zinc alloys producer. It produced 166,357 tonnes of salable SHG zinc in 2013, 4% more than in 2012.

Urals Mining and Metals Company (UMMC) teamed up with Russian Copper Company (RCC) to take CZP over in the fall of 2009. They acquired 100% of NF Holdings B.V., which owned 58% of CZP. CZP has said UMMC owns 47% of NF Holdings and that RCC owns 37%. In February 2014, United Capital Partners (UCP) President and Managing Partner Ilya Sherbovich acquired 15.46% of CZP voting shares.

## **Kazakhstan Electrolysis Plant expects 19% decrease in aluminum output in 2014**

PAVLODAR. Sept 2 (Interfax) - Kazakhstan Electrolysis Plant, part of Eurasian Resources Group (ERG), plans to produce 203,000 tonnes of aluminum by year-end or 47,000 tonnes less (down 18.8%) year-on-year, the press office of the enterprise told Interfax.

The decrease in output is caused by an overhaul of electrolysis units at the plant, which is planned, according to the press office.

Kazakhstan Electrolysis Plant in Pavlodar region is the only domestic producer of primary aluminum and has been annually producing 250,000 tonnes of aluminum annually since 2010.

The plant exports over 90% of its products. Its major consumers are plants in Russia, Ukraine, Belarus and Uzbekistan.

In December 2013, ERG closed a deal to buy ENRC. ENRC specialized in the production of bauxites, copper, coal, aluminum, ferro-alloys, pellets; its owned assets included Kazchrome, Zhairam Mining and Processing Integrated Works, Sokolov-Sarbai Mining and Processing Integrated Works, Aluminum of Kazakhstan, Kazakhstan Electrolysis Plant, Eurasian Energy Corporation, Shubarkol Komir and ENRC Logistics.

## **Zyryanovsk residents protest against Kazzinc plans to dispose of hazardous waste in mine**

ASTANA. Aug 29 (Interfax) - Locals of Zyryanovsk district, East Kazakhstan region, openly oppose to the decision of Kazzinc to dispose of arsenic-iron waste in a nearby Grehovsk mine.

410 local residents sent an open letter to East Kazakhstan Governor Berdybek Saparbaev and the regional Department of Ecology, seeking help in environmental protection.

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14

Zyryanovsk residents argued that "according to the register of landfill by waste type, arsenic-iron waste is subject to disposal at first category dumping ground for hazardous waste." They also noted that "flooding was chosen as a method of abandonment of the Grehovsk mine," according to the letter distributed by Kazakhstan International Bureau for Human Rights and Rule of Law.

The residents also noted that the waste disposal site must be on the surface and located at least 3 km from a nearby settlement and open water. Meanwhile, the distance between the mine and the Grehovka village is only 2 km.

## FERROUS METALS

### Putin asks Evraz to reconsider building metallurgical plant in Yakutia

YAKUTSK. Sept 1 (Interfax) - Russian President Vladimir Putin has insisted that Russian steel major Evraz plc reconsider the possibility of building a metallurgical plant in Yakutia, he said at a meeting to discuss government support for priority investment projects and the Far East.

The company had previously called the project unappealing from an investment standpoint for several years before.

"As soon as there's light at the end of the tunnel in the metallurgical sphere - and the situation on world markets is not unfolding too badly overall - [and] as soon as everything stabilizes in this region and more long-term prospects appear, let's agree that we will not turn away from this," he said.

During the meeting, Putin asked the chairman of Evraz's board of directors, Alexander Abramov, whether the company was against building an iron ore plant in Yakutia.

"If you remember, we did preliminary technical and economic calculations for you and reported six years ago on the construction of a full-range metallurgical plant for coal and iron ore in the south of Yakutia. And at that time, it was appealing from an investment standpoint," Abramov said.

"We are ready to do a more detailed feasibility study or possibly update [it] for the present. We will look at [things] again and report the results to the government again. If we are mistaken, then why not of course, but as of today, the situation is not very encouraging, to say the least," he said.

Putin asked Abramov to approach this question more carefully.

"We believe that you can work without interferences. There have been several minor hiccups there with the license connected with the fact that it foresees construction. No one will limit you in your current work, and there are not and will not be any threats, I want you to know. But I'm simply asking you to nonetheless approach this carefully," Putin said.

"We will carry out this work and report [on it]," Abramov said.

### Revenue at manganese miner Consmin drops 22% in H1

KYIV. Sept 2 (Interfax) - Consolidated Mineral (Consmin), which is controlled by Ukrainian tycoon Gennady Bogolyubov, posted a net profit of \$28.9 million in the first half of 2014, 48.8% less than in the same period last year, the company said in its financial statement.

Revenue fell 22.4% to \$225.3 million.

Net profit in the second quarter plunged 85% year-on-year to \$4.9 million, revenue was down 22.2% to \$116.4 million and EBITDA dropped 45.8% to \$39.1 million.

