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Putin, Poroshenko discuss "ceasefire regime" in Donbas, optimism over Sept 5 talks

Russian President Vladimir Putin and his Ukrainian counterpart Petro Poroshenko have reached agreement on a "ceasefire regime" in southeastern Ukraine and there is hope this could be the basis for a permanent cessation of hostilities.

Gazprom begins building Power of Siberia gas pipeline

Russian gas giant Gazprom has begun building the Power of Siberia gas pipeline, the key infrastructure project which will form the base for Russian gas exports to China along the Eastern Route.

INDICATORS

Chief Russian Financial and Macroeconomic Indicators

	05.09.2014	29.08.2014
Official Exchange Rate of Ruble to Dollar (ruble/\$1)	36.8038	36.3053
Official Exchange Rate of Ruble to Euro (ruble/EUR1)	48.3786	47.9520
	29.08.2014	22.08.2014
International reserves (\$bln)	465.8	466.1
	August 2014	August 2013
Consumer Price Index (%)	0.2	0.1

OFFICIAL EXCHANGE RATE, RUBLES/\$1



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HEADLINE NEWS

Digest of Headline News

*** Russian gas giant Gazprom has begun building the Power of Siberia gas pipeline, the key infrastructure project which will for the base for Russian gas exports to China along the Eastern Route. Welding the first joint took place near the Us Khatyn suburb at kilometer 18 of the Nam-sky tract near Yakutsk and Russian President Vladimir Putin took part in the ceremony. Construction of the Chinese segment of the pipeline will begin soon and Gazprom expects supplies to start in 2019. The approximate cost of building the pipeline will be 770 billion rubles.

*** Russia and Algeria signed an agreement on Wednesday on cooperation in the use of nuclear energy for peaceful goals, Rosatom said in a press release. The agreement covers design, construction, operation and maintenance of the nuclear power plants as well as research reactors in Algeria.

*** Mongolia is willing to transport Russian natural gas to China and is willing to compete with Kazakhstan to do so, Mongol President Tsakhiagiin Elbegdorj said at a joint press conference with Russian President Vladimir Putin on Wednesday.

*** Rosneft can meet its financial obligations on its own, the Russian state oil major's president, Igor Sechin said in an interview with Der Spiegel. Rosneft can easily meet its obligations with its own resources, he said. Rosneft earned a record profit last year and it posted a profit of \$5 billion in the first half of 2014 on revenue of \$80 billion, Sechin said when asked how the company intends to carry out its investment plan in the face of sanctions.

*** The European Commission has approved Rosneft's purchase of Morgan Stanley's trading business, the commission said in a statement.

The commission said the proposed acquisition would not raise competition concerns, as the overlaps are very limited and a number of strong players would remain in the market after the merger.

*** 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.

*** Russian gold and silver producer OJSC Polymetal has decided to revise its priorities in developing new projects, the company said in a statement. Polymetal also this week finalized the acquisition of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan, Polymetal said in a statement.

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*** Russian Railways (RZD) can find alternative financing sources following EU sanctions that limit Russian companies' ability to borrow from western banks, and Europe is running the risk of losing a quality borrower, RZD President Vladimir Yakunin told journalists September 4.

*** The government's Commission on Monitoring Foreign Investment has approved a deal on the purchase by U.S. company Abbott of Russia's OJSC Veropharm, head of the Federal Anti-Monopoly Service (FAS) Igor Artemyev said. The deal amounts to \$650 million and another \$250 million will be invested by Abbott into the construction of new factories in Russia.

*** The Central Bank of Russia (CBR) is expecting Russian companies to need up to 1 trillion rubles in loans by the end of 2014, CBR Deputy Chairman Mikhail Sukhov said at the international banking forum Russian Banks - 21st Century on September 4. "No less than a trillion rubles. Demand will grow by the end of the year due to various factors," he said.

*** The CBR will no longer make use of the ruble trading band in its current form as the bank completes its transition to inflation targeting, Central Bank First Deputy Chairman Ksenia Yudayeva wrote in an article published in the journal Voprosy Ekonomiki.

*** The National Bank of Ukraine has banned the issuing of foreign currency using payment cards starting September 2, introduced the mandatory conversion of money transfers to hryvni and slowed the procedure for buying foreign currency on the interbank forex market.

Events in the Coming Week

Country	Date	Event
DE	08.09.14	Trade Balance (Jul)
RU	09.09.14	Russian-Japan forum to take place on September 9-10.
AZ	10.09.14	Caspian Offshore forum to take place on September 10-12.
RU	11.09.14	The 4th conference "Modernization of oil and gas refinery" to take place.
RU	11.09.14	VI Baltic Forum to take place in St.Petersburg on September 11-12.
EZ	12.09.14	Industrial Production (Jul)
US	12.09.14	Retail Sales (Aug)

UKRAINE CRISIS

IN-BRIEF: Key developments August 30-September 5

*** Russian President Vladimir Putin and his Ukrainian counterpart Petro Poroshenko have reached agreement on a "**ceasefire regime**" in southeastern Ukraine and there is hope this could be the basis for a permanent cessation of hostilities. The two sides will further discuss the peaceful settlement of the Ukraine crisis in Minsk on September 5. Russia expects the meeting to use Russian President Vladimir **Putin's peace proposals** to settle the conflict. Ukrainian President Petro Poroshenko welcomed Putin's proposals and refused to rule out that the Contact Group could reach a decision over a bilateral ceasefire in eastern Ukraine as a result of the talks. He said he would be willing to give the order to stop operations tomorrow, if so. Ukrainian Prime Minister Arseniy Yatsenyuk and former Prime Minister were less optimistic, saying they believe Putin was attempting to achieve frozen conflict status and a new Transdnistria. Militia fighting in the Peoples' Republics of Donetsk (DPR) and Luhansk (LPR) will stop combat operations if Kyiv goes for a unilateral ceasefire, DPR First Deputy Prime Minister Andrei Purgin said. In addition to a ceasefire, the republics also proposed a ban on overflights by military aircraft, OSCE monitoring, and the opening of humanitarian corridors.

*** On the ground in Donbas, tensions remained high in the **combat zone** but artillery fire intensity declined overnight. However, there were reports militia were attempting to retake the town of Mariupol and Donetsk airport. Luhansk remains without power and water, as it has done for over a month and Donetsk also went without supplies at times during the week. Ukrainian Prime Minister Arseniy Yatsenyuk said he believes it will cost billions of dollars to rebuild **Donbas infrastructure**.

*** Ukraine is planning to accumulate 17.2 billion cubic meters (bcm) of **gas in underground storage** (UGS) facilities by the start of the heating season. Natural **gas supplies from Slovakia** to Ukraine began this week via the the Voyany-Uzhgorod pipeline. Ukraine also said it needs 1 million tonnes of **coal** a month as mines in the southeast sit idle due to the conflict.

*** Yatsenyuk said a new Ukrainian defense doctrine should designate Russia as a state threatening Ukraine's territorial integrity. He said Kyiv is seeking special status in its **relations with NATO** and hopes to receive this before the end of the year.

*** Ukraine has received the second tranche of a loan from the **IMF stand-by program**. According to the IMF's revised program scenario, Ukraine's debt will grow to 68% of GDP in 2014 and reach a peak of 73% of GDP in 2015, which is 12 percentage points higher than initially planned. Ukraine may borrow on the international market to finance its **budget deficit**, which is estimated at about \$1.1 billion in the next 12 months, the IMF said.

*** The EU is composing additional blacklists of individuals and companies cooperating with the Donbas militia as part of **fresh sanctions** being prepared against Russia. The head of Russia's Federal Anti-Monopoly Service has said that the country's remains appealing from an **investment standpoint** in spite of western sanctions. His words came as head of the French oil

company Total Christophe de Margerie urged Western countries to forgo their sanctions policy against Russia and as the AEB wrote official letters to the 28 EU members requesting that foreign investors from all countries be protected from any further restrictive measures.

*** French President Francois Hollande was reported as saying that the delivery of the **first Mistral-class ship** to Russia will be suspended. "There are no proper conditions for delivering the first helicopter carrier to Russia," Hollande said. Russia said that it does not yet believe the delay to be final and said any unilateral breaking of the contract would make France suffer more than Moscow.

PEACE PLAN: Putin, Poroshenko discuss "ceasefire regime" in Donbas, optimism over Sept 5 talks

MOSCOW. Sept 5 (Interfax) – Russian President Vladimir Putin and his Ukrainian counterpart Petro Poroshenko have reached agreement on a "ceasefire regime" in southeastern Ukraine and there is hope this could be the basis for a permanent cessation of hostilities. The two sides will further discuss the peaceful settlement of the Ukraine crisis through the Trilateral Contact Group in Minsk on September 5 (getting underway at time of press) and Russia expects the meeting use Russian Putin's proposals to settle the conflict. Poroshenko welcomed Putin's proposals and told reporters a document on the start of implementation of the peace plan to resolve the situation in southeastern Ukraine is expected to be signed at the Minsk meeting. Poroshenko also refused to rule out that the Contact Group could reach a decision over a bilateral ceasefire in eastern Ukraine as a result of the Minsk talks. He said he would be willing to give the order to stop operations tomorrow, if so. Ukrainian Prime Minister Arseniy Yatsenyuk and former Prime Minister were less optimistic, saying they believe Putin was attempting to achieve frozen conflict status and a new Transdnistria. Militia fighting in the Peoples' Republics of Donetsk (DPR) and Luhansk (LPR) said they would stop combat operations if Kyiv goes for a unilateral ceasefire.

Ceasefire regime and seven-point plan

The Ukrainian presidential press service earlier on Wednesday updated its previous report on agreements reached between Poroshenko and Putin, saying that the two actually agreed on a ceasefire regime in Donbas rather than on a lasting ceasefire, as was reported before. Moves toward that are hoped for in Minsk.

Putin said he believes representatives of the Kyiv administration and south-eastern Ukraine should reach agreements on the peaceful settlement in the contact group meeting scheduled to take place in Minsk on September 5.

Putin said he and Poroshenko have largely similar views of ways of resolving the conflict in eastern Ukraine. "I had a phone conversation with Poroshenko this morning and our views, at least it seemed to me, on the ways of resolving the conflict are very close, as diplomats say," Putin told reporters.

Putin said he "made some sketches, some 'action plan'" when he was on the plane to Mongolia for talks in Ulaanbaatar.

Putin's plan has seven points, which are aimed at 'stopping the bloodshed and stabilizing the situation in south-eastern Ukraine'. "I would like to say that [...] this statement followed today's phone conversation with Poroshenko," Putin said.

Both conflict parties should agree and carry out a set of actions in order to stop the bloodshed and stabilize the situation in southeastern Ukraine, Putin said.

"The first thing is to stop active offensive operations by the armed forces and armed formations of militia of south-eastern Ukraine in the direction of Donetsk and Luhansk," Putin told reporters.

"The second thing is to withdraw armed subdivisions of Ukrainian law enforcers to a distance, ruling out the possibility of artillery and all multiple launch system strikes on settlements," the Russian president said.

"The third thing is to foresee carrying out comprehensive and objective international control with regard to compliance with ceasefire conditions and monitoring the situation created this way in the security sector," Putin said.

"The fourth thing is to rule out the application of combat aircraft against civilians and settlements in the conflict zone. Then to organize the exchange of persons kept forcibly under the 'all for all' formula, without any preliminary conditions," the Russian president said.

"The sixth thing is to open humanitarian corridors to move refugees and deliver humanitarian cargo to cities and other Donbas settlements - the Donetsk and Luhansk regions," he said.

"And finally, the seventh thing is to ensure the possibility of sending damage repair brigades to Donbas settlements to restore social and vital infrastructure facilities and to help them," Putin said.

The Kyiv authorities and representatives of south-eastern Ukraine could reach and affirm final agreements during the contact group meeting scheduled for September 5, 2014, the Russian president said.

Results expected at Minsk meeting

Moscow expects that Putin's proposals on settling the conflict in Ukraine will be used during a session of the contact group for Ukraine in Minsk on September 5, Russian Foreign Minister Sergei Lavrov said.

"We hope that the conflicting parties will use these ideas and try to reach an agreement during the contact group session," Lavrov said at a meeting with CoE Secretary General Thorbjorn Jagland.

"We expect that the reaction from official Kyiv and militia will come. We have done, are doing and will do everything depending on us in order for the proposals on beginning dialogue to materialize, starting with the main task - a ceasefire," Lavrov told Interfax.

"We will, of course, also be ready to listen to some additional proposals from the members of the Contact Group in the hope that we will eventually work out something in common. As the first step, we will insist on a ceasefire: this is the most important thing now," the minister said.

Moscow is trying to make its contribution to efforts to start a dialogue between Kyiv and the southeastern part of Ukraine, Lavrov said. "The CoE can and should play a constructive role at this difficult time," he said.

Lavrov insisted that decisions made by the Council of Europe (CoE), the Organization for Security and Co-operation in Europe (OSCE), and the UN Security Council should be implemented fully. "This concerns investigations into all crimes and all incidents that have taken place on Maidan [in Kyiv], the tragedy in Odesa, the Boeing crash, a ceasefire, and the normalization of dialogue," he said.

"We hope these calls will be heard, especially by Kyiv, Donetsk, and Luhansk. We are ready to ensure practical steps toward de-escalation together with the OSCE," Lavrov said in opening a meeting with OSCE Parliamentary Assembly President Ilkka Kanerva later in the day.

He warned against opponents of a ceasefire in eastern Ukraine casting doubt on the legitimacy of Ukrainian President Petro Poroshenko's actions.

"This is not the first time - as soon as a ray of hope emerges for switching the situation from forceful resistance to the political settlement sector, the so-called 'war party' becomes active at once," Lavrov said.

"Those who are taking the path of war now by supporting violent radical elements in Kyiv, they take a huge responsibility, including not only for the continuing bloodshed but as to [what are] essentially attempts to cast doubt on the legitimacy of the actions of the current Ukrainian president," Lavrov said.

Poroshenko sees hope; Yatsenyuk, Tymoshenko see frozen conflict

Poroshenko welcomed the Russian readiness to implement the peace plan for eastern Ukraine and hopes the plan will lay the foundation of September 5 consultations of the Trilateral Contact Group.

A document on the start of implementation of the peace plan to resolve the situation in eastern Ukraine is expected to be signed during a trilateral contact group meeting in Minsk on September 5, Poroshenko told reporters in Newport, Wales in the framework of the NATO summit.

"I have informed our partners about the talks held with Russian President Vladimir Putin and about the plans, which should occur tomorrow, where, according to preliminary information, a document foreseeing the stages of implementing the peace plan in Ukraine should be signed," Poroshenko said.

A ceasefire is a key element of this plan, he said.

Poroshenko also refused to rule out that the Contact Group could reach a decision over a bilateral ceasefire in eastern Ukraine as a result of the Minsk talks. "Tomorrow, at 2 p.m., if this is confirmed, if the meeting takes place, I will give instructions to senior members of the General Staff about a bilateral ceasefire, and we hope that the implementation of the peace plan will begin tomorrow," he said.

Ukraine wants peace, he reiterated. "Ukraine has never wanted a war, it is tired of the war and will do all it can to bring peace to its land," he said.

The first step towards peace is a ceasefire, as well as decisive action that will facilitate disarmament, nationwide dialogue and the making of relevant legislation aimed at bringing stability to the Luhansk and Donetsk regions, Poroshenko added.

Yatsenyuk meanwhile called the Putin's plan a move to create a frozen conflict. "The plan is an attempt of eyewashing the international community ahead of the NATO summit and an attempt to escape unavoidable EU resolutions on a new wave of sanctions against Russia," he said.

"All previous understandings reached with Russia - in Geneva, Normandy, Berlin, Minsk - were either simply ignored or violated by the Russian regime," he said.

Yatsenyuk accused Moscow of attempts to destroy Ukraine and restore the USSR and added: "We are looking forward to the decisions of NATO and the EU open stopping the aggressor."

Leader of the Batkivshchyna party Yulia Tymoshenko said she viewed Putin's plan for Donbas as an attempt to turn Ukraine into an entity analogous to the unrecognized Republic of Transdniestria. "Putin's plan is about turning Ukraine into Transdniestria," Tymoshenko said on Twitter.

Peoples' Republics promise mutual ceasefire

Militia fighting in the DPR and LPR will stop combat operations if Kyiv goes for a unilateral ceasefire, DPR First Deputy Prime Minister Andrei Purgin said.

"A ceasefire is not a truce. If Kyiv goes for a unilateral ceasefire, we will be forced to do the same," Purgin told Interfax.

Purgin said he intends to participate in the meeting of the contact group for peaceful settlement in eastern Ukraine, which is planned in Minsk on September 5.

"The agenda issues are the same - the issue of a ceasefire, issues of prisoner exchange and the issue of withdrawing Ukrainian troops from DPR territory," Purgin said.

Purgin said the DPR will consider the possibility of a stage-by-stage peace plan if such a plan is proposed at the meeting.

"We are ready to discuss the agenda, the issues to be discussed, including the adoption of a stage-by-stage peace plan, if such a plan is proposed. However, I don't know anything about this plan," Purgin told Interfax.

DPR militia are not planning to expand its offensive to neighboring regions of Ukraine, Purgin said.

"We are not claiming Ukrainian territories [neighboring on DPR]," he said.

DPR and LPR leaders meanwhile proposed their draft of a peace plan for stabilizing the situation in Donbas, involving both a ceasefire between the warring sides and a number of other measures. "To stabilize the situation and stop the bloodshed in the southeast, we are offering a number of measures, primarily, the introduction of a temporary ceasefire regime from 3 p.m. on September 5 by the Ukrainian force structures and the militia of the southeast," republics' representatives told Interfax on September 4.