Second quarter earnings declined on a 26% drop in manganese ore prices to \$3.75 per tonne while marginal costs remained unchanged at \$26.1 per tonne.

Free cash flows at the beginning of the year fell 67% to \$74.4 million, mainly due to payment of \$250 million to partially repay subordinated shareholder loans. Gross debt increased 71.1% to \$415 million following issuance of new Eurobonds.

Consmin also said it recently received notification from Chinese Ningxia Tianyuan Manganese Industry (TMI), a major buyer, that "as a result of fundamental operational issues they will be unable to continue to perform on the long-term off-take agreement," and that Consmin would draw on the \$50 million standby letter of credit to offset damages from early termination of the off-take agreement.

Consmin explores, mines, processes and sells manganese products. It also manages significant investment portfolios. The company's headquarters are located on the island of Jersey, serving to centralize its marketing and sales operations.

Consmin's main manganese asset is the Woodie Woodie mine in Western Australia, the reserves of which stood at 16.7 million tonnes of 38% manganese ore as June 2013. The company also produces and sells manganese carbonate ore from the Nsuta Mine in Ghana, in addition to chromite ore.

Bogolyubov finished acquiring Consmin in January 2008 after a fierce 18-month struggle for 1.3 billion Australian dollars. Afterwards, the company was delisted by the Australian Stock Exchange.

## Fitch assigns Koks Group 'B' rating with stable outlook

MOSCOW. Sept 2 (Interfax) - Fitch Ratings has assigned Russian pig iron company OJSC Koks Group Long- and Short-term Issuer Default Ratings (IDR) of 'B' with stable outlook, the international ratings agency said in a statement.

Fitch has also assigned Koks Finance Limited's loan participation notes a senior unsecured rating of 'B-' with a Recovery Rating of 'RR5'.

"The rating reflects Koks's small size, limited operational diversification and fairly high leverage. Positively they also reflect the company's strong market position in pig iron and coke, two key components of steel production. Partial vertical integration in raw materials to the pig iron production chain provides KOKS with reasonably high profit margins and insulation from sharp price swings in coal and iron ore," the statement says.

Koks is a vertically integrated metallurgical group with four business segments: coal, coke, iron ore/pig iron and powder metallurgy. Its main production facilities are situated in Kemerovo, Belgorod and Tula regions. KOKS generated 6.6 billion rubles of earnings before taxes, depreciation, and amortization (EBITDA) (by Fitch's definition) in 2013 and Fitch expects this to rise to over 8 billion rubles in 2014, the agency said.

Future developments that may, individually or collectively, lead to positive rating action include: Further increase in vertical integration; Positive FCF across the cycle; FFO-adjusted gross leverage below 3x on a sustained basis; FFO fixed charge cover above 6x on a sustained basis (2.98x expected by end-2014); Successful implementation of steel project, without delay or cost overruns; [and] Improved liquidity in the form of consistently higher cash balances or an improved maturity profile," Fitch said.

"Future developments that may, individually or collectively, lead to negative rating action include; Capital spending overrun causing further leverage increase, i.e. FFO-adjusted gross leverage remaining above 4x after 2016; Significant deterioration of business operations caused by adverse market conditions; Loss of access to a material portion of the 18.6 billion rubles (\$530 million) of available undrawn facilities," the agency said.

## **Kazakh president visits SSGPO, Evraz Caspian Steel**

ASTANA. Sept 3 (Interfax) - Kazakhstan President Nursultan Nazarbayev named the Sokolov-Sarbai Mining and Processing Production Association (SSGPO), a leader of the national industrial production, when visiting the company during his working visit to the region.

The president praised SSGPO as it was celebrating its 60th anniversary for implementing a wide-scale modernization, launching major investment projects and creating new jobs.

Later the same day, during his trip to Kostanai region, he visited Evraz Caspian Steel rolling mill producing light sections and rebars. The mill has an annual capacity of 450,000 mt of light sections.

SSGPO is the largest iron ore mining and processing enterprise in Kazakhstan. Operations include the Sokolovsky, Sarbaisky, Kacharsky and Korzhinkolskiy iron ore open pits; the Sokolovsky underground mine; dolomite and limestone open pits; and crushing, concentrating and pelletising facilities. The Rudny heat and energy plant supplies these operations with reliable, low-cost power.

## **Top managers of Taraz Metal Plant accused of evading 333 mln tenge in taxes**

TARAZ. Sept 3 (Interfax) - The Zhambyl regional office of the State Agency for Civil Service and Anti-Corruption has launched a criminal investigation against the top managers of Taraz Metal Plant LLP on suspicion of tax evasion, the Agency says in a press release.

The top managers are accused of filing fraudulent tax returns in 2013 and evading 333 million tenge in taxes.

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18

## PIPE

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### **OMK ships 30,000 tonnes of pipes for construction of Power of Siberia, completing 2013 contract**

NIZHNY NOVGOROD. Sept 1 (Interfax) - United Metallurgical Company (OMK) shipped more than 30,000 tonnes of large-diameter pipes in July and August for the construction of the Power of Siberia gas transport system, the company said in a press release.

OMK has therefore met all contractual obligations for pipe supplies to build the system. The contract was signed in 2013 between OJSC Vyksa Steel Works, which is part of OMK, and Russian gas giant Gazprom.

## GEMSTONES

### Alrosa sees IFRS EBITDA fall 18% in Q2 to 21.27 bln rubles, below forecast

MOSCOW. Sept 2 (Interfax) - Russia's diamond monopoly Alrosa saw earnings before taxes, depreciation, and amortization (EBITDA) to International Financial Reporting Standards (IFRS) fall 18% in the second quarter of 2014 to 21.267 billion rubles, the company said in its H1 report August 29.

Nine investment banks told Interfax in a consensus forecast they had expected EBITDA of 21.992 billion rubles. The most accurate forecast was made by Otkritie (21.212 billion rubles) and Metropol (21.375 billion rubles).

Alrosa boosted EBITDA 34% year-on-year in the first half of 2014 to 47.289 billion rubles. EBITDA margin was 44% in Q2 versus 46% in Q1 and 45% in H1 2014 versus 43% in H1 2013.

Alrosa's consolidated sales revenue to IFRS fell 16% in Q2 to 47.939 billion rubles. Analysts told Interfax in a consensus forecast that revenue had been expected at 48.72 billion rubles. The reason revenue fell was a drop in rough diamond sales in Q2. In addition, the average price of sold jewelry quality rough diamonds increased 29% quarter-on-quarter in Q2 to \$200 per carat.

Net profit in Q2 was 17.134 billion rubles, which is nearly triple Q1 net profit. IN January-June, Alrosa boosted net profit 58% to 23.117 billion rubles.

"In H1 2014, the company delivered its best results ever. One of the drivers behind this outstanding performance was the market environment, with the Russian ruble weakening against the dollar as the key contributor to the revenue growth. To capture the benefits of the ruble devaluation, the company engaged in additional diamond sales from inventories as a way to improve the Group's cash flow position and, specifically, to generate additional liquidity for Eurobonds redemption in Q4 2014," Alrosa CEO Fyodor Andreev is quoted in a statement as saying.

Alrosa's overall debt on August 29 was \$4.177 billion, up from \$3.767 billion at the end of Q1. Alrosa must pay \$500 million in debt in the fourth quarter.

#### Russian market share

Alrosa saw the share of rough diamond sales in Russia fall to 11% in the first half of 2014 from 14% a year before, the company said in its January-June report to IFRS.

The volume of domestic supplies was practically unchanged in monetary terms compared with the same period of last year and stood at 10.57 billion rubles. The share of export increased 32% for the year to 83.5 billion rubles, while revenue from Alrosa's diamond sales increased 28% to 94.56 billion rubles.

These data exclude an export duty, which was 5.56 billion rubles in the first half of 2014 versus 4.22 billion rubles a year before. Diamonds are subject to export duties of 6.5%.

The share of the Russian market in sales is falling due to the fact that Alrosa's customers - representatives of the diamond cutting industry - are reducing purchases of Alrosa diamonds amid cost variance in India and China, the need to pay VAT on operations and a reduction in the price

es for products. Profitability of operations of Russian diamond cutters has been undermined, including after Alrosa stopped supplying them with so-called "selected items" a few years ago that contain the highest quality diamonds. A number of cutters, especially in conditions of falling diamond prices, had to reduce purchases or worsen their acquisition assortment. As a result, there was a redistribution of the bulk of high quality raw materials in favor of foreign companies. Now Alrosa has 41 long-term clients, of which only seven are Russian (and one Belarusian producer), while the majority are Indian, Belgian, Israeli and Chinese jewelers and dealers.

In the new contract period of 2015-2017, Alrosa said it intended to factor in the interests of Russian jewelry-quality diamond producers in providing the necessary resource capabilities.

According to the Russian Diamond Manufacturers Association, diamond production fell to \$780 million in 2013 from \$1.35 billion in 2007. In addition, last year's figure is equivalent to \$500 million based on 2007 prices.

### Capex ceiling at 38 bln rubles

Alrosa is expected to have capex of no more than 38 billion rubles in 2015, the same as this year, Alrosa First Vice President Ilya Ryaschin said during a conference call to discuss the company's H1 financial performance.

Asked about the change in rough diamond sales from Alrosa's stock in 2014-2015, he said there would not be a drop in technical stock in Q2 of this year. "There will be a small increase thanks to production at alluvial deposits. We will not manage to prepare all diamonds extracted at alluvial deposits for sale," Ryaschin said.