Among other measures in the draft plan is a ban on warplane flights over the self-proclaimed republics from 3 p.m. September 5.

"To conduct international regulation of the ceasefire and monitoring of the situation under the OSCE aegis, and to that end to divide the security zone being created into five sectors, each with a monitoring mission of up to 40 members, and three or four stationary and two or three mobile monitoring posts," the draft said.

The posts will be provided with surveillance, communication and video-recording facilities. The draft plan also involves the opening of humanitarian corridors to refugees and aid deliveries to the cities and towns in the Donetsk and Luhansk regions by car and by rail from 10 a.m. on September 7.

Observers said that the republics' proposals correlate with the plan to settle the situation in east Ukraine, unveiled by Russian President Vladimir Putin in Ulan Bator on September 3.

Europe sees positives in proposals

CoE Secretary General Jagland said he positively views Putin's initiative, but says it now needs to be supported with concrete steps.

Answering a question from Interfax, he said it was good the initiative had been made and added they should hope it could lead to something.

It is very important to maintain positive dynamics in the fulfillment of such proposals and to make one positive step after another under such circumstances, he said. A prisoner swap could be one of these positive steps, he added.

Jagland said they had seen conflicts of the Ukrainian kind before in which radicalized elements on both sides did not want to make positive progress and tried to undermine any initiative.

The CoE secretary general called for giving comprehensive support to the civilian population harmed by the conflict in eastern Ukraine.

Jagland noted that the Ukrainian crisis had gone too far and it must be stopped immediately.

The OSCE Parliamentary Assembly believes it would be helpful to discuss Putin's plan with all parties to the conflict, OSCE PA President Kanerva said.

Kanerva said Lavrov had informed him of Putin's plan earlier this morning, and it would be helpful and constructive to discuss this plan with other parties to the conflict in Ukraine. The OSCE also has a lot of its own initiatives, including a road map for settling the conflict, he said.

Kanerva called on Russian parliamentarians to cooperate with the OSCE PA to promote a political settlement of the conflict in Ukraine.

Kanerva said he implied efforts toward the conflict's de-escalation and the arrangement of a sustainable political dialogue, which is extremely important now, taking into account the worsening humanitarian situation in the region.

Russia sees the OSCE's role in conducting constitutional reform in Ukraine to ensure the legitimate rights of the people living in the south-eastern part of the country, Federation Council Speak Valentina Matviyenko said at a meeting with Kanerva. "Without this, it is difficult to expect an internal Ukrainian settlement. The rights of Russian Orthodox Church believers are massively infringed upon in Ukraine today, priests are being badly harassed, and there have been instances of murders, and the Ukrainian authorities are obstructing the work of Russian media outlets in any way they can and killing Russian journalists. The last case is the killing of Russian journalist Andrei Stenin," she said.

Russia also expects the OSCE mission to contribute to the international investigation into the MH17 crash in Ukraine, Matviyenko said. "We expect an open and impartial investigation. Immediately after the Boeing crash, there were unfounded accusations addressed at the militia and Russia," she said.

Obama says Russian servicemen in Ukraine

The United States has no doubt that Russian servicemen are involved in the fighting in eastern Ukraine, President Barack Obama has said. Russia again denied the claims.

"The Russian forces that have now moved into Ukraine aren't on a 'humanitarian' or 'peacekeeping mission.' They are Russian combat forces with Russian weapons in Russian tanks. There are Russian warheads with Russian weapons and Russian tanks. Now, these are the facts. They are provable. They're not subject to dispute," he said at a press conference in Tallinn on Wednesday.

He also said that "trying to reclaim lands lost in the 19th century is surely not the way to secure Russia's greatness in the 21st century."

Obama did not specify what kind of "lands lost in the 19th century" he meant.

Obama has called on Russia to change its course towards Ukraine. "We welcome a Russia that is strong and growing, and contributes to international security and peace, and that resolves disputes peacefully with diplomacy," he said in Tallinn on Wednesday, noting that "in contrast to Russia's isolation and economic woes today, that path, which would include a stable and prosperous Ukraine whose sovereignty is respected, would also ultimately result in greater success and opportunity and respect for Russia."

"That path remains available to Russia. That path will deliver truer progress for the Russian people. But it's a path that starts by Russia changing course and leaving Ukraine so that Ukrainians can make their own decisions," Obama said.

He said that one of such decisions would be "to have strong relations with not just Europe, but also with Russia, but it has to be freely chosen."

EASTERN UKRAINE: Intensity of artillery fire declines, hotspots remain as peace talks approach

MOSCOW. Sept 5 (Intefax) - On the ground in Donbas, tensions remained high in the combat zone but artillery fire intensity has declined after Russian President Vladimir Putin's announcement of peace proposals on Wednesday. "We have been witnessing a decline in fire intensity, including the intensity of use of the artillery and other weapons," Ukrainian National Security and Defense Council (NSDC) Information Analysis Center speaker Andrei Lysenko said. He said the Ukrainian forces continued to organize the firing positions and were prepared to fulfill the orders from their command.

Hotspots remain

DPR militia have started an active phase of the operation seeking control over Mariupol, a DPR government source told Interfax on September 4.

"Active operations have started in the southern direction. The purpose of these actions is to establish control over the city of Mariupol. The operation is being carried out using military methods," the source said.

Explosions can be heard in Mariupol in the Donetsk region and Mariupol militia headquarters is explaining them as being the result of fighting taking place on the outskirts of city, the city portal 0629 reported earlier.

"Several tanks have started from Novoazovsk and military is stopping a small breakthrough," the statement said.

The Ukrainian military have repelled the enemy's advance on Mariupol, said Oleksandr Danilyuk, an Advisor to the Ukrainian Defense Minister.

"The units of the Ukrainian Armed Forces have repelled the enemy's advance on Mariupol, having destroyed several pieces of hostile armor and personnel," he wrote on his Facebook page on September 4.

Meanwhile, the shelling of Ukrainian positions continues, Danilyuk said.

Trench warfare for Donetsk airport also resumed on September 3 evening. Defensive Ukrainian forces are actively using the artillery, the DPR said. "This is a trench war. And no significant progress has been made as of yet," a source in the DPR defense department told Interfax.

"Militia fighters today resumed firing at the airport, which is still under the Ukrainian military forces' control," Knyryk said.

Despite attempts being made to arrange a truce in eastern Ukraine, the Ukrainian government forces resumed the shelling of Donetsk and its suburbs on September 4 morning, Knyryk said.

Overnight into September 4, LPR militia claimed to have destroyed a Ukrainian battalion camp. "As a result of multiple rocket launcher strikes, the base camp of the 12th Kyiv territorial de-

fense battalion was destroyed overnight into September 4 in the LPR's Dmytrivka," the LPR militia headquarters said.

"The exact number of dead and injured is unknown, a considerable amount of equipment was destroyed, the opponent has two out of five armored vehicles left," the headquarters said.

The hostilities have killed 837 Ukrainian servicemen and injured another 3,044, Lysenko said.

He said the information about casualties had been verified and confirmed but it would be updated further after the end of the operation in Ilovaik.

Luhansk still without water

The situation in Luhansk remained unchanged as of September 4. There is no electricity and water supply in the city but cell phone communications are now working. City residents say the attacks on the city have become rarer.

The press service for the city council has reported, citing eyewitnesses, that a kindergarten building and several residential buildings were damaged in the city's Yuzhny quarter in the fighting.

"Only the most essential food is available in shops, and there are long lines for it. People are also saying humanitarian aid packages are being handed out in Luhansk," the report says.

There are still problems with the payment of wages, pensions and social benefits in the city and people are running out of money. The housing and utilities services continue to work in the city and remove refuse, despite the tensions. Work is being done to rebuild infrastructure and bring order to the city. Specifically, a cleaning day is scheduled in the city this coming weekend, the city council said.

Donetsk meanwhile reported that tap water supply was halted as of 9:30 a.m. after the Upper Kalmius water filtering station was left without electricity. Repairmen cannot restore power supply because of the hostilities.

The termination of water supply to most districts of Donetsk was caused by a grid failure at the filtering station, Donetskgorvodokanal (Donetsk municipal water channel) utility enterprise posted a statement on its website.

"As a result of military action, Verkhne-Kalmiusska filtering station has not had power supply since 8 p.m. Due to this, water supply to Donetsk has been stopped temporarily. The opportunity to store water exists until 9 p.m. According to DPR supporters, the disruption of the filtering station work might be caused by Ukrainian sabotage group because when the accident occurred, military action was not taking place in this area.

Energy services have not been able to restore power to 181 populated areas of the Donetsk region due to the continuing military action, the press service for the energy holding DTEK reported.

"It's a new record for blackouts since the beginning of the military action in eastern Ukraine. Some 150 energy specialists and up to fifty vehicles work in the Donetsk region daily, but energy services cannot get to some power lines and sub-stations because of the military action," the company says.

According to DTEK, 2,000 residential buildings in the village of Karlivka, Maryinsky district, have been without power since May 23 (for 100 days).

Furthermore, 3,000 residents of the villages of Zorka, Kozhevni, Tarany, Dubrovka, Latyshevo, and Dmytrovka in the Shakhtarsk district have been without power for 65 days and 600 residents of the village Veseloye, Yasunovakaya region, have been without power for 45 days.

Most populated areas remain without power in the Amvrosiyevsky (52), Starobeshevsky (43), and Shakhtarsk districts of the Donetsk region,

DTEK was created in 2005 to manage the energy assets of SKM Group (Donetsk) owned by Rinat Akhmetov. DTEK manages the group's enterprises, which compose a vertically integrated coal extraction and enrichment and electrical power production and sale chain.

Deputy Head of the International Committee of the Red Cross (ICRC) regional delegation to Russia, Belarus and Moldova Bruno Husquinet said that the delivery and escort of more Russian humanitarian aid to southeastern Ukraine depend solely on security guarantees.

He said they could not decide to escort and deliver the humanitarian cargo from Russia until they received security guarantees from all sides to the conflict. Husquinet was speaking at a meeting of the Federation Council's committee on humanitarian aid to people in southeastern Ukraine.

Humanitarian aid

Russian State Duma Speaker Sergei Naryshkin meanwhile urged the Parliamentary Assembly of the Council of Europe (PACE) to influence the Council of Europe member-countries into providing humanitarian aid to southeastern Ukraine.

"Russia is actually the only country that is providing large-scale humanitarian aid to southeastern Ukraine. PACE has opportunities to urge other Council of Europe members to send humanitarian aid to residents of south-eastern Ukraine," Naryshkin told the press after a meeting of the PACE Presidential Committee in Paris.

He said people living in south-eastern Ukraine are starving and are experiencing water and medicine shortages.

Ukraine is in talks with Russia over a possible rail delivery of humanitarian aid to the eastern regions of Ukraine, but no specific agreement has yet been reached, the Ukrainian Foreign Ministry said.

"The question over a possible delivery of humanitarian aid by rail is currently under discussion," Ukrainian Foreign Ministry spokesman Yevhen Perebyinis said at a briefing on Tuesday.

"Today we have continued consultations both with Russia and with the International Committee of the Red Cross (ICRC) to determine a possible checkpoint through which the aid will be delivered, and over the modalities of the ICRC participation in the delivery, storage and distribution of this aid," Perebyinis said.

There is no specific agreement yet on this issue, he said.

Military service

Ukrainian President Petro Poroshenko earlier approved amendments to the law "On military duty and military service" and the law "On the principles of preventing and countering corruption," concerning the manning of a professional army and simplifying army conscription during a crisis.

Law N1634-VII facilitates the transition of the Ukrainian Armed Forces to enlisting personnel on a contractual basis, the president's press office said on Tuesday.

The law also simplifies the procedure and reduces the time required for drafting citizens into military service in the event of a critical situation that poses a threat to Ukraine's national security, and for announcing a decision to conduct mobilization and/or impose martial law.

The NSDC confirmed Poroshenko and parliament faction leaders had decided to not declare a martial law in Ukraine.

"The General Staff is holding a conference this very second to plan further actions of the Ukrainian Armed Forces and law enforcement authorities," Lysenko said

Change of approach

Meanwhile, Kyiv is considering a possible change of the format of the army operation in eastern Ukraine, Lysenko said.

"We are aware of the situation and a decision on further reconfiguration of the ATO [army operation] format is pending. Some say this is a wrong format because we are no longer dealing with the terrorists, but a decision to change the format has yet to be made," Lysenko said in a program aired by the ICTV channel on Monday evening.

"I think we will hear about broader solutions shortly, among them solutions concerning personnel matters," he added.

Lysenko also said the Ukrainian army was preparing for defensive operations in the south.

"Speaking of the southern sector, troops have been rapidly redeployed there and reinforcements have been sent. For instance, we have formed an outpost in Mariupol equipped with engineering fortifications and mine fields. We already possess forces in the southern sector to deter a more powerful attack," he said.

Moreover, a large number of volunteers are ready to engage in combat upon first order, Lysenko said, adding that Mariupol alone has 5,000 volunteers.

Ukraine is also holding talks with certain EU countries regarding military and technical assistance, Ukrainian Foreign Minister Pavlo Klimkin said.

"We are holding intensive consultations with our friends and partners and such decisions could be implemented bilaterally," Klimkin said.

Military and technical cooperation with EU countries is carried out mostly bilaterally, the minister said. "This is not so much an EU remit, as it is within the framework of bilateral formats. It is of crucial importance for us that EU countries and not only EU ones help us to develop the capabilities of our Armed Forces and security sector in general and to defend Ukraine," he said.

Ukraine is working to enhance the quality and mutual compatibility of Ukrainian Armed Forces with NATO forces and the Ukrainian issue will be one of the key topics at the coming NATO summit to be held in Wales, Klimkin said.

"The North Atlantic Alliance now clearly understands the challenges which have emerged in front of us due to acts of aggression by Russia against Ukraine and is looking for responses to these challenges on its own from the viewpoint of the most effective protection of its members and from the viewpoint of helping its friends and partners, most importantly Ukraine," Klimkin said.

NATO: Ukrainians to decide on membership after reforms implemented - Poroshenko

KYIV. Sept 4 (Interfax) - Ukrainian President Petro Poroshenko has said that Ukraine will raise the issue of joining the North Atlantic Alliance (NATO) after the required reforms are held.

"When the country meets all the criteria for membership, the Ukrainian people will decide when and how the accession will take place," he said at a joint press conference with NATO Secretary General Anders Fogh Rasmussen following the NATO-Ukraine Commission meeting, which was held in Wales on Thursday.

NATO ambitions

The Ukrainian government earlier in the week approved the 2014 national program of Ukraine-NATO cooperation, the government press service said.

The government accepted a draft decree of the Ukrainian president "On the Approval of the Annual National Program of Ukraine-NATO Cooperation in 2014" at its meeting, the press service reported.

Kyiv is seeking special status in its relations with NATO, Ukrainian Prime Minister Arseniy Yatsenyuk said.

"I would like to note specially before a NATO summit that our goal is to receive a special status [in relations] between Ukraine and NATO," Yatsenyuk said in opening a government meeting in Kyiv on Wednesday.

"NATO should grant Ukraine special status of special partner number one," Yatsenyuk said.

Ukraine also expects the United States to grant Ukraine key ally status, he said.

"As for NATO, the best decision would be the adoption of a decision on Ukraine's membership of NATO," Yatsenyuk said, admitting that it would be difficult to obtain consent to this from some NATO member-states.

The Ukrainian Cabinet of Ministers is hoping to receive special partner status and become a key ally of NATO before the end of this year.

The Ukrainian government is also hoping to receive military-technical assistance from the G7, the European Union, and NATO before the end of this year.

Yatsenyuk said a new Ukrainian defense doctrine should designate Russia as a state threatening Ukraine's territorial integrity.

"Ukraine needs a new defense doctrine clearly determining who the aggressor is and who is a threat. A new defense doctrine should designate Russia as an aggressor state and the principal and only country that threatens Ukraine's territorial integrity and national security," Yatsenyuk said.

Major ally

Ukraine could be assigned the status of the United States' major non-NATO ally (MNNA) as early as this year, Justice Minister Pavlo Petrenko said.

"Given the conditions our country is currently in, we have a prospect of obtaining the status of a U.S. ally fairly quickly. I think this will happen as early as this year," the minister said at an event held on the occasion of Notaries' Day on Tuesday.

The MNNA status will enable Ukraine to significantly broaden its military-technical cooperation and obtain a mechanism for buying necessary weapons, Petrenko said.

"The procedure for granting the U.S. ally status has been launched. But I personally think: this is an interim stage for granting Ukraine full membership in the North-Atlantic Alliance," Petrenko said.

Non-aligned status

Leader of the Batkivshchina party's parliamentary faction Serhiy Sobolev said on Monday that the Verkhovna Rada will hopefully debate a bill reversing Ukraine's nonaligned status.

"We have submitted a bill which I hope will be debated. But we need to have it entered on the agenda, if the debates are to take place," Sobolev said.

He said the bill reversing Ukraine's nonaligned status was submitted to the Verkhovna Rada by member of the Batkivshchina faction Boris Tarasyuk four months ago.

The Tarasyuk-proposed bill "clearly says that Ukraine should return to the status it had before 2010, when ex-president Viktor Yanukovich and the Party of Regions amended the article in the constitution dealing with Ukraine's status.

"We propose that Ukraine's nonaligned status be scrapped. Moreover, the Batkivshchina party is immediately initiating the procedures required to apply for membership in NATO," Sobolev said.

He said that in the current setting, the reversal of Ukraine's nonaligned status is "the only chance to become involved in the collective security system."

It is impossible to counter Russian aggression one-on-one, he said.