In the first half of 2014, technical stock - diamonds that have gone through the entire production chain, from extraction to sale - fell to 13 million carats. In 2014 as a whole, a total of 3.5-4 million carats of jewelry-quality diamonds will be sold from technical stock.

"We won't have that kind of stock anymore in 2015," Ryaschin said. Only 1-1.5 million carats of stock can be sold next year "depending on production volume at alluvial deposits," he said.

In H2 2014, Alrosa will produce around 20 million carats of diamonds and sell around 17 million carats.

In 2014 as a whole, Alrosa is forecasting it will maintain the growth in diamond prices that has already been attained, Ryaschin said. Prices have increased by 7%-8% since the beginning of the year, he added.

### Gas assets

Alrosa is not expecting to implement the deal on the sale of its gas assets, Geotransgaz and Urengoi Gas Company, before the end of H1 2015, the company said in its H1 report.

In September 2013, Alrosa signed an agreement with Rosneft on the sale of the gas companies for \$1.38 billion. The closing of the deal, according to the agreement, which also stipulated the purchase of CJSC Irelyakhneft and OJSC Alrosa-Gaz, was connected with a number of conditions, including with final corporate procedures following the due diligence of assets. It was stipulated that deal be concluded before April 30, 2014. But Rosneft, having learned about the reserves of the fields, found the cost too high. The parties agreed to drill additional wells at the fields to determine the level of reserves.

"Following the conclusion of this agreement and approval of the decision to dispose the Gas companies [Geotransgaz and Urengoi Gas Company] by the Company's Supervisory Council as at December 31, 2013 the assets and liabilities related to the Gas companies have been present-

ed as held for sale. However, the transaction was not completed due to inability of the parties to fulfill the terms of the existing agreement, accordingly as at June 30, 2014 the assets and liabilities related to the Gas companies are no longer presented as assets and liabilities held for sale as management does not believe that their disposal within twelve months after the reporting date is probable," the company said in its report.

Rosneft remains the main contender for Geotransgaz and Urengoi Gas Company, because these companies and Rosneft assets have many geographical and technological ties, the management of Alrosa said.

Geotransgaz and Urengoi Gas Co. both operate in the Beregovoi and Ust-Yamsveysky blocks in the Western Siberian region of Yamal-Nenets. The companies' combined proven and probable reserves amount to more than 140 billion cubic meters of gas and 20 million tonnes of gas condensate, totaling more than 1 billion barrels of oil equivalent, according to an audit conducted by DeGolyer & MacNaughton in mid-2011. At the end of 2012, Geotransgaz concluded an agreement with Rosneft on the supply of about 7 billion cubic meters of gas before 2015.

### Supervisory board

In other company news, Ilya Yuzhanov has been renamed the head of the supervisory board at Russia's diamond monopoly Alrosa, the company said in a statement Friday.

Deputy Prime Minister Yury Trutnev, who is also the presidential envoy to the Far Eastern Federal District, signed the directive for state representatives' vote for Yuzhanov in August. Representatives of the second largest shareholder, Yakutia, voted along with Russia's representatives on the board.

Yakutia's Deputy Minister of Property and Land Relations Sergey Mestnikov was reelected first deputy chairman of the supervisory board. Sergei Barsukov, the director of the financial policy department at the Russian Finance Ministry, was elected deputy chairman.

## URANIUM

### Kazakhstan launches search for lost cesium container

ALMATY. Sept 4 (Interfax) – A reward of 1.5 mln tenge is being offered for finding a missing container of radioactive cesium-137, the Mangistau region Governor's Office said on Thursday.

A total of 70 National Guard servicemen "have combed the area from Shetpe to Oporny village in Beineu district, a distance of 300 km," it said.

Police are going door to door explaining hazards to local residents and looking for new information in the case. Vehicles are being searched and all scrap metal outlets are subject to inspection.

About 250 persons carrying metal detectors and 45 vehicles are searching for the container, regional emergency situations department deputy head Kazhimukhan Kospayev said at a press conference in Aktau, the administrative center of the region.

Presumably, the 50-60 kg container might have fallen off a KAMAZ truck in the steppe, 275 kilometers from Aktau, and "the road is very bad there, there is a thick layer of dust mixed with sand everywhere," he said.

"The regulations compelled the driver and the security guard to stop the car and check on the cargo every two hours. The truck was equipped with a GPS device and its travel was fully controlled," Kospayev said.

He added the department did not rule out the container might have been lost somewhere else.

"We are eyeing another theory - the capsule might have been lost somewhere else. Just in case, we have involved the Atyrau region in our search, they are also looking for [the container]," he continued.

Earlier reports said a cesium-137 container with a height of 30 centimeters, a diameter of 20 centimeters and a weight of about 50-60 kilograms fell off a KAMAZ truck on the Sai-Otes-Shetpe road on August 28.

Regional emergency services, including the police, the emergency situations department and the army, are searching for the dangerous cargo, and the authorities of the Mangistau region have promised a reward of 1.5 million tenge (the current exchange rate is 182 tenge to the dollar) to the person who finds the cesium container.

## COAL

### **RZD hoping to receive 70 bln rubles from NWF to buy Mechel rail line**

YEKATERINBURG. Sept 4 (Interfax) - The possibility of allocating funds from the National Welfare Fund (NWF) is being considered as a way for Russian Railways (RZD) to purchase a Russian mining and steel company OJSC Mechel's railway line to the Elginskoye field, RZD President Vladimir Yakunin told journalists in Yekaterinburg Thursday.

"A current variant is using bridge money from the National Welfare Fund followed by a return guaranteed by the state. That is, the government must ultimately give us funds for charter capital so that we can pay for this since our financial standing and the size of the investment program do not alone allow for these projects to be completed," he said on the sidelines of the Coordinating Council on Trans-Siberian Transportation (CCTT) forum.

RZD supports the actions of the government in every way possible to stabilize Mechel's economic situation, Yakunin said, adding that the company was ready to participate in this. Asked whether the current price of 70 billion rubles was being considered for the railway line, he said: "At least now we are talking about this [amount of] money."

### **Rostec, Shenhua agree \$10 bln in coal mining, power projects**

MOSCOW. Sept 4 (Interfax) - The Rostec state corporation and Chinese Shenhua have agreed projects in coal mining and power generation involving \$10 billion in investment, Rostec reported.

The projects will see development of industrial and logistical infrastructure in Siberia and the Far East, cooperation in investment and joint development of coal fields and associated infrastructure.

Rostec also plans to build generating capacity at the fields and high-voltage transmission lines to export electricity to China.

### **Ukrainian govt buys 1 mln tonnes of South African coal - PM**

KYIV. Sept 3 (Interfax) - The Cabinet of Ministers of Ukraine has signed an agreement on the purchase of one million tonnes of South African coal, Ukrainian Prime Minister Arseniy Yatsenyuk has said, opening a cabinet meeting on Wednesday.

"They [the militants] destroyed the main coalmines by bombing - the coalmines from which we supplied coal to Ukrainian thermal power plants. The government has signed an agreement on the supply of one million tonnes of coal from South Africa, and the first ship is being loaded. Private companies are also buying coal. The situation was difficult a month ago, and now we're

maintaining the balance - it is hard to maintain it, but we're doing our best for the energy sector of the country to operate," he said.

Yatsenyuk said that imported coal is more expensive than Ukrainian-produced coal.

"On the other hand, a stimulus of replacing our boilers at thermal power plants has appeared, and we'll switch to cheaper coal, and challenges in the energy sector will make us to conduct a real modernization of the Ukrainian energy sector," he said.

### U.S. supplies

Earlier in the week Ukrainian Energy and Coal Industry Minister Yuriy Prodan met with Deputy Assistant Secretary of Commerce at U.S. Department of Commerce Matthew Murray and U.S. Ambassador to Ukraine Geoffrey Pyatt to discuss shipments of coal or substitute fuel by U.S. companies.

The meeting was also attended by First Deputy Minister Yuriy Ziukov and representatives of NJSC Naftogaz Ukrainy.

Murray said that U.S. companies propose shipping coal of the required grades to Ukraine. He also noted the significant potential of both countries in the development of cooperation in the energy sector and in other areas, namely the production of hydrocarbons, nuclear energy, and others.

### Needs

Ukraine needs to import 1 million tonnes of coal a month due to the halt in work at a number of mines and the impossibility of supplying mined coal from the Donetsk region to the thermal power plants, Ukrainian First Deputy Energy and Coal Industry Minister Yury Zyukov told journalists on Thursday.

"Due to the impossibility of supplying coal that has already been mined, we must import approximately 1 million tonnes of coal a month," Zyukov said.

He said this coal is planned to be imported primarily from South Africa, and the option of purchases from the United States is also being considered.

Zyukov said that to do this, the Energy and Coal Industry Ministry must raise around an additional 1.5 billion hryvnia.

He said that coal reserves at thermal power plants amount to 2.1 million tonnes today, and in order to get through the fall and winter period, 3.5 million tonnes of coal are needed in warehouses.

### Domestic production

Ukraine reduced coal production 8.9% year-on-year in January-August 2014 to 49.82 million tonnes, the Energy and Coal Ministry told Interfax.

This included 13.189 million tonnes of coking coal, down 15.6%, and 36.631 million tonnes of steam coal, down 6.3%.

State-run coal mines reduced output 4.9% to 14.729 million tonnes, including 3.853 million tonnes of coking coal, down 11.9%, and 10.877 million tonnes of steam coal, down 2.1%.

In August, coal output in Ukraine plummeted 50% to 3.492 million tonnes due to the military activity in the Donbas. This included coking coal, which fell 65.5% to 639,800 tonnes and steam coal, which dropped 44% to 2.852 million tonnes.