Membership timeline

Ukraine can only raise the question about cooperation with NATO after parliamentary elections and if the new parliament approves the bill abolishing the non-allied status of Ukraine, NATO Secretary General Anders Fogh Rasmussen said.

Rasmussen said he would expect Ukraine to raise the question in the NATO-Ukraine Commission, if the new parliament of Ukraine changes the legislation on the non-allied status of Ukraine, and the foundations for further cooperation between NATO and Ukraine will be developed on that basis. He added that it is difficult to say when it could happen.

Rasmussen reiterated that Ukraine will have to meet a number of criteria to enter NATO, and it will take a long time to meet those criteria.

NATO intends to follow the provisions of the NATO-Russia Founding Act. Rasmussen said NATO is abiding by the NATO-Russia Founding Act, which was signed in 1997, and all measures taken by NATO are in line with it. However, he said NATO sees that Russia is violating its fundamental principles and is calling on Russia to observe the document.

War party win

Russian Foreign Minister Sergei Lavrov said the proposal by the Ukrainian government to revoke the non-aligned status of the country and move toward NATO shows the attempts of supporters of forceful conflict resolution in southeastern Ukraine to disrupt the search for ways for political settlement.

"I would draw your attention to one very interesting fact - this initiative appeared right after agreements appeared following the meeting in Minsk to find a generally acceptable solution to

the current domestic Ukrainian crisis in the framework of the contact group. So, the 'peace party' tried and is still trying to advance a negotiating and political solution on all main issues Ukrainians face now. At the same time, the 'war party' is taking steps which are clearly aimed at disrupting these efforts," Lavrov said.

"To great regret, such moods in favor of enhancing the 'war party' positions in Kyiv are actively being heated up and incited from Washington, some European capitals and more and more often from Brussels and from NATO headquarters, where the secretary general gives statements with and without cause, which are not in his remit at all," Lavrov said.

"We are aware that serious and responsible politicians in Europe and in the U.S. are opposed to any provocations and realize that the continuing the conflict via militia capitulation is senseless and futureless, realize the necessity of certain, targeted and comprehensive dialogue in order to find a compromise on the future of the Ukrainian state, and we hope that their voice will prevail after all," the Russian minister said.

Only the United States is able to moderate the war party, in Ukraine, he said. "It would be very important to use the U.S. influence and opportunities in general in order to give necessary signals in favor of switching from the attempts to resolve the situation in a military way to political process," Lavrov said.

Poroshenko's upcoming visit to Washington gives a good chance to determine U.S. interest or lack of it in political settlement in Ukraine, he said.

"It has been declared already that Poroshenko is going to the U.S. on September 18 and this probably will be a good opportunity to set the record straight as to the U.S. interest or lack of interest in political settlement in Ukraine," Lavrov said.

Appeals for peace in Ukraine should be replaced with the fulfillment of numerous accords reached earlier, he said.

ENERGY: Ukraine looking to stockpile gas, coal ahead of winter

KYIV. Sept 5 (Interfax) – Ukraine is planning to accumulate 17.2 billion cubic meters (bcm) of gas in its underground storage (UGS) facilities by the start of the heating season as the country still goes without imports of Russian gas. Supplies from Slovakia did start this week however, which Kyiv hopes will meet a significant percentage of its need. Meanwhile, the idling of coalmines in the country's southeastern regions due to the ongoing conflict mean coal shortages are also threatening to become an issue as winter approaches. The Cabinet of Ministers of Ukraine this week signed an agreement on the purchase of one million tonnes of South African coal and supplies are also under discussion from the United States. In August, coal output in Ukraine plummeted 50% to 3.492 million tonnes. This included coking coal, which fell 65.5% to 639,800 tonnes and steam coal, which dropped 44% to 2.852 million tonnes.

Underground gas storage

Ukraine is planning to accumulate 17.2 billion cubic meters (bcm) of gas in its underground storage (UGS) facilities by the start of the heating season, First Deputy Energy and Coal Energy Minister Yury Zyukov said at a session of the Coordinating Council on the Restoration of Ukrainian Statehood in the Donbas and Crimea.

As of September 2, Ukraine's UGS contained 15.794 bcm of gas. Reserves are increasing daily.

However, at the end of August, Ukrainian Energy and Coal Industry Minister Yury Prodan said the country intended to pump an additional 10 bcm of gas into underground storage, increasing its reserves to 25 bcm by the start of the heating season. "We have time [before the start of the heating season] to pump up to another 10 bcm of gas [into UGS]. I am speaking about technological possibilities, but how this will be implemented - from Europe or from Russia - is the question. But there is such a technological possibility, based on the fact that we still have September and October," he said.

Slovak supplies begin

Natural gas supplies from Slovakia to Ukraine began on Tuesday, Naftogaz Ukrainy head Andrei Kobolev said on his Facebook page after attending the opening ceremony for the Voyany-Uzhgorod pipeline.

"Here we go. We need much more than this, but this is an important step," he said. Earlier Kobolev announced the successful completion of tests for pumping gas from Slovakia to Ukraine along the pipeline.

The price Ukraine is paying for reverse supplies of gas from Europe via Slovakia is below \$385 per 1,000 cubic meters, he said.

The Ukrainian operator of Ukrtransgaz transport system and the Slovakian operator of Eustream system signed a memorandum on mutual understanding concerning the provision of reverse gas supplies from Slovakia to Ukraine. The expected volume of gas is up to 27 million cubic meters a day.

With the beginning of reverse supplies, Ukraine has taken a step towards the diversification of energy supply and reducing its energy dependence on Russia, Ukrainian Prime Minister Arseniy Yatsenyuk said.

"This is clearly not a final solution, but it's a tremendous step forward. And Ukraine today can state and claim that we made this first step together with our Slovak friends and the EU Commission to diversify energy supply, and to decrease the energy dependence," he said.

"Thanks to the opening of the reverse flow from Slovakia and the possibility for Ukraine to buy gas in Europe, we have replaced 40% of the gas we previously bought from Russia's Gazprom with the gas we now buy and transport from Europe," Yatsenyuk said.

"My reply to President Putin, when he made a statement, actually, a tough one, on this reverse flow, is as follows: gas has no labels. This is just gas. If we pay the price, if we pay cash, someone is to transit this gas, and someone is to purchase," he said.

EU standards

"We have started a comprehensive reform of the Ukrainian energy sector in order to bring the Ukrainian sector up to the EU standards," he said.

Yatsenyuk called on EU member states to invest in the Ukrainian gas transport system. "On behalf of the government, I am appealing to our European friends for the member states of the European Union to start investing in the Ukrainian gas transport system," he said.

He noted that the Verkhovna Rada had adopted a law that would allow only European and U.S. companies to get a stake in the company for the management and operation of the Ukrainian gas transport system and Ukrainian underground storage facilities.

"We need unity, common approaches in policy and economy, and common approaches in energy. And our joint work will provide one hundred percent guarantees for gas supply and transit if we will jointly operate and modernize the Ukrainian gas transport system," Yatsenyuk said.

He said that Europe needs new energy rules, "fair, transparent, clear, which will not allow creating a monopoly in the energy market. Monopoly is a road to nowhere, both in the economy and in the energy sector. Therefore, competition, market transparency and the effective protection of our joint energy security with the European Union is the only right way," he said.

Resuming Russian cooperation

On Wednesday, Russian Prime Minister Dmitry Medvedev expressed Moscow's readiness to discuss ways of resuming cooperation with Ukraine in the gas sector as a debtor country, although only on certain conditions.

"Proposals appeared today to use seasonal prices in Russian gas deliveries to Ukraine. We are already to discuss ways of resuming our cooperation with Ukraine in the gas sector as a debtor country. But on two conditions," he said.

The first condition is "the payment of existing debts that have reached an astronomical figure," Medvedev said.

The second condition is that "even if seasonal prices are used, the average price for the year should be \$385 for 1,000 cubic meters given the discussed cancellation of the existing Russian customs duty which our partners are well aware of," Medvedev said.

"If they don't need discounts, we are already to return to the price of \$485 for 1,000. This price quite suits us," he said.

Meanwhile, modernizing Ukraine's gas transportation system would cost an estimated \$19.5 billion at a minimum and would do nothing to reduce risks to transit of Russian gas to Europe, according to an article in the Financial Times authored by Gazprom spokesman Sergei Kupriyanov.

South Stream, which has "the commercial backing of leading European companies and the support of participating countries," will solve this problem at a lower cost, Kupriyanov said.

The European Commission is trying to delay the project out of strictly political considerations, Kupriyanov said in the FT, adding that "the EU seems ready to shoot itself in the foot by blocking a project that will increase its energy security and help Europe satisfy increasing energy import needs."

South Stream with capacity to ship 63 billion cubic meters of gas a year will cost 15.5 billion euro to build. The pipeline will be laid under the Black Sea from Anapa in Russia to Varna in Bulgaria, and onward to Austria's Baumgarten gas hub.

Coal also needed

Ukraine also 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, First Deputy Energy and Coal Energy Minister Yury Zyukov told journalists.

"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.

Yatsenyuk said yesterday that the Cabinet of Ministers signed an agreement on the purchase of 1 million tonnes of South African coal. He also said that imported coal will cost Ukraine more than local. According to the Energy and Coal Industry Ministry, the state company Ukrinterenergo will be the purchaser of South African coal for Ukraine.

According to operating data, Ukrainian coal mining enterprises lowered coal output by 8.9% year-on-year to 49.82 million tonnes.

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

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.

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.

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.

ECONOMY: Ukraine receives second tranche of IMF stand-by program

KYIV. Sept 5 (Interfax) – Ukraine this week received the second tranche of a loan from the International Monetary Fund (IMF) in the stand-by program. The interest rate on the issued credit funds is 3% per annum and the repayment of each tranche foresees a grace period of three years. Ukraine may borrow on the international market to finance its budget deficit, which is estimated at about \$1.1 billion in the next 12 months, the IMF said, adding under its revised program scenario, Ukraine's debt will grow to 68% of GDP in 2014 and reach a peak of 73% of GDP in 2015, which is 12 percentage points higher than initially planned. In other news, during its summit in Wales, NATO announced the creation of four trust funds for providing assistance to Ukraine. NATO member states will now provide EUR 15 million in assistance to Ukraine.

Second tranche

Ukraine on Thursday received the second tranche of a loan from the IMF in the stand-by program, the Ukrainian Finance Ministry said on its website.

"Ukraine received the second tranche from the IMF in the stand-by program amounting to 914.7 million SDR [approximately \$1.39 billion] on September 4. About \$1 billion of the tranche will be used to support the state budget," the statement said.

The report notes that the interest rate on the issued credit funds is 3% per annum, and the rate of one-time commission (for reservation of funds) - 0.15% (returned in proportion to the funds received).

In addition, the rate of service charge is set at 0.5% of the tranche amount.

The ministry also noted that the repayment of each tranche foresees a grace period of three years (interest is repaid quarterly), and the repayment of the loan principal is made in equal installments on a quarterly basis during two years.

International borrowing

Ukraine may borrow on the international market to finance its budget deficit, which is estimated at about \$1.1 billion in the next 12 months, the IMF said in materials prepared for the first review of the stand-by program.

"The authorities are planning to use the sovereign debt market later in 2014 to cover shortfalls in the next 12 months," IMF specialists said.

According to the materials, work is continuing on providing an additional \$0.9 billion in bilateral support from donors. Prospects for additional financing are quite good.

The materials of the technical memorandum contain a revised table for external financing, according to which the issue of Eurobonds in the amount of \$2 billion may be carried out before the end of September this year. According to the table, shortfalls this year in comparison with preliminary calculations arose due to problems with financing from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the proceeds of which were estimated at \$683 million and \$546 million, respectively, and also from other donor countries - \$100 million instead of the originally expected \$300 million.

The forecast for financing from the World Bank this year fell from \$1.85 billion to \$1.51 billion, while that from the EU rose from \$1.91 billion to \$2.22 billion.

In general, the IMF is concluding that the stand-by program remains adequately funded in the next year.

Debt predictions

The IMF is forecasting in its revised stand-by arrangement for Ukraine that the country's gross state debt will grow from 40.9% of GDP to 67.6% of GDP this year due to the devaluation of the national currency and the need for the government to provide additional support for oil and gas company Naftogaz and banks.

The government and government-guaranteed debt of Ukraine remains stable, although its peak level and associated risks have grown, IMF materials state. According to the revised program scenario, the debt will grow to 68% of GDP in 2014 and reach a peak of 73% of GDP in 2015, which is 12 percentage points higher than initially planned.

The state debt is expected to fall to 71.1% of GDP in 2016, 66.6% of GDP in 2017, 59.3% of GDP in 2018 and 51.5% of GDP in 2019.

The IMF reckons that financing needs will concurrently decrease from 23.1% of GDP this year to 18% of GDP in 2015 and 11.7% of GDP in 2016, and remain in the range of 12.2-14% of GDP in the subsequent three years.

These projections are based on expectations that the Ukrainian economy will grow by 4-4.5% annually in 2016-2019, the IMF materials state.

The IMF said the growing debt risks will be offset somewhat by the growth of the share of the hryvnia debt to 31% this year and to 37% in 2015, as well as by the fact that a quarter of the gross debt falls on the National Bank, which services it without using budget resources.

Ukraine's total state (direct and guaranteed) debt stood at \$69.23 billion at the end of July 2014, down by 5.3% or \$3.88 billion from the start of the year, according to the country's Finance Ministry. The total domestic state debt shrank by 19.9% in January-July to \$28.482 billion, while the total foreign debt grew 8.5% to \$40.743 billion.

Ukraine's state debt in the dollar equivalent grew by 13% or \$8.434 billion in 2013 and rose from 37.4% to 40.9% of GDP.

Ukraine hopes that at the NATO summit in Wales the member states will also announce intention to make contributions into trust funds for assistance to Kyiv, said Ihor Dolgov, Ukraine's representative to NATO.

"The trust funds were set up in June. This is an illustration of how our special partnership with NATO is working. The decision about them was made fairly quickly. The first trust fund, the brightest one, is 'social protection', i.e. treatment and prosthetics for injured Ukrainian soldiers. The second one: command, communication and control; the third one: logistics and supplies; and the fourth is cyber protection," Dolgov said.

Drop in GDP

The fall in Ukrainian GDP in 2014 is expected to be 7%, but in 2015 this will be replaced by 3% growth, the International Centre for Policy Studies forecasts.

According to the August study, inflation this year is expected to be 17%, and in 2015 - 8.3%.

"GDP will shrink by 7% due to the reduction of internal and external (from Russia) demand. We expect that in 2014 for the first time since the crisis year of 2009 there will be a substantial reduction in private consumption (by 9% year on year) due to lower real income, the growth in the value of imported goods as a result of the hryvnia devaluation, the increase in administratively regulated tariffs and the deterioration of crediting conditions," the center said.

The experts expect the hryvnia to U.S. dollar exchange rate at the end of 2014 to stand at UAH 12.50 per \$1. "In recent years, political factors have an important influence on the exchange rate, therefore the predictability of the exchange rate is very complicated. The evaluation of the exchange rate equilibrium is based on economic factors - about UAH 11 per \$1," it said.

When presenting the report, senior analyst of the center Oleksandr Zholud said that the forecast was calculated without taking into account the direct intervention of Russia in the conflict in the east of the country.

The National Bank of Ukraine has banned the issuing of foreign currency using payment cards starting September 2, introduced the mandatory conversion of money transfers to hryvni and slowed the procedure for buying foreign currency on the interbank forex market.

The bank's corresponding resolution of August 29 2014 is available to Interfax.

"The issuance of cash inside Ukraine by electronic payment cards, issued by both residents and non-residents, will be conducted in hryvni," the resolution says.

The curbs reflect the current political tensions and uncertainty, and elements of risk, given the current economic problems connected with the ongoing law enforcement operation in Ukraine, the resolution says.

The National Bank is convinced that the application of the new mechanisms will help prevent the use of the Ukrainian financial system for money-laundering and for financing terrorism, and will help settle the situation on the forex market.

EU agreement

Elsewhere, the Ukrainian government will endorse a plan to implement the association agreement with the European Union in September, Prime Minister Arseniy Yatsenyuk said.

"We will endorse a national plan of the agreement's implementation in September. This is a step-by-step plan, [stipulating] when this or that regulation or law should be adopted. This is a concrete action plan to implement a strategic reform plan," Yatsenyuk said at a government meeting in Kyiv on Wednesday.

Ukraine should also set up joint cooperation bodies with the EU at the government and ministry levels by the end of the year, he said.

To implement the association agreement with the EU, Ukraine should reform its entire governance apparatus, Yatsenyuk said.

The Ukrainian Cabinet of Ministers is hoping to fully re-orient its state administration to fulfil the association agreement with the EU as the main goal before the end of September.

This goal is stated in the European Integration section of the Ukrainian government's action plan *Rebuilding the Country* posted on the government website on Wednesday.

The government also expects the association agreement with the EU to be ratified before the end of September. The national plan to implement the agreement is also expected to be approved before the end of September.

The government is hoping to create bilateral working bodies of Ukrainian ministries with appropriate European Commission agencies for the purpose of implementing the agreement.

The Ukrainian government also plans to produce biometric passports for visa-free travel by Ukrainian citizens to the EU before the end of the year.

NATO trust fund

During its summit in Wales on Thursday, NATO announced the creation of four trust funds for providing assistance to Ukraine, President of Ukraine Petro Poroshenko said.

NATO Secretary General Anders Fogh Rasmussen has said that NATO member countries will provide EUR 15 million in assistance to Ukraine.

The Alliance will help Ukraine, about EUR 15 million will be provided through NATO, and more assistance has already been announced, he said.

Rebuilding Donbas

Ukrainian Prime Minister Arseniy Yatsenyuk said he believes it will cost billions of dollars to rebuild Donbas infrastructure.

"Two months ago, when we liberated Slovyansk, we estimated it at 8 billion hryvni, but now I can say it's not hryvni, but dollars, it's billions of dollars in destroyed infrastructure," Yatsenyuk said opening a government session in Kyiv on Wednesday.

Yatsenyuk said the EU will send a special mission to Ukraine to assess the damage and a large conference will be conducted in November 2014 to raise funding for the rebuilding of Donbas.

Yatsenyuk also said the government intends to introduce target state assistance to residents of eastern Ukraine who will return to their homes after the military conflict.

SANCTIONS: EU preparing new blacklists to pressure Russia - source

MOSCOW. Sept 5 (Interfax) – The EU is composing additional blacklists of individuals and companies cooperating with the Donbas militia as part of fresh sanctions being prepared against Russia. Meanwhile, French President Francois Hollande was reported as saying that the delivery of the first Mistral-class ship to Russia will be suspended. "There are no proper conditions for delivering the first helicopter carrier to Russia," Hollande said. Russia said that it does not yet believe the delay to be final and said any unilateral breaking of the contract would make France suffer more than Moscow. Despite the developments, the head of Russia's Federal Anti-Monopoly Service has said that the country's remains appealing from an investment standpoint in spite of western sanctions. His words came as head of the French oil company Total Christophe de Margerie urged Western countries to forgo their sanctions policy against Russia and as the AEB wrote official letters to the 28 EU members requesting that foreign investors from all countries be protected from any further restrictive measures.

Fresh sanctions

The EU is composing additional blacklists of individuals and companies cooperating with the Donbas militia in the framework of continuing pressure on Russia, a European diplomatic source told Interfax on Tuesday.

There will be additional lists, which will include companies and individuals cooperating with the self-proclaimed Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR), the source told Interfax when asked whether new EU sanctions against Russia could be expected in the near future.

The source did not confirm information on the possible introduction of import restrictions on Russian vodka, caviar and diamonds.

The sanctions drafted should be released in the EU official journal and this does not concern the short-term, the source said.

The situation is quite serious and there is quite a short period to prepare - just one week - which shows that the issue is being considered very seriously and that the decision should be made very quickly, the source said.

The policy of any sanctions is fatal for all parties and French colleagues are urged to develop cooperation, Russian State Duma Speaker Sergei Naryshkin said at a meeting with representatives of French political, public and business circles during his working visit to France.

"We still think that any sanctions - personal, against certain companies, and sectoral - are an evil which does not bring optimism either to politicians or businessmen. They develop the order of global economy formed for decades and simply throw us to the last century," Naryshkin said.

Russia did not respond to sanctions declared regarding it by the United States and the EU states for almost five months, he said.

"These sanctions are illegitimate and legally vain because they are not based on any just court rulings and are not based on UN resolutions," Naryshkin said.

Russia hoped to the last that foreign colleagues will understand themselves that the policy of sanctions can lead to a dead end, the Duma speaker said.

Ready in a week

European Commission spokesperson Pia Hansen had confirmed on Monday that the European Commission was drawing up proposals for fresh sanctions against Russia on the European Council's orders.

She said the European Commission had already started working on the proposals and they would be ready in a week, as requested in a statement by the European Council's special meeting.

She found it difficult to go into detail and declined to say which sectors the new sanctions would relate to and what their levels might be.

The European Commission spokesperson said member states were to make a decision in due time but added it was hard to tell when exactly that might happen.

The EC will honor its obligation to hand over the proposals concerning the new restrictive measures to the Council, she said without elaborating on the nature of these measures.

The latest, third-tier measures will be deepened, more details will follow once the decision has been made, Hansen said.

The European Union is seeking a political solution to this crisis. These measures are a response to the escalation and to the absence of a solution, and facilitate the resolution of this crisis, the EC spokeswoman said.

These are very important decisions which have economic consequences, she said. This work is very serious and profound, but we are acting fast and the Commission will submit proposals by this Saturday, she said.

No common position

Russia's Permanent Representative at the UN Vladimir Chizov said the EU has no common position on sanctions against Russia. The leaders of the EU member-states instructed the European Commission and the EU's External Action Service early on Sunday to draft new sanctions against Russia within a week.

"The instruction has been given, but there is no unity in the European Union ranks, as before. At least, three countries, judging by publications circulating here in Brussels, have expressed disagreements with further sanctions - Hungary, Slovakia and Cyprus. The Slovak prime minister made a statement, saying that he could even use the veto right," Chizhov said.

The commentaries made by the participants in yesterday's meeting suggest that new economic sanctions would target the same sectors - financial instruments, equipment for oil and gas extraction, dual-purpose products and military-technical cooperation," he said.

"They are in a hurry and gave just a week, because one more high-level meeting is to be held next week - a NATO summit," he said.

Putin said he is hoping that common sense will prevail in the issue of Western sanctions and Russia and its Western partners will not suffer from "mutual jabs."

"I hope common sense will prevail and we will work normally. Neither us nor our partners will suffer from these mutual jabs," Putin said.

Moscow is ready to respond to new sanctions if the European Union decides to introduce them, the Russian Foreign Ministry said. "In the case of new anti-Russian sanctions being introduced, Russia reserves the right to take response measures aimed at defending its legitimate interests," the document said.

"The analysis of yet more 'conclusions' of the European Council of August 30 showed again the inability of EU states to overcome the inertia of reckless support they have for the Kyiv authorities," the Russian Foreign Ministry said.

"The hysteria unfolding ahead of the European Council meeting on the mythical 'Russian aggression in Ukraine' has borne its fruit. While resting on absolutely groundless statements on the presence of Russian armed forces in the country and sweepingly laying responsibility for what is happening there on Moscow, Brussels continues to evade acknowledgement of the real causes of the dramatic situation in south-eastern Ukraine, instead of encouraging an immediate and unconditional ceasefire and creating conditions for comprehensive Ukraine-wide national dialogue between the conflicting parties," the statement said.

"At the same time, the virtual lack of assessments of the humanitarian situation in this region of Ukraine - where as a result of the Kyiv authorities' actions, a full-scale humanitarian catastrophe has unfolded and the number of refugees coming to Russia is nearing one million people - is striking," the Russian Foreign Ministry said.

Interests and losses

Russia will take into account its national interests in the event of new Western sanctions, Russian Foreign Minister Sergei Lavrov said.

"It [the response] will not involve 'the slamming of the doors or some falsely understood hurts. We will take into account our national interest: protect our economy, protect our social sphere, protect our business and simultaneously draw conclusions from our partner's actions," the minister said in the Moscow State Institute of Foreign Relations on Monday.

Russia is also ready to appeal to the WTO over the retrospective enforcement of the EU Third Energy Package, Lavrov said.

"We are ready to use WTO mechanisms, for instance, in the defense of our opinion on the impermissibility of the retroactive enforcement of norms of the so-called EU Third Energy Package, i.e. of the Third Energy Package's application to the agreements and projects concluded otherwise and materially implemented long before the Energy Package was devised and took effect," he told MGIMO University students.

The sanctions against Russia imposed by the U.S. and EU will not result in substantial losses if they are not prolonged, Energy Minister Alexander Novak said.

"It is hard to talk about the specific amount of losses. It truly is difficult to tally them today. Everything will depend on how this develops in future. If they wind down in short order, the losses will not be substantial," Novak said in an interview on Rossiya 24 television.

Russian and foreign companies are continuing cooperation, despite the sanctions. "Companies are trying to carry on relations among themselves nonetheless, in equipment deliveries and project financing. We hope there won't be any political pressure on companies on the part of individual governments," he said.

Consumers and members of the business community do not support sanctions against Russia, he said. "For the most part, members of the business community say that the sanctions and politics overall should not be applied in the economy, in energy relations. The world has become so globalized - projects and contracts are interconnected. Today there are virtually no projects that are monopolized from the standpoint of any single participant," Novak said, offering the Yamal LNG project as an example.

France suspends Mistral

Later in the week, French President Francois Hollande was reported as saying that the delivery of the first Mistral-class ship to Russia would be suspended. "There are no proper conditions for delivering the first helicopter carrier to Russia," Hollande said.

Russia presumes that the contract with France on building Mistral aircraft carriers for the Russian Navy will be carried out as agreed, Russian Industry and Trade Minister Denis Manturov said.

"Russia presumes that the contract will be carried out in line with the contractual relations that were formed in their time," Manturov told journalists on September 4.

The Russian state-controlled arms trader Rosoboronexport and the French company DCNS signed a contract on the construction of the first two Mistral-class helicopter carriers for the Russian Navy in June 2011. Russia's United Shipbuilding Corporation (USC) became a subcontractor of the French shipyard STX France, based in Saint-Nazaire, as part of the deal.

Russia has not received any documents from France regarding a possible repeal of the contract for the delivery of Mistral-class helicopter carriers to the Russian Navy, the Russian government's Military Industrial Commission Deputy Chairman Oleg Bochkarev told Interfax-AVN on September 4.

"The Russian side has not received any official documents regarding the possible non-delivery of Mistral-class helicopter carriers from France. Works related to this contract continue. Our people are working there and crews are being trained. Russia fully honors its commitments under this contract," Bochkarev said.

Following Hollande's statement that halted the delivery of the first Mistral-class helicopter carrier to Russia, there was a supplementary reaction of the French authorities which indicated that a decision to repeal the contract might not be final, he said.

"We should be working calmly and waiting for a possible change in the situation. So far, the work on this project proceeds as planned. We should do credit to Russian and French shipbuilders whose quality of work is very high. It is difficult for me to comment on political statements but I am confident that friendship between the people of Russia and France will prevail," Bochkarev said.

Any repeal of the contract for the delivery of Mistral-class helicopter carriers to the Russian Navy will create more problems for France than for Russia, Bochkarev told Interfax-AVN.

"If the contract is unilaterally repealed at some point, the Russian side will definitely get its money back. Besides, penalties and forfeits will be paid. And they will get a ship built consistent with the Russian requirements and with the Russian participation," Bochkarev said.

The value of the contract for the delivery of two Mistral-class helicopter carriers has been earlier estimated at 1.2 billion euro. Whenever a contract is repealed and penalties are demanded, the manufacturer keeps the product and wonders what to do with it, Bochkarev said. It is theoretically possible to sell it to somebody else but it is actually very difficult to find a new buyer because the ship is built by to Russian requirements and Russian equipment is installed onboard.

Still appealing to investors

Russia is still appealing from an investment standpoint in spite of western sanctions, and this is shown by major deals that have taken place recently, the head of Russia's Federal Anti-Monopoly Service (FAS), Igor Artemev, said.

"We are still appealing to investors. We are a large country with a lot of interesting things to buy and develop. For that reason, it seems to me that this is an example of the ineffectiveness of these sanctions," he said.

Artemev added that this was confirmed by the last foreign investment committee meeting.

An American company purchased Russia's largest pharmaceutical manufacturer, "and the Swiss, who have joined in on all sanctions," purchased cement plants in Russia, he said. In addition, a German company has acquired a company that produces heat exchangers for nuclear power plants.

"And the deals are for a billion dollars, a billion rubles; that is, serious deals. In general, real and serious companies from large, major powers have come and asked the government to allow them to buy. So for me, this is a really good signal," Artemev said.

Meanwhile, head of the French oil company Total, Christophe de Margerie, has urged Western countries to forgo their sanctions policy against Russia and start a constructive dialogue with Moscow over the situation in Ukraine.

"What I am calling for is not the protection of Russian interests but only a greater understanding. Sanctions are a path to stalemate. We need a constructive dialogue because we (Western countries and Russia) are economically dependent on one another," he said in an interview with Germany's *Süddeutsche Zeitung* newspaper.

"We must not let ourselves be convinced that Russia is our enemy, given that energy supplies to us are largely dependent precisely on that country. We should not believe the caricature about 'good' pro-western Ukrainians and 'bad' pro-Russian Ukrainians," de Margerie added.

The Association of European Businesses also wrote official letters to the 28 Heads of States and Governments of the EU and also to the Russian and Ukrainian presidents requesting that foreign investors from all countries be protected from any further restrictive measures.

"Among our Members are global companies with businesses in sectors which would be directly affected by these measures. The introduction of such measures could lead to a serious decline in production volume and the number of workplaces, affecting not only the manufacturers themselves, but also suppliers and retailers working in these sectors. All this would harm not only the business of the companies concerned, but also fiscal revenues through the loss of tax and duty payments. The AEB strongly requests EU and Russian authorities to protect foreign investors from both sides from any further retaliatory measures", the AEB said in the letter.

The AEB also asked for an official meeting with European Commission President Jose Manuel Barroso during his visit to Kyiv next week.

"The Association believes that businesses act as a bridge between these countries, and have regularly spoken out against any limitations from either side," AEB said in a statement.

The AEB includes companies such as Alstom, BP, Cargill, DHL, E.ON, Enel, Eni, ING, Mercedes-Benz, Metro, Procter & Gamble, Shell, Statoil, Telenor, Total, Volkswagen, Volvo, Valio, Auchan and others.

De-escalation = cancellation?

Late in the week, an EU source told Interfax the bloc sees signals coming now regarding the attempts to stop fighting and to switch to peace talks give hope of de-escalation, something which could see sanctions lifted.

However, as of now, it is too early to talk about some real result and it is premature to come to conclusions based on the information currently existing, not to mention conclusions on the possibility of changing restriction measures, the source said.

EU sanctions have played their role in the appearance of these very weak positive signals, the source said.

The European Commission has performed the task and the proposals has been submitted to the EU Permanent Representatives Committee, which will discuss the application of further sanctions and might be decided on September 5, the source said.

As to what the decisions might be, it depends solely on the EU states, the source said.

COVER STORY

Gazprom begins building Power of Siberia gas pipeline

YAKUTIA. Sept 1 (Interfax) - Russian gas giant Gazprom has begun building the Power of Siberia gas pipeline, the key infrastructure project which will form the base for Russian gas exports to China along the Eastern Route. Welding the first joint took place near the Ust-Khatyn suburb at kilometer 18 of the Namsky tract near Yakutsk and Russian President Vladimir Putin took part in the ceremony. Construction of the Chinese segment of the pipeline will begin soon and Gazprom expects supplies to start in 2019. Putin said the beginning of construction of the pipeline will give impetus to development of Russian industry nationwide. "It will not just enlarge export supplies and expand the geography of our hydrocarbon exports but will also help us make another important step towards the development of gas grids in our own country. This is especially significant for the eastern part," Putin said. The approximate cost of building the pipeline will be 770 billion rubles.

Project

"We are beginning the largest construction project in the world. And there will not be anything larger in the world anytime soon. But it's not about records. It's about the fact that this is an extremely important project for Russia and for the People's Republic of China," Putin said.

Construction of the Chinese segment of the Power of Siberia gas pipeline will begin in the first half of 2015, Chinese Vice Premier of State Council Zhang Gaoli said at the ceremony.

Putin said Russia will support China's plans to take a stake in the Vankor oil field.

"Sechin said he invited [Zhang] to join one of our biggest [enterprises] for oil production in northern Russia. The state will support these plans. We will welcome your participation," Putin said.

Zhang said strategic cooperation between Russia and China was long-term, durable and stable and that the sides "must bear any hardship."

"That is how it will be. Today Vankor is one of our biggest production enterprises. With a good outlook. Overall we take a very careful approach to access by our foreign partners, but of course for our Chinese friends, there are no restrictions," Putin said.

Gazprom has set the start of gas supplies to China for 2019, Gazprom said after a meeting between its CEO Alexei Miller and Zhang.

"The beginning of natural gas production at the Chayanda field has been scheduled for the end of 2018, by which time we should have seen the launch of the first-line section of the Power of Siberia gas transportation system between the Chayanda field and the city of Blagoveshchensk, and the of first-line gas-processing facilities. This will enable us to start direct gas supplies to China in 2019 in line with the obligations stipulated in the signed contract," Gazprom said.

The 30-year contract for the supply of up to 38 billion cubic meters of natural gas per year was signed with China's CNPC in May 2014. Under the contract, deliveries are due to begin in four to six years' time.

Eastern, western routes

Russia and China are planning to sign an intergovernmental agreement in October on gas shipments to China via the eastern route, Zhang said.

"We can expect the intergovernmental agreement for the eastern route to be signed in the month of October. Miller and I have already become good friends," he said.

"This is very good," Putin said.

Gazprom is also ready to sign a contract with China National Petroleum Corporation (CNPC) in November to ship gas to China via the western route, Miller said.

"If Gazprom works closely with CNPC - and Gazprom is ready to do this - then we will be able to sign a contract during the meeting between our heads of state in the month of November," he said.

Putin said Russia would focus on China's proposals concerning increasing gas shipments to the country. "We will focus on your offers and your applications," he told Zhang.

"It goes without saying that we have looked at Gazprom. It is of course in the position to carry out this project relatively quickly, even more quickly than the eastern [project]," Putin said.

Zhang said the western route had more reserves from an infrastructural point of view.

Industry

Construction of the Power of Siberia gas pipeline will give impetus to development of Russian industry nationwide, Putin said.

"This gives us the opportunity to give impetus to development in this region, for the entire country: equipment manufacturing, metallurgy, pipe manufacturing, the chemical industry," Putin said.

The pipeline will foster the development of gas grids in Siberia and the Russian Far East, which will eventually merge national gas networks into a single whole and regulate resource flows consistent with global market conditions, Putin said.

"It will not just enlarge export supplies and expand the geography of our hydrocarbon exports but will also help us make another important step towards the development of gas grids in our own country. This is especially significant for the eastern part," Putin said.