In August, state-run companies reduced output by 68% to 702,300 tonnes, including coking coal by 65.5% to 196,700 tonnes and steam coal by 68% to 505,600 tonnes.

Mines in the Donetsk region produced 21.392 million tonnes (down 13%) and in the Luhansk region output was 14.492 million tonnes of coal (down 15.3%) in the 8M. The Dnipropetrovsk region mined 12.586 million tonnes (up 7.4%), the Lviv region turned out 1.171 million tonnes of coal (up 21.8%) and the Volyn region - 178,400 tonnes (down 26.9%).

In August, the biggest drop in coal output was in the Luhansk region - to 544,400 tonnes, which is 74% less than in August of last year. Donetsk region produced 1.203 million tonnes, down 60% from August 2013. Dnipropetrovsk produced 1.573 million tonnes, up 0.2%, Lviv region produced 148,700 tonnes, up 17.1% and Volyn region produced 23,000 tonnes, 23.3% less than a year earlier.

Due to the fall of output caused by military operations in the Donetsk and Luhansk regions and the subsequent fall of coal reserves in the warehouses of thermal power plants, Ukraine is considering the possibility of importing steam coal.

In 2013 Ukraine reduced coal output by 2.6% in comparison with 2012 to 83.698 million tonnes.

### Unemployed workers

Only a quarter of state mines are currently operating in the Donbas region, Zyukov said.

"Of the 95 state coal mines in the Donbas only 24 are operational today. They are working as usual, producing coal and fully employing the entire personnel," he said.

Fifty-seven mines have gone into the essential operations-only mode, employing a minimum of staff, he said. "Today about 70,000 mine workers are not employed in the production process," Zyukov said.

Thirteen mines in the Donbas region have been completely destroyed, some of which used to produce over a million tonnes of coal a year, the deputy minister also said.

In the absence of coal supplies, there is a likelihood of warehouses at thermal-power stations "switching off" for a 20-day period, he said.

"Today, power stations are stocked up with 2.1 million tonnes of coal. To get through the fall-winter period, warehouses should have 3.5 million tonnes," he said.

The hostilities in the Donbas region have resulted in damage to over a thousand power transmission lines, more than 4,000 transformer substations and left around 270 populated areas without electricity, the first deputy minister also said.

About 620 gas pipelines and about 200 gas-distribution stations have been damaged, he said.

Meanwhile, power supply to the Donetsk Zasiadko mine has been restored and all the workers have been raised to the surface, the Donetsk City Council said in a report posted on its official website.

"The last miner was brought to the surface from the Zasiadko mine at 4:30 a.m. on August 29. Power supply to the mine has been restored," says the report posted on Friday.

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26

The mine suffered a power outage after a high-voltage cable had been damaged on August 28. More than a hundred workers were trapped inside.

The Donetsk region state administration said later that 104 miners had been raised to the surface, and the DTEK energy holding reported the evacuation of 168 men.

DTEK put a temporary power supply system into place at 11:30 a.m. but the mine had another blackout at 2:50 p.m. because the shelling.

The Donetsk City Council said 41 miners remained trapped as of 7 p.m. on Thursday.

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## AUCTIONS & TENDERS

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### **Auction for Yaregskoye field to take place in 2014 - gov't order**

MOSCOW. Sept 4 (Interfax) - The auction for exploration and production rights at Komi Republic's Yaregskoye titanium and rare earth element field, including the Titanovy 1 section, will take place in 2014.

Russian Prime Minister Dmitry Medvedev signed the corresponding government order on September 2. It was published on pravo.gov.ru.

The starting bid for subsoil usage rights is 87.683 million rubles.

The action includes an area covering 0.497 square kilometers. According to the state balance sheet of mineral resources as of January 1, 2014, titanium order reserves (A+B+C1) total 7.661 million tonnes, titanium dioxide (A+B+C1) - 717,400 tonnes, rare earth elements (C1+C2) - 3,964 tonnes, tantalum pentoxide (C2) - 42.5 tonnes, and niobium pentoxide (C2) - 920.1 tonnes. In addition, the section includes unbooked reserves of C1 titanium dioxide totaling 30,800 tonnes and of titanium ore - 768,200 tonnes.

According to the section's usage rights, the engineering plan for industrial production must be finished no later than 24 months after the license is registered. In addition, the construction of infrastructure necessary for the field's development must begin no later than 30 months after the license is registered; the enterprise must be commissioned no later than 48 months after and full capacity must be reached no later than 64 months after.

## STATISTICS

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### **Russian international reserves down \$0.3 bln in week**

MOSCOW. September 4 (Interfax) - Russia's international reserves fell \$0.3 billion to \$465.8 billion in the week to August 29, the Central Bank said on Thursday.

The reserves stood at \$461.1 billion on August 22.