"Once we create a pipeline network here, in the Far East and Siberia, we will be able to connect the European part of the gas pipeline system to the Eastern one. And this, from the point of view of export opportunities, from the point of view of broadening the geography of gas grids in our own country, will give us a great advantage of regulating the flows consistent with the situation on global markets - either to the West, in larger quantities and more efficiently, or to the East," he said.

The president also said that putting Power of Siberia into operation will give Russia the opportunity to not only export gas but also to gasify the eastern regions of the country.

China will develop relations with Russia regardless of changes in the international situation, Zhang Gaoli said.

"However the international situation may change, we will bear any hardship together with you and will exert maximum effort in order to develop a comprehensive, stable, long-term, reliable all-encompassing strategic partnership," he said

Costs

The approximate cost of building the pipeline will be 770 billion rubles.

This includes 283 billion rubles of investment in the construction of the pipeline in the Republic of Sakha (Yakutia).

The Chayanda-Blagoveschensk section of the pipeline will be built first and is scheduled to come on stream at the end of 2018. The second phase will involve connecting the Irkutsk production center with the Yakutia center.

The construction of the first phase of the pipeline will employ about 12,000 specialists and the pipeline's operation will employ about 3,000 people, including more than 1,600 in Yakutia.

The project is being carried out by LLC Gazprom Transgaz Tomsk.

United Metallurgical Company (OMK) shipped more than 30,000 tonnes of large-diameter pipes in July and August for the construction of the pipeline system, the company said in.

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

Launch

The launch of the pipeline was significantly moved about 2,000 kilometers from the route of the mainline.

Gazprom initially wanted to hold the event at Blagoveshchensk on the Chinese border and Miller held two meetings with Chinese Ambassador to Russia Li Hui in anticipation of the ceremony. However, the leadership of Yakutia managed to have the event held in its capital [Yakutsk], a source close to Gazprom said. Formally, this will look like a sign of respect to the region where the Chayandinskoye oil and gas field is located, which is the primary base for gas supply to the pipe. But this event of federal and international importance will end up supporting the upcoming elections in two weeks of acting head of Yakutia Yegor Borisov, the source said.

In May of this year, after ten years of difficult negotiations, Gazprom signed a contract on gas supplies to China via the eastern route: for 30 years, at 38 billion cubic meters a year. The total value of the contract is estimated at \$400 billion. Expenses on the organization of gas supplies - the construction of the pipeline and the construction of production facilities at the Kovyktinskoye and Chayandinskoye fields - are estimated at \$55 billion.

The Power of Siberia pipeline system will stretch 3,968 km, including about 2,000 km from the Chayanda oil and gas condensate field to Blagoveschensk (including 1,350 km through Yakutia) and the 791-km Kovykta - Chayanda section that will connect the Irkutsk and Yakutia gas production centers.

Putin outlines tasks for Far East development

YAKUTSK. Sept 1 (Interfax) - Russian President Vladimir Putin has outlined the tasks for guaranteeing the advanced development of Russia's Far East.

"Firstly, this is increasing the region's transport accessibility and removing infrastructural limitations both on the domestic market and for the development of export," he said at a meeting to discuss government support for priority investment projects and the Far East.

Putin added that it was necessary to modernize Baikal-Amur Mainline (BAM) and the Trans-Siberian Railway according to schedule since these mainlines are strategically significant for the Far East's development.

"The second thing is to create the conditions for raising additional investments in the region, both Russian and foreign. This mostly concerns investments made to traditional and new sectors. In developing fields, creating infrastructure, construction, the development of transportation, agriculture and, naturally, energy," he said, adding that this also concerned investments in raw materials processing and the creation of modern factories, including those focused on export.

Putin noted that it was also necessary to raise the investment appeal of the Far Eastern territories.

"It is necessary to more actively apply the best practices of Pacific Rim countries; maximally lower the amount and timeframes of administrative procedures in building production facilities; [and] simplify access to infrastructure," he said, adding that this concerned electricity and gas supply, as well as roads and other systems.

"And of course the third thing concerns forming advanced development territories that must be able to compete with key business centers of the Pacific Rim in respect to investing and business conditions," Putin said, adding that it was also important to provide an inflow of new capital investments in production that are oriented at the dynamically developing Asian markets.

Advanced development territories

Putin ordered that a list of advanced development territories in the Far East be created quickly so that the bill necessary to create such zones does not sit around unsettled.

"This process must be completed quickly or else the new law will simply hang in the air. And it's important for us that work unfold at specific locations immediately after the law is passed on TADs [territories of advanced development]," Putin said.

He added that the bill necessary to create the territories was practically ready and should be submitted to the State Duma for the autumn session.

"In a message to the Federal Assembly, the task was set of confirming the list of advanced development territories in the Far East by July 1, as well as their criteria. This has not been done yet," Putin added.

He said he opposes increased spending from the National Welfare Fund (NWF).

"Money from the NWF is possible, but with no increase," Putin said. "If someone thinks that those funds to be provided from the NWF must be allocated first for other purposes, specifically, redirected to creating advanced development territories, be my guest. I would just say immediately, that we cannot increase spending from the NWF right now," he said.

If the NWF has the resources and the government decides to redirect them, that can happen, but in no case will spending be increased, Putin said. "The NWF needs to be approached carefully," Putin said, adding that as it is substantial spending from the fund is planned.

"Let's first wisely and efficiently dispose of what is already earmarked for spending," he said.

Dispute over development projects

Putin instructed the government to reach a settlement on financing for Far East development projects and the Baikal-Amur Mainline (BAM) and Trans-Siberian Railway modernization projects as soon as possible.

The dispute over financing priorities arose on Monday at a meeting chaired by Putin on Monday between Russian Railways (RZD) chief Vladimir Yakunin and Far East Development Minister Alexander Galushka.

Yakunin received support from Transport Minister Maxim Sokolov, while Deputy Prime Minister Yuri Trutnev, who is the Cabinet member in charge of Far East development, backed Galushka.

"I of course will get to the bottom of this, so that a final decision on this issue is either approved in the government or not. But, in any case, it should be made and must not be drawn out. If it is not approved, then I will ask the head of the government to get to the bottom of this immediately, without delay, because this is a fundamental issue," Putin said in summing up the discussion.

Putin seconded the position of Yakutia Senator Vyacheslav Shtyrov, who said that the foundations of infrastructure are the trunk networks - rail lines, roads and power - and without them development and expansion of everything else is impossible.

"If we build some facility and then it turns out that there are natural limitations on the trunk lines - it's senseless, we arrive at a dead end and could end up in Mechel's situation, which spent money on infrastructure and then the economics become difficult and we, all those present, know that issues concerning the creditors need to be resolved," Putin said.

The BAM and Trans-Siberian Railway modernization will cost an estimated 560 billion rubles, although Trutnev said project costs had been revised upward and now top 600 billion rubles, the same as the total for the other projects proposed by the Far East Development Ministry: 32 projects, including 14 advanced development territories.

However, Far Eastern Development Minister Alexander Galushka said trying to develop Russia's Far East via the BAM and Trans-Siberian Railway projects is a flawed strategy.

The two projects may have a place in the program for developing the transportation system, but completely different initiatives will serve as the growth locomotive in the Far East. "It is important to understand when speaking about the BAM and Trans-Siberian Railway projects, that they only concern the Far East in part," Galushka said. The issues of linking subsurface deposits to BAM and the Trans-Siberian Railway have yet to be decided and until they are, Far Eastern infrastructure will remain in hibernation, he said.

"Development of BAM and the Trans-Siberian Railway is important for the entire country. This is our national trunk rail infrastructure, but this is not the development of the Far East. In its current form, the program for developing the Far East does not resolve development issues, addresses other issues - issues of developing national backbone infrastructure," Galushka said. "Its place, where it should be located, is in the program to develop the transportation system," he said.

Sollers production profitable

Putin said he was certain there was a market for Sollers in the Far East.

"I think there will be a market and you will also earn in the Far East. I don't even doubt this," he said.

Putin added that when the decision was made to launch automobile production in the Far East, there was an agreement that the government would help and provide subsidies until a certain point in time.

"For our part, we are carrying out what we talked about. I am happy to say that you and your company are meeting your development obligations," Putin told Sollers CEO Vadim Shvetsov.

He also insisted that Russian steel major Evraz plc reconsider the possibility of building a metallurgical plant in Yakutia, he said.

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.

Mazda, Siemens show interest

Japanese automobile manufacturer Mazda may build a plant in Russia's Far East to produce engines, the head of Sollers, Vadim Shvetsov, said at the meeting.

"The Japanese like to work in the Far East and Vladivostok so much that they are proposing to build an engine plant to export to China and Japan," he said at the meeting, which was held by Russian President Vladimir Putin. Shvetsov added that this would be a full-cycle plant to produce engines for all Mazda models. Production volume will be over 50,000 engines per year. "Accordingly, we are now starting this investment. And it's necessary to replicate the expertise we'll have after this because expertise, as concerns even motor control, is minimal in Russia, and this is of course a huge leap forward for us, especially in the Far East. We are beginning the project and will start next year," he said.

As reported, LLC Sollers-Far East has confirmed its readiness to act as the managing company in carrying out the project to create a special economic zone in the Far East. The company has also taken on the responsibility of raising at least 50% of planned extrabudgetary investments in the creation and functioning of the zone. The Mazda Sollers plant will allocate 15.8 billion rubles, the Economic Development Ministry has said.

Germany's Siemens is also considering opening an office in Vladivostok, a press release from the administration of the Primorye territory quotes the head of Siemens' regional development department in Russia, Sergei Kiryachek, as saying.

Kiryachek also said at a meeting with the regional administration that the concern indented to work with the Primorye territory in the field of energy, energy supply, housing and utilities, healthcare, pharmaceuticals and urban infrastructure.

The director of Primorye territory's economics department, Nikolai Dubinin, said Siemens should consider the possibility of also working in the fields of pharmaceuticals and biotechnology.

"Primorye has colossal reserves of marine biological resources; there are finished biotechnologies and developed scientific institutes. Climactic and environmental conditions provide the territory with unlimited development potential in these areas," he said.

POLITICS. ECONOMY

Customs Union could start official trade cooperation with ASEAN - EEC

MOSCOW. Sept 1 (Interfax) - The Eurasian Economic Commission's (EEC) minister for trade, Andrei Slepnev, and Association of Southeast Asian Nations (ASEAN) Secretary-General Le Luong Mihn discussed opportunities for developing cooperation between the unions.

"We gave Secretary-General Mihn a draft memorandum on mutual understanding between the EEC and the Association of Southeast Asian Nations. As part of the memorandum we wanted to guarantee the systematic exchange of information and experiences in the development of integrated projects and in the regulation of issues in the field of technical regulations, sanitary and phytosanitary measures and customs administration," the EEC's press service cited Slepnev as saying, based on the meeting.

Also within the framework of the visit to Myanmar, the EEC trade minister attended three consultations of the Economic Ministers of Russia and ASEAN, which took place on August 28.

"We are considering ASEAN a strategic partner of the Eurasian Economic Union (EEU) for economic development and the integration into the Asian-Pacific region and Eurasia [as a whole]," the EEC minister said.

He said trade turnover between the countries of the EEU and ASEAN is growing. For the first five months of 2014, it was 5.8% higher than in the same period in 2013. Talks are underway with one of the ASEAN countries - Vietnam - concerning free trade. The next round is planned for September in St. Petersburg.

"In addition we are analyzing the prospects for concluding such agreements with other members of ASEAN. Joint and coordinated work of the EEU and ASEAN on infrastructure projects, which are making the transport of goods between our countries faster and less expensive, is allowing for the creation of an effective bridge between the West and East. We are ready to cooperate with ASEAN on a whole number of issues, including trade facilitation, the development of a mechanism of a "single window", electronic commerce, integrated construction, food safety and the development of a multilateral trade system," Slepnev said.

On the sidelines of ASEAN meetings in Myanmar, Slepnev and Chinese Commerce Minister Gao Hucheng discussed opportunities for increasing cooperation in the form of an information exchange agreement.

"We have agreed to begin talks on signing an information exchange agreement for customs issues. The talks themselves may begin as soon as the end of this year," the press service quotes Slepnev as saying.

He added that thanks to regular consultations between experts throughout 2013 and 2014, the parties were able to quickly resolve a number of disputes in the initial stages of mutual trade. In addition, the interests of producers from Customs Union countries were taken into consideration, as were those of Chinese exporters.

"To develop this format of resolving disputes, we suggest holding regular meetings and discussions at the ministerial level and with the participation of interested business circles. This will give the proper authority and force to the decisions and agreements that are approved," Slepnev said following the meeting.

Mongolia looking to compete with Kazakhstan for right to transport Russian gas to China

ULAANBAATAR. Sept 3 (Interfax) - Mongolia is willing to transport Russian natural gas to China and is willing to compete with Kazakhstan to do so, Mongol President Tsakhiagiin Elbegdorj said at a joint press conference with Russian President Vladimir Putin on Wednesday.

"I also touched upon the advantages of building a gas pipeline across our country's territory," Elbegdorj said.

Among these advantages, the Mongol leader mentioned "security, convenient short route, and steppe conditions."

Mongolia becomes the second contender for having the right to transport Russian gas to China along the western route. Earlier Kazakhstan expressed such an interest.

Mongolia has only two neighbors - Russia and China, which have for several years discussed the possibility of gas supplies by two routes - the western and eastern. Recently, in May, a contract was signed between Gazprom and China's CNPC about the supply of up to 38 billion cubic meters (bcm) of gas a year along the eastern route - the Power of Siberia gas pipeline from fields of Eastern Siberia (Irkutsk region and Yakutia) through the Amur region to the eastern part of China, where its main industry is concentrated.

Russian Natural Resources and Environment Minister Sergei Donskoi said the issue of Russian gas being delivered to China via Mongolia has been under discussion since last fall.

The idea could have considerable appeal, since construction would mainly be confined to the plain, reducing the amount of additional compressor stations needed. However, there are also points where the pipeline would cross through nature preserves, including some in Mongolia, Donskoi.

The idea needs to be discussed at the level of Gazprom and Chinese CNPC, which is the importer of gas from Russia, he said.

Meanwhile, several years ago, the initial option for supplies to China that was reviewed was the western route - the Altai gas pipeline project. It was expected that this gas pipeline with a capacity of 30 bcm of gas a year would transport gas from fields in Western Siberia across the Altai straight to the Russian-Chinese border, sandwiched between Kazakhstan and Mongolia. Ecologists were against the construction of a gas pipeline through the Altai.

At the end of August the first prime minister of Kazakhstan, Uzakbai Karabalin, said that the Kazakh authorities had suggested that Russia build a pipeline to China through Kazakhstan - "in particular through Astana and the Khorgos district or even Alashankou to China." Karabalin said: "The Russian side expressed definite interest."

Power equipment

Russia's Vnesheconombank (VEB) and the Development Bank of Mongolia have signed an agreement of intent concerning financing exports from Russia to Mongolia, VEB's press service said in a statement.

The statement says the two banks are considering financing projects of Russian power equipment manufacturers to modernize Mongolian thermal power plants. The two are also interested in working together in carrying out prospective projects in Mongolia connected with the export of Russian goods and services.

The document was signed during Putin's visit. Deputy Chairman of VEB Sergei Lykov signed the agreement on behalf of VEB, while Nanjid Munkhbat signed for the Development Bank of Mongolia.

The financial development institutions have set the main areas of cooperation as financing shipments of Russian goods and services to Mongolia. "Considering the high potential that exists for developing trade relations between Russia and Mongolia, the parties have expressed confidence that signing this agreement will be the first step to building long-term, mutually beneficial cooperation," the statement says.

Established in March 2011, the Development Bank of Mongolia specializes in financing special development projects, such as the construction of construction of municipal roads, toll free motorways and providing subsidized mortgage loans. The bank is also involved in commercial projects. The assets of the bank, located in Ulan Bator, totaled \$1.9 billion as of early 2014. Capital was \$87 million and 2013 profit - \$21 million.

Railroads

URussia and Mongolia have concluded an agreement to electrify and double track a host of rail lines operated by Ulaanbaatar Railways by 2020.

The work is scheduled to begin "immediately."

"Expansion of the rail network will enable Mongolia to utilize rich, but for now remote, subsurface resource deposits and more widely realize its transit potential," President Vladimir Putin said.

In signing the agreement on strategic partnership to modernize and expand Ulaanbaatar Railways, the two countries agreed the basic principles for cooperation in rail shipments, Mongolian President Tsakhiagiin Elbegdorj said. "We also discussed issues concerning conclusion in the near future of Mongolian-Russian agreements on transit shipments," he said.

The rail expansion agreement, which was signed by Russian Railways (RZD) (MOEX: RZHD) and Mongolia's Roads and Transportation Ministry, aims to upgrade Ulaanbaatar Railways to increase export and transit flows of freight, and to strengthen the company's role in the Eurasian transportation and logistical system. "Before March 1, 2015, the sides will agree the technical specifications and determine the project organizations for preparing the justification for investment, including marketing research, financial and legal models, and the project feasibility studies," the statement says. Ulaanbaatar Railways will finance the project design work internally and with borrowed funds.

Some of the main projects under the modernization and expansion program include upgrades to the Sukhe-Bator - Sainshand - Zamyn-Uud line (1,100 km on the "central" route), including electrification and construction of parallel tracks and construction of the Erdenet-Ovot rail line (545 km on the "northern" route) given the outlook for development of the mining industry in northwestern Mongolia.

In addition, a 215-km Ovot-Arts line may be built, possibly connecting to Russia's Kyzyl-Kuragino rail line, as well as upgrades to the rail line through Mongolia linking the Russian and Chinese rail nets, which could be used to ship products bound for China, India, Pakistan and other countries in the region. On the "eastern" route, the outlook for the Choybalsan - Eren-Tsav rail line (239 km) and transit in the direction of Khut-Bichigt will be determined.

"The agreement reflects the interest of the two sides jointly with China to increase shipment volumes from Russia to China and vice versa on Ulaanbaatar Railways rail lines, which calls for development of competitive tariff and technological terms for such shipments," RZD said.

RZD President Vladimir Yakunin stressed the need to further develop Mongolia's Russian-gauge (1,520 mm) rail net, saying construction of lines with different gauges "will lead to needless duplication of services and higher operating costs."

"Thanks to the joint efforts of the two sides, Ulaanbaatar Railways has been raised to profitability, modernization has been carried out and the entire fleet of locomotives has been replaced," Yakunin is quoted in the statement as saying.

Ulaanbaatar Railways, a joint venture formed under an agreement between the USSR and the Mongolian People's Republic on June 6, 1949, has rail lines stretching a total of 1,815 km. RZD is the trust manager of Russia's 50% stake. Ulaanbaatar Railways accounts for roughly 80% of Mongolia's domestic freight turnover and up to 100% of its exports and imports.

Agriculture

The Russian government will be instructed to lift restrictions on imports of livestock products from Mongolia, Putin said.

"We will certainly take these steps to accommodate our Mongolian friends, and the Russian government will make these decisions in the near future," Putin said.

Putin explained that, while he was talking with Elbegdorj, the latter had asked him "to lift the well-known restrictions" on imports of Mongolian livestock products to the Russian market.

Livestock imports from Mongolia to Russia have been banned because of the spread of dangerous animal diseases, primarily foot-and-mouth disease, in this country.

However, as the Russian agricultural watchdog Rosselkhoznadzor told Interfax, Russia, Mongolia, and China have been working actively over the past three years to set up "a common field of biological security," which should enable Mongolia to export meat, primarily beef and lamb, to Russia.

"Concrete measures have been taken to improve the situation. The matter implies, in particular, joint steps to prevent animal diseases, and the transfer of Russian vaccines to Mongolia," a Rosselkhoznadzor spokesperson said.

When a new serotype of foot-and-mouth disease was recorded last year, Russian researchers created a vaccine against it quite quickly, he said.

It is presumed that Mongolian regions from which livestock products could be exported to Russia should be determined in the near future. Enterprises boasting a high level of biological safety will be authorized to export their products to Russia, the Rosselkhoznadzor spokesperson said.

Cars

Putin said Rosneft and Russian car builders are set to expand their presence on the Mongolian market.

"Rosneft meets most of the Mongolian demand for petroleum products, it is a supplier of the Ulan Bator Chinggis Khaan International Airport and it has big plans of expanding its presence. By the way, Rosneft has big plans of expanding its presence on the Mongolian market," Putin said after negotiations with Mongolian President Tsakhia Elbegdorj.

He noted that Russia had been a traditional and reliable supplier of electric power to Mongolia and played an important role in the Mongolian energy security.

"I should also note that GAZ, Ural and PAZ vehicles and buses have a good reputation in Mongolia. Our manufacturers intend to increase the delivery of their motor vehicles," the Russian president said.

Medvedev signs order to create industrial development fund

GORKI. Sept 2 (Interfax) - Russian Prime Minister Dmitry Medvedev said he has signed an order to create an industrial development fund that will issue loans at the pre-banking stage.

"The third order, also signed by me, concerns an industrial development fund. One of the main goals of this new fund is to issue loans at the pre-banking stage for industrial enterprises," Medvedev said at a meeting with his deputies on Tuesday.

Deputy Prime Minister Arkady Dvorkovich said the size of the fund will be 18.5 billion rubles over a period of three years.

The fund will finance research and development, as well as feasibility studies, which will allow for Russian industry to more effectively realize its scientific potential, Medvedev said.

The new structure will be created based on the Russian Foundation for Technological Development, which issued loans primarily to companies that handled medium-sized innovation projects, he added.

"A new area of focus will arise that you've talked about - financing companies at the pre-banking stage. This concerns research and development, project documentation, feasibility studies and smaller loans to start working, if necessary," Dvorkovich said.

Medium-sized projects costing between 150 million and 2 billion rubles will be financed, he added.

A total of 1 billion rubles may be given from the new fund in as soon as 2014, possibly in December. "Funds totaling 18.5 billion rubles have been included over the three-year perspective of the draft budget," Dvorkovich said.

MinFin opposed to state guarantees for exports to six countries

MOSCOW. Sept 2 (Interfax) - Russia's Finance Ministry is proposing to not include Egypt, Mongolia, Yemen, Kyrgyzstan, Syria and Ukraine in the list of foreign nations to which exports of industrial products enjoy support in the form of state guarantees.

The development of credit finance cooperation with these six countries at this time does not make sense due to their limited capacity to pay or political reasons, an explanatory note attached to a draft Finance Ministry decree "On approval of the list of foreign nations to which exports of industrial products receive state guarantee support" states. The draft decree has been posted on the website for disclosure of information on preparation of laws and regulations by federal government agencies.

The draft list includes 56 countries. The ministry proposes to provide state guarantee support for exports to Argentina on the condition that this country finds a settlement on its debt to all creditors.

The ministry also proposes to provide state guarantee support for exports to Cape Verde, Cambodia, Nepal, Pakistan, Tunisia, Turkmenistan, Uzbekistan and Equatorial Guinea on the condition that they resolve issues of unsettled debt obligations in credit finance relations with Russia.

The list also does not include nations that have investment grade credit ratings from international rating agencies S&P, Fitch Group and Moody's. State guarantee support for exports to such countries is provided based on a risk assessment of the relevant export deal.

State guarantee support for exports to countries not included in the list can be provided if sufficient security other than the state guarantee of the importer's country is provided for the export deal.

The main criterion for compiling the list was the level of credit risk for each country assumed by Russia with the provision of state guarantees.

Crimea has many offers from foreign investors – regional govt

SIMFEROPOL. Sept 4 (Interfax) - Foreign investors are expressing a lot of interest in Crimea despite the Western sanctions, Crimea's Economy Minister Svetlana Verba said.

"I have not seen so many people wanting to begin working with Crimea for about ten years," Verba told a press conference in Simferopol on Thursday.

Verba said the Crimean Economy Ministry receives three to five offers from potential investors daily, including from businessmen from China, Turkey, France, and Israel.

Belarus to allocate \$4 bln to external state debt repayment in 2015

MINSK. Sept 3 (Interfax) - Belarus will allocate about \$4 billion to service and pay down external state debt in 2015, the Finance Ministry told Interfax.

First Deputy Finance Minister Vladimir Amarin presented the figures at a Cabinet meeting on Tuesday devoted to the draft budget for 2015.

Of the total, \$3 billion will go to pay principal and \$1 billion to pay interest.

"Separate external loans, including interstate loans totaling about \$1 billion, will be raised for the repayment. This volume reckons with the actual situation and with opportunities for raising resources on international financial markets," a Finance Ministry representative said, citing Amarin.

The repayment will also be financed with revenue from duties on export of oil products totaling \$1.5 billion and duties on export of domestically produced crude oil totaling \$582 million.

Alongside the debt repayment, the government must put together a state budget with a primary surplus of 23.5 trillion Belarusian rubles, he said.

Prime Minister Mikhail Myasnikov said Belarus must fully meet its external state debt servicing obligations in 2015.

"In the first place, looking at the 2015 budget balance, we must understand that we need to settle up on all external debts. This is sacred. We took these resources to modernize the economy. We must uphold the obligations we have assumed," the BelTA state information agency quoted Myasnikov as saying.

Particular attention must be paid to the foreign currency balance in 2015 and preserving the nation's gold and forex reserves, he said.

The official exchange rate on September 3 was 10,440 Belarusian rubles/\$1.

STATISTICS

Monthly inflation in Russia at 0.2% in August; rises to 7.6% in annual terms

MOSCOW. Sept 4 (Interfax) - Monthly inflation in Russia slowed to 0.2% in August from 0.5% in July and 0.6% in June, the Federal State Statistics Service (Rosstat) said.

This matched the 0.2% that analysts predicted in a consensus forecast for Interfax.

Inflation in annual terms accelerated to 7.6% in August from 7.5% in July.

According to Rosstat weekly monitoring data, prices rose 0.1% a week in each of the last three weeks of August. However, inflation for the month was only 0.2% because the cut-off date for monthly inflation is the 25th of the month. The 0.1% inflation in the final calendar week of August will be included in September's monthly total.

Inflation in August typically slows due to the seasonal decline in fruit and vegetable prices. Inflation was 0.1% in August 2013.

For that reason, inflation in annual terms rose to 7.6% in August 2014 from 7.5% in July. Annualized inflation declined in July 2014 for the first time since January, a trend did not hold in August. Annualized inflation was 7.8% in June, 7.6% in May, 7.3% in April, 6.9% in March, 6.2% in February and 6.1% in January.

The core or underlying inflationary index, which excludes short-term irregular price changes caused by various factors of an administrative, once-off and seasonal nature, was 100.6% in August, the same as in July (100.5% in August 2013). It was 105.6% in January-August 2014 (103.2% a year earlier) and 108.0% in annual terms (105.5%).

Inflation in January-August 2014 was 5.6%, up from 4.5% in the first eight months last year.

Russian consolidated budget surplus widens to 1.088 trln rubles in H1

MOSCOW. Sept 1 (Interfax) - Russia had a consolidated budget and extra-budgetary funds surplus of 1.088 trillion rubles in January-June 2014, compared with a surplus of 535.3 billion rubles in the same period of 2013, the Federal State Statistics Service (Rosstat) said.

Consolidated budget revenue, including state extra-budgetary funds, totaled 12.671 trillion rubles, compared with 11.371 trillion rubles in the same period of 2013; and consolidated spending was 11.584 trillion rubles, up from 10.835 trillion rubles.

Tax revenues to the consolidated budget in January-June 2014 included 2.649 trillion rubles from foreign economic activities (2.320 trillion rubles a year previously); 2.283 trillion rubles in compulsory social insurance contributions (2.087 trillion rubles); 1.501 trillion rubles in taxes, levies and royalties for the use of natural resources (1.262 trillion rubles); 1.201 trillion rubles from personal income tax (1.119 trillion rubles); 1.158 trillion rubles in corporate profit tax (995.4 billion rubles); 1.165 trillion rubles VAT on goods sold in Russia (978.9 billion rubles); 800 billion rubles VAT on goods brought into in Russia (769.1 billion rubles); 428 billion ru-

bles in property tax (406.1 billion rubles); and 457.6 billion rubles excise on goods made in Russia (444.3 billion rubles).

Consolidated budget expenditures in January-June 2014 included 6.598 trillion rubles on social and cultural programs (6.530 trillion rubles a year previously); 1.415 trillion rubles on national defense (1.086 trillion rubles); 1.300 trillion rubles on the national economy (1.128 trillion rubles); 938.9 billion rubles on national security and law enforcement (876.9 billion rubles); 700.5 billion rubles on general government needs (632.5 billion rubles); 352 billion rubles on the housing and utilities sector (348.2 billion rubles); and 385 billion rubles on road construction and maintenance (342.9 billion rubles).

Russia's federal budget had a surplus of 718.8 billion rubles in January-June, compared with a surplus of 367.9 billion rubles in the same period of 2013. Revenue was 7.121 trillion rubles (6.258 trillion rubles a year previously) and spending - 6.402 trillion rubles (5.890 trillion rubles).

Russia produces 0.3% more goods, services in July

MOSCOW. Sept 1 (Interfax) - Output of goods and services in the core sectors of the Russian economy increased 0.3% year-on-year in July 2014 after going unchanged in June, increasing 0.7% in May, 0.6% in April, 0.4% in March, 1.1% in February and falling 0.5% in January, the Federal State Statistics Service (Rosstat) said on Wednesday.

Production in January-July 2014 increased 0.4% year-on-year.

The index is calculated based on data concerning changes in the physical production volumes for agriculture, industrial production, construction, freight turnover and retail and wholesale trade.

Industrial production grew 1.5% year-on-year in July and 1.5% in January-July, while freight transport was up 0.3% in July (1.3% in January-July).

Retail trade turnover advanced 1.1% in July (2.4% in January-July), while agriculture production was up 8.5% (3.5%). Construction activity fell 4.6% in July (3%).

COMPANIES & MARKETS

ENERGY & RESOURCES

Russia to allocate 320 bln rubles to geological exploration to 2020 - Khloponin

ST. PETERSBURG. Sept 1 (Interfax) - Russia will allocate 320 billion rubles to geological exploration and mineral reserve replacement in the period to 2020, Deputy Prime Minister Alexander Khloponin told journalists in St. Petersburg on Monday.

"The sector will be allocated a quite large amount of resources: roughly 320 billion rubles to 2020. The money is available. The main thing is spending it effectively. The whole question consists in how to effectively approach the use of natural resources, so that the state receives the maximum effect," Khloponin said during a working meeting in St. Petersburg.

Growing the mineral resource base and training highly qualified specialists is especially important given the difficult international situation, he said.

"All of the necessary conditions have been created for effective development. We must replenish the mineral resource base in a systematic manner," Khloponin said.

Rosneft can meet financial obligations on its own - Sechin

MOSCOW. Sept 1 (Interfax) - Rosneft can meet its financial obligations on its own, the Russian state oil major's president, Igor Sechin said in an interview with Der Spiegel.

Rosneft can easily meet its obligations with its own resources, he said. Rosneft earned a record profit last year and it posted a profit of \$5 billion in the first half of 2014 on revenue of \$80 billion, Sechin said when asked how the company intends to carry out its investment plan in the face of sanctions.

Net profit for this year will total \$13.5 billion, even though no other company pays so much tax, Sechin said, adding that the company will pay more than \$80 billion into the treasury in 2014.

It was reported earlier that Rosneft's capital expenditures could total 730 billion rubles in 2014 (\$19.7 billion at the current rate). As for long-term investments, Rosneft plans to invest \$400 billion over 20 years in Arctic projects alone.

Tight gas extraction

Rosneft has asked the state for financial assistance for the tight gas extraction program in Eastern Siberia.

"We want to extract tight gas in Eastern Siberia and we plan to build a petrochemical plant there. If the state provides a bond-secured loan to us, I reiterate, a loan, it will be very good," Sechin said.

Sechin added that the company will begin working on the project later if it does not get state support for it.

"If we don't get it, it won't be a catastrophe to us. We will just begin working on the project later. Rosneft has no problem with the financing of current projects," Sechin said.

According to earlier reports, citing the newspaper Vedomosti, Sechin has asked the government to provide financial assistance to Rosneft, citing the sanctions imposed on the company by the U.S. The Trade and Economic Development Ministry is analyzing his request.

Okhotsk, Chukchi shelf

Rosneft is planning to invest over 112 billion rubles on geological exploration work at the shelf of the Okhotsk Sea and Chukchi Sea in 2014-2018, Sechin said.

"Between 2014 and 2018 we are increasing spending on geological exploration several fold at the shelf of the Okhotsk Sea towards Magadan and the Chukchi Sea. These costs will total over 112 billion rubles," he said at a meeting with Russian President Vladimir Putin to discuss the development of the Far East Monday.

Sechin added that the company was already producing 34 million tonnes of oil per year at current fields in the region. As a result of developing prospective sections, production can increase by more than 30 million tonnes.

Refining capacity

Rosneft plans to create capacity to refine 30 million tonnes of oil a year, Sechin said.

"We agreed approval of a first stage of the project with investment in the neighborhood of 560 billion [rubles], that will provide for construction of a first line with capacity for 12 million tonnes a year at Far East Petrochemical Company. Transneft gives us a connection to the trunk pipeline," Sechin said.

"In all the refining will total 30 million tonnes: a second stage with another 12 million tonnes and 6.7 million tonnes in petrochemicals," Sechin said.

The Far East Petrochemical Company project involves the building of a petrochemical complex in the area of Elizarov valley in the Partizansky region of Primorye Territory with overall processing capacity of 30 million tonnes, of which oil will account for 24 million tonnes and naphtha for 6 million tonnes. The first line may involve the building of a complex with 12 million tonnes of annual processing capacity, a second line the launch of a petrochemical block for 3.4 million tonnes of product per year, and a third line for increasing oil refining by 12 million annual tonnes and petrochemical output by 2.6 million annual tonnes.

In addition, Deputy Prime Minister Arkady Dvorkovich said at an energy commission meeting in early summer that he did not find third phase construction to be worthwhile.

Morgan Stanley deal

Elsewhere, the European Commission has approved Rosneft's purchase of Morgan Stanley's trading business, the commission said in a statement.

The commission said the proposed acquisition would not raise competition concerns, as the overlaps are very limited and a number of strong players would remain in the market after the merger.

The European Commission received Rosneft's request on July 29.

The deal has previously been approved by the U.S. Federal Trade Commission. Rosneft then submitted documents to the Committee on Foreign Investment in the United States (CFIUS) concerning a planned deal to purchase the trading business of Morgan Stanley.

In the deal, which is planned to be finalized in the second half of the year, Rosneft is to receive the oil trading business of the bank and 49% of the company, which has a fleet of tankers. The deal includes agreements on oil shipments, purchases, transportation and storage, as well as various investments in equity.

Morgan Stanley CFO Ruth Porat previously said the bank was still planning to finalize the deal this in spite of new U.S. sanctions against the Russian company.

Thanks to its new purchase, Rosneft will be able to expand its oil trading portfolio and compete with the world's largest traders, Glencore and Vitol, as well as with leading global energy companies, including BP, Royal Dutch Shell, Total, and Saudi Aramco.