They consist of highly liquid financial assets at the disposal of the CB and Russian government, including foreign currency, monetary gold, special drawing rights, the reserve position at the IMF and other reserve assets.

### **Russia boosts gold production, concentrate exports 24% in 7M**

MOSCOW. Sept 4 (Interfax) - Combined gold production and gold concentrate exports in Russia grew 23.7% year-on-year in January-July 2014 to 149.951 tonnes, the Gold Producers Union said, quoting preliminary data.

Production of ingots from mined gold grew 15.4% to 118.202 tonnes, from byproduct gold - 6.6% to 9.792 tonnes and from secondary gold - 134% to 18.503 tonnes.

Production of gold concentrates with subsequent export or sale in Russia grew 109.7% to 3.454 tonnes.

### **Russia cuts aluminum exports 20%, copper up 5%, nickel - 0.6% in 7M**

MOSCOW. Sept 4 (Interfax) - Russian aluminum exports fell 19.7% year-on-year in January-July 2014 to 1.68 million tonnes, the Federal Customs Service (FCS) said.

The exports fell in value by 17.4% to \$3.262 billion.

Aluminum exports to non-CIS countries fell 19.4% to 1.639 million tonnes and 17% to \$3.179 billion. Exports to CIS countries fell nearly a third in both tonnage and value, to 40,900 tonnes and \$82.8 million.

Nickel exports rose 0.6% in tonnage and copper exports were up 5.1%.

## Russian aluminum, copper and nickel exports and imports in Jan-July 2014:

	Overall exports		Non-CIS		CIS	
	'000 tonnes	\$ mln	'000 tonnes	\$ mln	'000 tonnes	\$ mln
Export						
Unprocessed aluminum	1 679.4	3 262.2	1 638.5	3 179.4	40.9	82.8
Change from 2013	-19.7%	-17.4%	-19.4%	-17%	-29.1%	-27.7%
Unprocessed nickel	120.2	1 912.4	120	1 905.8	0.2	6.5
Change from 2013	0.6%	-3.1%	-6%	-3.2%	-	27.4%
Refined copper	119.7	809.5	116.5	793.2	3.2	16.3
Change from 2013	5.1%	-6.5%	8.7%	-4%	-52.2%	-59%
Import						
Aluminum ores and concentrates	39.3	10.3	37	9.8	2.3	0.5
Change from 2013	19.1%	22.6%	23%	25.6%	-21%	-16.7%

## Russia boosts ferrous metal exports 1.15% in 7M

MOSCOW. Sept 4 (Interfax) - Russian ferrous metal exports rose 1.15% year-on-year in tonnage in January-July 2014, the Federal Customs Service (FCS) said.

The exports rose 1% in value.

Exports to non-CIS countries was up 3.75% in tonnage and 4.2% in value. Exports to the CIS fell 10% and 17.5%, respectively.

## Russian ferrous metal and related exports in January-July 2014:

Commodity	'000 tonnes	\$ mln	Non-CIS, '000 tonnes	\$ mln	CIS, '000 tonnes	\$ mln
Iron ores and concentrates	13 682.3	1 350.4	11 821.8	1 182.1	1 860.4	168.3
Jan-July 2014/Jan- July 2013	-6.25%	0	-7.7%	-3.2%	4.4%	30.5%
Bituminous coal	85 998.5	6 856.0	80 001.8	6 277.3	5 996.7	578.7
	8.9%	-1.6%	10.4%	-0.9%	-8.1%	-8.5%
Coke and semi-coke	1 256.1	207.7	715.0	120.0	541.1	87.7
	-7.3%	-29.8%	-9%	-32.2%	-4.9%	-26.4%
Ferrous metals (excluding pig iron, ferroalloys, scrap and waste)	15 073.6	8 543.0	12 549.9	6 844.9	2 523.7	1 698.1
	1.15%	-1%	3.75%	4.2%	-10.1%	-17.5%
Pig iron	2 492.5	977.3	2 400.1	934.8	92.4	42.6
	21.8%	23.5%	20.4%	22.1%	76.7%	63.2%
Ferroalloys	544.4	1 139.5	515.5	1 084.5	28.9	55.0
	3.9%	6.4%	4.6%	6.9%	-7.4%	-3.2%
Semi-finished carbon steel products	7 526.7	3 776.3	7 444.3	3 733.0	82.4	43.4
	-2.2%	0.45%	-0.02%	3.1%	-67.3%	-69%
Flat carbon steel products	4 637.1	2 708.2	3 667.1	2 038.6	970.0	669.6
	5.7%	1.7%	9.6%	7.5%	-7%	-12.7%

Ferrous metal imports fell 10% in tonnage in January-July. Imports from non-CIS countries fell 5% and imports from the CIS rose 13%. Imports in value fell 13% overall, including a fall of 7% from non-CIS countries and 19% from CIS countries.