Rosneft launches operations at field North Chaivo field in Sakhalin to supply Far East LNG

GORNO-ALTAISK. Sept 4 (Interfax) - Rosneft has launched the first stage of operations at the North Chaivo field in Sakhalin.

"Today we are launching the first stage of industrial operations at this field. Therefore, a new field has appeared in Russia - North Chaivo - which will provide 1.5 million tonnes in annual output," Rosneft chief Igor Sechin told Russian President Vladimir Putin.

The plan for developing the field calls for reaching peak production in 2017 for oil and in 2027 for gas. The field contains over 15 million tonnes of oil and about 13 billion cubic meters and will serve as the initial resource base for the Far East LNG plant.

Sakhalin plans

Rosneft did not specify the projected gas production figure. Rosneft and ExxonMobil, the operator of the Sakhalin-1 project, in which Rosneft owns 20%, are studying opportunities to build a gas liquefaction plant on southern Sakhalin Island. Sechin said previously that Rosneft counts on beginning production at the Sakhalin LNG plant no later than 2018. The first line will have capacity for about 5 million tonnes of LNG a year to be supplied entirely by Rosneft. Gas produced under the Sakhalin-1 project may be used to supply the second phase of the LNG plant.

"Work at the field is being conducted from the Yastreb drilling platform, which is currently drilling a second well that will be 11 km long. The field will be developed using a cluster of five wells," Rosneft said.

"I know that work is planned at this section until 2030, it is very ambitious, large, and has prospects for development," Putin said during a video conference with the Yastreb platform, which is working on the northern tip of the Chaivo field.

Record well

Energy Minister Alexander Novak said the first well, the drilling of which was completed on September 4, set a new industry record - the total length of the well was 10,875 meters, of which 9,517 meters were not vertical.

"This is a new record, new technologies allowed for the realization of such a project," Novak said.

Putin said that the technologies that allowed for the drilling of the well on the shelf field, which was actually horizontal, "can, of course, be applied to other areas of production, including on the Arctic Sea shelf."

The Russian president congratulated the workers of the oil industry with the approaching holiday that will take place on September 7.

Sechin also said that on September 4, the company is beginning the first drilling with the help of the Berkut platform. The Russian president participated in the launch.

The northern tip of Chaivo field is located within the shallow part of the Northeastern shelf of Sakhalin. The recoverable reserves of oil amount to 14.9 million tonnes, of gas - 4.3 billion cubic meters (bcm). It is planned that peak output will amount to 32,000 barrels a day.

Sakhalin-1 oil production is gradually declining. In 2014 it could fall by 6% in comparison with the previous year to 6.6 million tonnes. Chaivo is the project's main field. A few years ago, Exxon Neftegas, the project operator, tried to prove to the Russian authorities that the northern reservoir, located directly at the boundary of the license area, is part of the field. However, officials from the Natural Resources Ministry did not agree and put the section that was called the northern tip of Chaivo up for auction. Rosneft won the auction, which is a participant in the Sakhalin-1 project.

The Berkut platform will drill on the Arkutun-Dagi field, located 25 kilometers from shore, on a section where the depth can reach 35 meters. The start of production at the Arkutun-Dagi field is expected at the end of 2014. Its development will add up to 4.5 million tonnes to the total annual production of Sakhalin-1.

ONGC interest

Meanwhile, India's oil and gas corporation ONGC is holding talks on receiving a 20% stake in Far East LNG, which is being prepared for construction by Rosneft as part of the Sakhalin-1 project.

Novak said this in a presentation at a ministerial meeting of Asia-Pacific Economic Cooperation (APEC) countries.

Last year, Rosneft agreed with ExxonMobil to build a LNG plant for gas from Sakhalin-1 (ExxonMobil has a 30% stake in the project, Rosneft - 20%, ONGC - 20%, SODECO - 30%) with a capacity of 5 million tonnes.

A year ago Rosneft head Igor Sechin spoke about the possibility of attracting another investor in Sakhalin-1 - Japan's SODECO.

"We signed documents on the implementation of the project with ExxonMobil. We will review the possibilities for other partners, for example, SODECO and ONGC. If we agree, the design of the project can be changed," he said.

Gazprom Neft begins commercial production at Badra field in Iraq

MOSCOW. Sept 1 (Interfax) - Gazprom Neft has begun commercial production and oil deliveries from the Badra field in Iraq, the oil major said in a press release.

Gazprom Neft is delivering over 15,000 barrels of oil per day to Iraq's pipeline system for transfer to the export terminal in Basra.

According to the conditions of the service contract on the development of the field that was concluded with the government of Iraq, 90 days after the start of commercial supplies, the consortium of companies and investors will begin to receive a portion of the oil produced at Badra field.

"All of the oil produced in southern Iraq, including at Badra, is Basrah Light oil. The Iraqi State Oil Marketing Organization (SOMO) is responsible for oil sales and each quarter will be delivering a share of oil to the investor companies to reimburse their initial project costs. Once these project costs have been covered, the investor companies will receive remuneration in kind for ongoing development at the rate of \$5.5 of oil per barrel produced. Each investor company will be selling their share of oil independently," the press release said.

Oil & gas this week

*** For more on these stories and other news from the Oil & Gas sector, please see the Interfax Oil & Gas Weekly.

*** The Federal Tariff Service this week submitted a draft decree to the government allowing Gazprom to offer discounted prices of up to 15% of the regulated gas price to certain categories of consumers.

*** Rosneft CEO Igor Sechin believes the decision made by the Hague court on Yukos could have been made under pressure.

*** Rosneft and American ExxonMobil have begun carrying out 2D seismic surveying at the Anisinsko-Novosibirsk and Ust-Oleneksky licensed areas in the Laptev Sea, Rosneft said. Overall 2D seismic work will cover 6,000 linear kilometers and be carried out until the end of October. Elsewhere, Rosneft and PetroVietnam have discussed the delivery of Russian oil to the Dung Quat oil refinery in Vietnam, as well as possible cooperation in modernizing the refinery.

*** Gazprom Neft this week sent an inquiry to a pool of European banks at the end of August about the possibility of raising a club loan for a term of five years, several banking sources told Interfax. The amount and interest rate were not stated in the inquiry, the sources said. The company is waiting for proposals from the banks on the possible conditions of the loan, they said.

ELECTRICITY PRODUCTION & DISTRIBUTION. NUCLEAR POWER

Crimea must be energy independent - Medvedev

GORKI. Sept 2 (Interfax) - Russia must achieve full energy independence in Crimea, Russian Prime Minister Dmitry Medvedev said at a meeting with his deputies on Tuesday.

"We are continuing to work with our partners [in Ukraine]. Naturally, this is not all being done for free. These are entirely normal, commercial relations, but we have the common stance of achieving full energy independence," Medvedev said.

He added that this goal could not be achieved in just a day or a month. "This is a fairly complex process. Special money must be set aside for this. This has been included in the federal targeted program for the development of Crimea and Sevastopol. It's necessary to continue working in this direction," Medvedev noted.

He asked Deputy Prime Minister Dmitry Kozak to report on the situation with energy in Crimea.

Kozak said that after energy supplies were cut off from Ukraine on Sunday, August 31 at 9:00 p.m., by 11:30 p.m. all socially significant facilities, as well as energy facilities, were connected to temporary power sources. By 2:00 a.m. on Monday, power was restored completely.

Kozak added that this was still the case: "The power supply from Ukraine's energy system has been restored completely. All diesel generating units and gas turbine power stations have been put back into reserve."

IES Holding cuts power output 0.9% in H1 to 30.2 bln kWh

MOSCOW. Sept 4 (Interfax) - The generating companies in IES Holding produced 30.2 billion kilowatt hours (kWh) of electricity in the first half of 2014, a 0.9% decrease over a year earlier, the company reported.

Heat generation declined by 5.5% to 59.6 million gigacalories (Gcal) in the six-month period.

The main reasons for this were warm weather, the sale of two stations and a drop in steam consumption by industrial enterprises.

Rosatom may build NPP in Algeria

MOSCOW. Sept 3 (Interfax) - Russia and Algeria signed an agreement on Wednesday on cooperation in the use of nuclear energy for peaceful goals, Rosatom said in a press release.

The agreement covers design, construction, operation and maintenance of the nuclear power plants as well as research reactors in Algeria.

"Construction of a Russian VVER nuclear power plant in Algeria could serve as the centerpiece of our cooperation," Rosatom chief Sergei Kirienko is quoted in the press release as saying.

"We welcome the Algerian government's plans to develop the national energy sector and are ready to offer them the three-plus generation reference project, which meets the highest safety standards. These are nuclear power plants that Rosatom builds in Russia and abroad," he said.

The first Algerian nuclear power plant could be built in the next 12 years, Algerian Energy Minister Yusuf Yusufi said.

Russia and Algeria also plan to conduct joint geological exploration, surveying and extraction of uranium deposits. The option of applying nuclear technologies in agriculture, biology, soil science, water resources, industry and medicine, including production of radioisotopes, is also being considered, as is cooperation in radiation safety on Algerian territory.

A joint coordinating committee will be set up to implement the agreement.

Algeria plans to build its first nuclear power plant in 2020-2025, after which it will commission new nuclear units every five years. The Algerian Energy Ministry estimates the nation's uranium ore reserves at 29,000 tonnes.

METALS & MINERALS

Norilsk Nickel boosts nickel exports to Asia 60% in latest year, copper - up 100%

MOSCOW. Sept 3 (Interfax) - Norilsk Nickel exported 60% more nickel to Asian customers in the latest year, Deputy CEO for economics and finance Sergei Malyshev said in an interview on Rossiya 24 television. 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).

Elsewhere, Australian Poseidon Nickel Limited, which signed an agreement with MMC Norilsk Nickel in early September to purchase the mothballed nickel enterprise Lake Johnston, has received a request from regulators for additional information on the price and details of the deal, Poseidon said in a statement.

The price agreed upon was \$1 million. Poseidon will make its first \$100,000 payment and meet all obligations for the deal after specific conditions are carried out, including regulatory approvals, the company said Friday. "The purchase is conditional on assignment of existing third party agreements; ministerial approval of tenement transfers; and inclusion of the tenements into the Mineral Resource Fund (MRF)," the statement says.

As reported, Norilsk Nickel is expecting to make significant profit from the sale by writing off provisions for environmental obligations that Poseidon is undertaking.

Norilsk Nickel and Poseidon Nickel Limited agreed a price of \$1.5 million in July 2014 for the sale of the Black Swan project in Australia, Poseidon has said. The deal is expected to be finalized in H2 after necessary permits are acquired and after the terms of the agreement are satisfied.

Poseidon is looking into renewing production at Lake Johnston soon after the deal with Norilsk Nickel is finalized. Assets are currently being prepared to restore operating activity, Poseidon has said. Poseidon estimates Lake Johnston to have resources of 70,500 tonnes of Nickel (Maggie Hays has 3.8 million tonnes of ore with average nickel content of 1.49%, while Emily Ann has 334,000 tonnes of ore at 4.18%). Including this project, Poseidon will increase nickel reserves to 400,000 tonnes.

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.

Metals this week

*** 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 Rostec state corporation and Chinese Shenhua have agreed projects in coal mining and power generation involving \$10 billion in investment.

*** For more on these stories and other news from the Metals sector, please see the Interfax Metals & Mining Weekly.

METAL GOODS & ENGINEERING

UVZ to seek other partner if project with Caterpillar is cancelled - paper

MOSCOW. Sept 5 (Interfax) - OJSC Uralvagonzavod (UVZ) will look for another partner if it does not manage to implement a project with U.S. equipment maker Caterpillar, business daily Vedomosti reported on Friday, citing the Russian engineering company's deputy CEO, Andrei Shlensky.

The project has been frozen, but not cancelled, he said. "The company is waiting for clarifications from its American partner about their next steps in relation to sanctions. Caterpillar's answer is expected in September," the paper quoted Shlensky as saying.

If the project is not implemented with Caterpillar, UVZ will look for another partner in China, Korea or Europe, Shlensky said. A representative of Caterpillar did not respond to questions, the paper said.

The project with Caterpillar called for joint production of locomotives in Russia, including locomotives that run on natural gas, with a gradual increase in the level of localization. The U.S. company made two locomotives that were supposed to arrive in Russia for certification, and the

companies prepared a plan for refurbishing a production floor at the Chelyabinsk Tractor Plant, Vedomosti said.

UVZ's project with another manufacturer from North America, Canada's Bombardier, has also not been cancelled, the paper reported Shlensky as saying. This was confirmed by a source close to one of the partners, the paper said. There are no formal reasons for halting the project due to sanctions, as UVZ is not on Canada's sanctions list, he said. A representative of Bombardier declined to comment, the paper said.

But UVZ's project with Bombardier could also run into problems, Shlensky said. The partners intend to bid in a major tender to supply subway trains for Moscow - about 1,500 cars worth about 400 billion rubles with a life cycle contract - that might be held in the fall. The terms of the tender might turn out to be unprofitable, he fears.

The project with Bombardier is geared toward joint participation in tenders to supply metro trains for cities in Russia and other countries in the CIS, as well as to set up production in Russia of a jointly developed metro train, work on which has not been completed yet.

Investment in the project to build locomotives will depend on the selection of the site, the paper reported Shlensky as saying. If production is set up at the Chelyabinsk plant, investment will exceed 3 billion rubles. He did not specify the possible amount of investment in the metro train project, but said the figures would be "even more substantial."

UVZ chief executive Oleg Siyenko told Interfax on Thursday that "everything is more or less alright" in the company's project to build trams with Poland's Pesa "because our joint venture is on Russian territory."

However, UVZ is having "difficulties raising fairly long, cheap money," as its main banks and creditors have been hit by sanctions, Siyenko said.

China's Haima to resume automobile production in Russia, investing \$100 mln

MOSCOW. Sept 1 (Interfax) - Chinese automaker Haima plans to invest about \$100 million in setting up production of automobiles in Russia, national daily Kommersant reported on Monday, citing the CEO of LLC Haima Automobiles Rus.

This is Haima's second attempt to enter the Russian market. In 2010-2012 the company assembled its vehicles at the Derways plant in Cherkessk, but then halted assembly due to the debts of its partners. Analysts believe China's automotive industry hopes to win a niche on the Russian market amid the intensification of economic ties with China, the paper said.

Haima has already considered the plants of Tagaz and UAZ and Derways in Cherkessk, but plans to make a final decision on the site by the end of the year.

The company plans to carry out the project in four stages, beginning with semi knocked down assembly and gradually increasing the level of localization. Haima expects to have capacity of up to 30,000 vehicles per year (no more than 10,000 vehicles given the formation of a joint venture with local partners).

Sollers, which owns UAZ, said that it has received overtures about cooperation from Haima, but this might involve leasing UAZ facilities, not the formation of a joint venture, the paper reported.

Haima, which is 49% owned by automaker FAW, was formed in 1992 as a joint venture between the province of Hainan and Japan's Mazda. The company initially assembled Japanese vehicles, but later began producing automobiles under its own brand. Haima has capacity to produce 150,000 vehicles per year and has about a 2% share of the Chinese market.

Japan's Unipres begins to build 2-bln-ruble car part plant in St. Petersburg

ST. PETERSBURG. Sept 3 (Interfax) - LLC Unipres Rus, the subsidiary of Japan's Unipres Corporation, officially began construction of an automobile parts factory in St. Petersburg on Wednesday, an Interfax correspondent reported from a capsule-laying ceremony at the foundation of the new plant.

The enterprise will produce load-bearing frames for cars at the Nissan plant, in particular side members, cross members and sills. The plant's capacity will allow for the production of parts for 80,000 cars a year.

Investments in the factory are estimated at 2 billion rubles.

The company plans to complete construction by the end of 2015 and launch production at the beginning of 2016.

It was also announced this week that Japanese producers of marine equipment intend to cooperate with Russian companies working in shipbuilding, despite the sanctions imposed against Russia, the chairman of the Japanese Ship Machinery & Equipment Association (JSMEA), Motoyoshi Nakashima, told journalists.

"Economic sanctions are in the sphere of political issues. We represent private companies, and if the opportunity for cooperation arises with companies from Russia, then we will implement them based on their economic viability," he said, adding that if there are interesting proposals for joint venture projects with Russian shipbuilding companies, the Japanese producers might participate in them.

Nakashima said that the Russian market is interesting to Japanese companies, first of all in terms of energy projects - "all that is connected with energy transport, in particular, the Yamal LNG project." Among the potential opportunities for cooperation with Russian companies, the JSMEA chairman named the development of the Northern Sea Route.

He said Japanese marine equipment could be used in projects that focus on energy supplies and protecting the environment.

The deputy head of the Russian Maritime Register of Shipping (RS), Pavel Shikhov, said that some projects that are overseen by the register are really very vulnerable [due to the imposition of sanctions] in terms of supplies of foreign equipment, however the sanctions have not affected their implementation. "I see that Japan imposed sanctions in a very moderate way," he said.

IT & TELECOMS

MegaFon discloses new shareholder structure following reduction of Usmanov stake

MOSCOW. Sept 5 (Interfax) - MegaFon has disclosed its new ownership structure as of August 12, as a result of its main shareholder, Alisher Usmanov, reducing his stake.

The telco said Usmanov's ABU Group Ltd owned 48% of the BVI-registered USM Holdings Ltd., which owns the BVI-registered USM Telecom Holdings Ltd. MegaFon's other co-owners are Garsdale Services Investments Ltd. (BVI), AF Telecom Holding Ltd (Cyprus), LLC AF Telecom Limited (Moscow) and Telecominvest Holdings Ltd.

USM Holdings Ltd., the main holding company for Usmanov and his business partners, indirectly owns 97.45% of Garsdale and the state Rostec corporation owns the other 2.55%. Garsdale, for its part, indirectly owns 53.6518% + 100 shares in MegaFon.