#### Russian ferrous metal and related imports in January-July 2014:

Commodity	'000 tonnes	\$ mln	Non-CIS, '000 tonnes	\$ mln	CIS, '000 tonnes	Commodity
Bituminous coal	12 648.5	354.5	26.1	5.1	12 622.4	349.4
	18.2%	-12.9%	-91.5%	-93.2%	21.45%	5.2%
Ferrous metals	3 621.2	3 241.6	1 233.7	1 593.2	2 387.6	1 648.4
	-5.1%	-6.2%	-6.5%	-9.1%	-4.4%	-3.3%
Ferrous metals, excluding pig iron, ferroalloys, scrap and waste	3 232.6	2 741.7	1 186.4	1 470.6	2 046.2	1 271.1
Bituminous coal	-10.1%	-12.8%	-4.6%	-7.4%	-13.1%	-18.2%
	414.1	720.2	189.3	458.9	224.8	261.3
Ferrous metals	-23.5%	-27.9%	-33%	-28.4%	-13.2%	-27.1%

Since 2012, all figures (totals and breakdown by commodities) have included trade with Belarus and Kazakhstan.

## Ukraine cuts steel output 11% in 8M

KYIV. Sept 1 (Interfax) - Ukraine reduced crude steel production 11% year-on-year in January-August 2014 to 19.693 million tonnes, the Metallurgprom association told Interfax, quoting preliminary data.

Rolled steel output fell 11% to 17.349 million tonnes and pig iron production fell 6% to 18.203 million tonnes.

Production in August alone totaled 1.646 million tonnes for steel, 1.491 million tonnes for rolled steel and 1.503 million tonnes for pig iron, compared with 2.463 million tonnes, 2.195 million tonnes and 2.245 million tonnes respectively in July.

The industry had planned to boost output 5.6% in 2014 to 34.5 million tonnes for steel, 5% to 30.5 million tonnes for rolled product and 3.1% to 30 million tonnes for pig iron.

Last year Ukrainian enterprises boosted steel production 1% to 32.684 million tonnes, output of rolled product was flat at 29.038 million tonnes and pig iron production was up 2% to 29.111 million tonnes.

## CURRENCY RATES

### Official exchange rates for CIS and Baltic nations as of 04.09.2014

Country	Currency	For \$1	For 1 ruble	For 1 EUR
Armenia	dram	410.15	11.11	539.14
Azerbaijan	manat	0.7843	0.0213	1.0312
Belarus	bel.ruble	10450	280	13720
Georgia	lari	1.7402	0.046631	2.2887
Kazakhstan	tenge	182	4.93	239.11
Kyrgyzstan	som	53.3285	1.429	70.0763
Lithuania	litas	2.6287	0.070449	3.4528
Moldova	leu	14.1276	0.3828	18.577
Russia	ruble	37.3183		49.0213
Tajikistan	somoni	4.9704	0.1338	6.5395
Turkmenistan	manat	2.85	0.07725	3.7438
Ukraine	hryvnia	12.528758	0.33573	16.47657
Uzbekistan	sum	2348.02	65.22	3127.51

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## PRESS REVIEW

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### **Russian press on the Metals & Mining sector for August 29**

\*\*\* Norilsk Nickel increased EBITDA by 9% to \$2.5 billion and its EBITDA margin by 4 percentage points to 44% in the first half of 2014, the second highest figure among mining companies behind BHP Billiton. Thanks to rising prices for nickel and palladium, the Russian company could regain its position as the most efficient mining company in the world (Vedomosti, p. 13).

### **Russian press on the Metals & Mining sector for September 2**

\*\*\* The upturn on the steel market that has allowed many Russian steelmakers to return to profits could lead to problems for Evraz. President Vladimir Putin on Monday reminded the company about its obligations to build a \$4 billion steel plant in Yakutia based on the Timir iron ore deposit. Evraz's owners have agreed to give the project another look but still do not see a future for it, and analysts agree (Kommersant, p. 9).

### **Russian press on the Metals & Mining sector for September 3**

\*\*\* Polymetal, a leading Russian silver and gold miner, has decided to suspend the development of most deposits in Russia and focus on its new Kyzyl project in Kazakhstan, which requires investment of up to \$640 million. Analysts believe this is the right approach but point to technical difficulties at Kyzyl. Polymetal's acquisition of Kyzyl, in a deal to be closed by the end of 2014, will increase its reserves by 50% (Kommersant, p. 8; Vedomosti, p. 12).

### **Russian press on the Metals & Mining sector for September 4**

\*\*\* Norilsk Nickel is continuing to sell off assets, despite the steady growth of demand and prices for nickel, and does not intend to alter its strategy. The Russian mining giant said it has agreed to sell the Lake Johnston project in Australia to Poseidon Nickel Limited. A source said Norilsk Nickel would gain \$100 million on the deal. After this sale, the company's only remaining asset in Australia will be the huge Honeymoon Well deposit (Vedomosti, p. 12).

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