Previously, ABU Group owned 60% of USM Holdings, but on August 12, USM bought 10% of its own shares back from its majority shareholder. Reports said the shares were due to be bought by Ivan Streshinsky, the CEO of USM Advisors and non-executive board chairman of OJSC Metalloinvest, and by Ivan Tavrín, CEO of MegaFon.

Farhad Moshiri, non-executive chairman of USM and a long-standing business partner of Usmanov, now votes with both his own 10% of USM and with 30% owned by Vladimir Skoch, father of the State Duma deputy Andrei Skoch. Usmanov used to vote with 100% of shares in USM.

Moshiri and Skoch have also each converted a 2% economic interest in Usmanov's personal holding into 1% of USM each. As a result, Usmanov is left with a non-controlling stake of 48% but remains USM's largest shareholder.

Streshinsky and Tavrín will each own 3% of USM, and 2% will be handed to USM executives "who helped to create the group," the company has said. The remaining 2% will go to the management of USM Holdings and its subsidiaries, including Metalloinvest.

Provision was made for the possibility of 10% of USM being handed over to its management back when the company was formed in 2012. This was disclosed in the prospectus for MegaFon's IPO. "The sale of the shares frees up capital for participation in investment funds that specialize in areas in which Usmanov sees huge future potential," USM said on Tuesday. "Secondly, this allows USM to transfer some shares to key group executives with the aim of incentivizing, retaining and motivating them," the company has said.

Usmanov plans to invest the proceeds from the sale of his shares in existing investment funds (he is a co-investor in DST Global funds); there are no plans to create new funds. Usmanov "is considering various investment opportunities in the mining sector, high technologies and in the area of media content production in various regions of the world," USM has said. DST Global set up a new fund, DST Global IV, in June.

Telecoms this week

*** Investment fund Runa Capital has sold its stake in cloud backup solutions provider BackupAgent to Acronis. Details of the deal have not been disclosed, but BackupAgent's first investor, Solid Ventures, which took part in the second round of financing for the Dutch company, also exited.

*** For more on these stories and other news from the Telecoms sector, please see the Interfax IT & Telecoms Weekly.

TRANSPORT

Putin approves lowering govt stake in Aeroflot to 50% plus 1 share

MOSCOW. Sept 1 (Interfax) - Russian President Vladimir Putin has approved lowering the government's stake in Aeroflot - Russian Airlines to 50% plus 1 share.

Putin signed the corresponding order on Monday. It was published on the official Internet portal of legal information.

The government's stake in the company is currently 51.17% of shares.

Sanctions not to affect RZD's ability to raise financing, Europe to lose a quality borrower - Yakunin

YEKATERINBURG. Sept 4 (Interfax) - Russian Railways (RZD) can find alternative financing sources following EU sanctions that limit Russian companies' ability to borrow from western banks, and Europe is running the risk of losing a quality borrower, RZD President Vladimir Yakunin told journalists September 4.

"Oh, we have alternatives. But do Europe's financial institutions have an alternative?" he said.

"Let them think more carefully because you have to look all over the world to find large and reliable borrowers like RZD," he said, asked if the company had an alternative if the EU banned European financial institutions from lending to state-owned Russian companies.

Mechel rail line

The possibility of allocating funds from the National Welfare Fund (NWF) is being considered as a way for RZD to purchase Russian mining and steel company Mechel's railway line to the Elginskoye field, Yakunin said.

"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."

Unified logistics co.

Meanwhile, the government has approved the contribution of a stake of 50% plus two shares in Transcontainer to the Unified Transport Logistics Company (UTLC), the joint venture that Russia plans to form with Kazakhstan and Belarus, Yakunin said.

"Yesterday I received information that a government directive has been received about the contribution of Transcontainer shares to the Unified Transport Logistics Company," Yakunin said at a plenary session of the international Coordinating Council on Transsiberian Transportation (CCTT).

"I know that a corresponding directive about the creation of this company itself is also supposed to come out," Yakunin said.

Russia, Kazakhstan and Belarus plan to form UTLC on a parity basis. In addition to the Transcontainer shares, Russia is expected to contribute RZD Logistics shares to UTLC.

Loading to fall

Elsewhere, RZD is expecting loading to fall 1.4%-1.5% in 2014, not by 1.8%.

"Our goal is to stop at negative (-) 1.4%-1.5%, though we had preliminarily been estimating more serious decline of up to -1.8%," the head of RZD's corporate transportation services, Elena Kunayeva, told journalists on the sidelines of the CCTT forum.

"In the middle of September we are going to report on projected results for the year and bring them to the budget committee. In early October decisions will be made on the need [to make] adjustments," she said.

Kunayeva added that loading is expected at 3.44 million tonnes per day in September, down 1.4% year-on-year.

The growth forecast for September was improved by delivering freight for utilities, housing and energy at an earlier period. In addition, grain loading also affected the change due to a large harvest.

Tariff expectations

In other company news this week, RZD adjusted its expectations concerning freight tariff indexation for 2015 in light of the revised inflation forecast.

"[An inflation forecast] at 7.2% is a lot different than 6%, and understandably, the 10% we assumed given the minimal subsidy of 45 billion rubles will now undergo certain adjustments," RZD First Vice President Vadim Morozov said in St. Petersburg on Monday.

He added that precise figures might be announced "today in Yakutia or over the course of governmental review."

"Naturally, the main thing is that we have been forced to follow these trends, otherwise we may get behind in our development," Morozov said.

Meanwhile RZD estimates losses from freezing rail freight tariffs in 2014 at 100 billion rubles, but the company was able to save 96 billion rubles, RZD Senior Vice President Valentin Gapanovich said at a meeting with Siberian academics in Novosibirsk Monday.

"The freeze on tariffs this year cost the company 100 billion rubles. We will have losses, but now we've 'squeezed out' 96 billion," he said, adding that this was the amount that had been saved.

As reported, the Russian government decided not to index rail freight tariffs in 2014, and the monopoly must compensate losses using internal reserves. Next year, tariffs will be increased by the amount of the previous year's inflation.

Globaltrans fears "severe effects" on business due to crisis in Ukraine

MOSCOW. Sept 2 (Interfax) - The political and economic crisis in Ukraine could have "severe effects" on Globaltrans' business, the railway operator said in its report to International Financial Reporting Standards (IFRS).

"The final resolution and the effects of political and economic crisis in Ukraine are difficult to predict but it may have further severe effects on the Ukrainian economy and the company's business," the report says.

"The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian ruble, higher interest rates, reduced liquidity and making it harder to raise international funding. These events, including current and future international sanctions against selected Russian companies and individuals and the related uncertainty and volatility of the financial markets, may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's expectations," the company said.

Meanwhile Globaltrans is refraining from making investments until they seem justifiable, the railway operator said in a statement.

"Our key priorities remain targeting further cost efficiencies, expanding partnership agreements with key clients and prudent capital allocation. We will keep our expansion CAPEX on hold until market conditions support further investment and will maintain an appropriate balance between reducing debt and returning cash to shareholders," CEO of Globaltrans Sergey Maltsev is quoted in the statement as saying.

"The board continues to support a Dividend Pay-out Ratio of not less than 50% of Imputed Consolidated Net Profit in periods of sustained low investment activity and comfortable leverage," he added.

SPACE INDUSTRY

Putin: 50 bln rubles to be allocated for Vostochny Cosmodrome construction in 2015

VOSTOCHNY COSMODROME, Amur region. Sept 2 (Interfax) - It is planned to allocate 50 billion rubles for the construction of the Vostochny cosmodrome in 2015, Russian President Vladimir Putin said at a meeting on the development of the facility.

"We invest serious funds in the Cosmodrome construction. Over 100 billion rubles were spent on these purposes since 2011. It is planned to allocate other 50 billion rubles in 2015," Putin said.

All timelines and stages of the project must be complied with, the president said.

"Due to this it is essential to rule out any delays and disruptions in its financing. But it is necessary to watch financing attentively. No unjustified increase should occur," Putin said.

Putin earlier in the day toured the construction site, the first launch from which is planned to be carried out in 2015. The president started his tour with the facility for preparing spacecraft, where among other things spacecraft assembly and testing will take place.

Putin said the facility will give Russia the opportunity of independent space launches, at that on all space program aspect. "Taking into account that it is planned to work here on remote space - on Moon and Mars, this is a prospect for decades to come," he said.

Delays

The construction of the Cosmodrome is still 30 to 55 days late, Putin said. "I have to say there is still a lag in the construction of main launch and technological facilities. This is a lag of 30-55 days," Putin said.

Slightly more than 6,000 workers are daily building the space center, "but we need 12,000 to 15,000, and this is confirmed by Roscosmos," he said.

Putin appointed Deputy Prime Minister Dmitry Rogozin as chairman of the commission for coordinating the Cosmodrome project. "The president has made the decision to put a deputy prime minister, not the Roscosmos chief [Oleg Ostapenko], in charge of the commission for coordinating the work at the Vostochny cosmodrome. This means that I am assuming personal responsibility and will be directly in charge of coordinating the entire workload to create the cosmodrome," Rogozin told the press.

He said that it is impossible to run this complicated and versatile work remotely and that the web cameras installed at the construction site were no longer sufficient.

"The entire work must be fully under control. Nothing must remain outside supervision, first of all the finances," Rogozin said.

"All of these tricks practiced over the past years won't pass. The entire work will be controlled, starting from the blueprints and the cost of the construction and those responsible for it will be under control," he said.

"Rigorous order must be restored in this extremely important business, so everyone must be on guard. Russia has very rigorous plans connected with the defense industry and the space rocket sector," he said, adding that there is no place in principle for irresponsible budget spending.

"The construction of as sophisticated a facility as the Vostochny cosmodrome is no longer Roscosmos's responsibility. It is a responsibility bestowed directly on the government. The president will regularly return to this issue," Rogozin said.

Launch vehicles

Putin meanwhile gave the go-ahead to the start of work on creating super-heavy space launch vehicles in Russia, Rogozin told reporters.

"Today for the first time the beginning of work on this project was announced at the presidential level. Up until now conversations, talks and discussion at expert level had taken place. It can be said today that the president has given the preliminary go-ahead to begin work on this project," Rogozin said.

"This means that, after developing the entire family of the Angara rockets - the light, middle, and heavy classes - we will switch to creating rockets of an absolutely different class, not the 7, 15, and 25 tonne-ones, but 120-150-tonne ones," he added.

"And in this respect the plans that we had concerning the building of a pad for the Angara rocket have not changed, but, based on some of [Russian Federal Space Agency] Roscosmos's ideas concerning the reduction of launch pads, we could appropriate some funds for building a pad for super-heavy rockets now. But this should be done right now, taking into account the time needed for the project's development, clearance, and endorsement and the building of the rocket itself," Rogozin said.

Ostapenko said earlier on Tuesday that the number of launch pads built for the heavy Angara launch vehicles could be reduced from four to two and the funds saved this way could be spent on building a new super-heavy rocket.

"The structures will be arriving in maximum readiness. This allows the reduction of the (assembly) time to two to three months," Ostapenko said.

Timeline

The construction of the cosmodrome in the Svobodny District of the Amur region began in early 2012. The cosmodrome is designed for preparing and launching freight spacecraft and orbital station modules, completing manned mission programs and prospective space programs for the study and exploration of celestial bodies, including as part of international cooperation.

To ensure Soyuz-2 launches from the Vostochny, a ground space infrastructure is being built; the cosmodrome will also have two launch facilities for Angara class rockets.

A total of 200.2 billion rubles are due to be allocated for the period until 2015 under the federal target program titled "Development of Russian cosmodromes in 2005-2015," and the federal space program.

In 2012 and 2013, the funding for design, survey, construction and assembly work was cut by 13.27 billion rubles; in 2014, by 1.2 billion; and will be cut in 2015 by 1.5 billion.

A satellite is due to be launched atop a Soyuz-2 rocket from the Cosmodrome in 2015.

CONSTRUCTION & PROPERTY

Project to build bridge across Kerch Strait estimated at 228.3 bln rubles - draft resolution

MOSCOW. Sept 1 (Interfax) - The maximum cost of the project to build a bridge across the Kerch Strait is 228.3 billion rubles, says a draft government resolution, posted on the regulation.gov.ru.website.

The resolution says that the aggregate sum, including the funding to cover the design and survey work, includes 0.5 billion in budget funding and 227.8 billion rubles in financing from the federal program for the development of Crimea and Sevastopol through 2020.

"Taking into account the government's decision to select one contractor, the government has set additional terms for fulfilling the contract - a pledge not to exceed the maximum limit on spending in the form of a bank guarantee, or some other guarantee, envisioned in the current legislation, standing at 30% of the maximum worth of the contract."

The resolution also says that the bridge must include a motorway compliant with the standards of the first-category general motorways with four lanes and a two-track railway. The bridge will be 19 kilometers long.

Property developer PIK targets earnings to double in 2016

MOSCOW. Sept 4 (Interfax) - PIK Group, a leading Russian property developer, is drawing up a new strategy for 2014-2017 aimed at streamlining operations and boosting earnings.

PIK targets net profit to double in 2016 compared with 2014, President and chief owner Sergei Gordeev said during a conference call on Wednesday.

The draft strategy calls for the main business - construction of prefabricated, economy-class apartment buildings - to contribute 70% of earnings. Construction of apartment buildings using blocks will contribute 20% and custom projects in the premium segment - 10%. Geographically, Moscow will account for 35% of net profit, Moscow region - 25%, St. Petersburg and Leningrad region (into which PIK plans to expand) - 20% and other regions - 20%.

PIK plans to retain its business model, which Gordeev described as "an alliance of developer and home manufacturer, for itself and outside builders," but modify some of its principles.

Sale of prefabricated apartment buildings to outside clients currently accounts for a tiny share of PIK revenue. As a result, the company is now contending with underutilized capacity (the group has two prefabricated housing manufacturing divisions: DSK-2 and DSK-3). PIK plans to ramp up sales of apartment buildings to developers in regions where it currently has no construction operations. PIK would assume responsibility for marketing and selling apartments in the completed buildings. Next year, PIK will launch a pilot project on sale of apartment buildings - a total of 100,000 square meters - in a select region. It will subsequently expand those operations into 15 regions, selling 1.5 million square meters of housing at an EBITDA margin of no less than 20%.

PIK also plans to shut down the aging DSK-2 and DSK-3 manufacturing facilities and organize production at sites in the new territory recently added to the city of Moscow.

Hard times

PIK Group saw net profit to International Financial Reporting Standards (IFRS) fall 44.3% year-on-year in the first half of 2014 to 1.46 billion rubles from 2.63 billion rubles. Adjusted EBITDA was down 6.6% at 5.9 billion rubles, while margin fell to 20.7% from 25.3%, the company said.

Revenue advanced 14.3% to 28.6 billion, including earnings from apartment sales, which increased 19.9% to 24.9 billion rubles.

Given that home sales and construction services in H1 2014 were below target, PIK has reduced its guidance for the full year, to residential sales totaling 560,000-600,000 square meters and total cash collections of 62 billion-70 billion rubles. It previously forecast 690,000-710,000 square meters and 76 billion-78 billion rubles respectively.

Gordeev said the weak results in the first half and the lower forecast for the full year were the result of a decline in housing demand that began in March, turnover among shareholders and a large portion of the management team and underinvestment in land purchases and new projects in 2011-2013.

Home buyers are waiting on the sidelines and have begun to discriminate more on quality. Ruble weakening will lead to a decline in purchasing power over the long term and mortgage loan rates may increase, he said.

Property developers are running into difficulties with lending and higher borrowing costs. "Many banks have simply stopped lending due to the uncertainty on financial markets," he said.

The crisis also has benefits, Gordeev said. Prices for land, construction material and labor may come down and the authorities are likely to agree projects and issue construction permits more quickly, he said.

PIK is one of Russia's biggest developers. The company's IPO in 2006 was the largest in the history of European real estate (\$1.85 billion). But the subsequent decline in demand on the real estate market following the onset of the global financial crisis and subsequent problems with debt servicing led to a plunge in the group's capitalization. In the spring of 2009, billionaire Sulleyman Kerimov's Nafta Moskva took ownership of the stakes held by founders Yury Zhukov and Kirill Pisarev in exchange for debt restructuring assistance.

PIK raised \$330 million in an SPO in June 2013. In December, Kerimov sold his stake in PIK to Rosbuilding founder Sergei Gordeev (19.9%) and Alexander Mamut (16.2%). B&N Bank owner Mikhail Shishkhanov owns 14.9% of the developer and 49.18% of shares are in free float.

CHEMICALS & PHARMACEUTICALS

Govt commission approves Abbott's petition for purchase of Veropharm

GORKI. Sept 2 (Interfax) - The government's Commission on Monitoring Foreign Investment has approved a deal on the purchase by U.S. company Abbott of Russia's OJSC Veropharm, head of the Federal Anti-Monopoly Service (FAS) Igor Artemyev said.

The deal amounts to \$650 million and another \$250 million will be invested by Abbott into the construction of new factories in Russia.

"The first [of the deals cleared by the commission] is the deal on purchase by a major U.S. company, Abbott, of Veropharm, which manufactures a host of important cancer treatment drugs," Artemyev said following the meeting on Tuesday.

"The deal totals \$650 million. This is the value of Veropharm and its subsidiaries plus another \$250 million that will be used to build new production facilities and provide for localizing production, Artemyev said, adding that the deal will create 1,500 new jobs in Russia.

The sale will close in the near future, he said.

"We are glad the first phase of agreeing the Veropharm acquisition deal has concluded successfully. We are continuing the agreement process and expect to close the deal in the second half of 2014," an Abbott representative told Interfax.

Abbot, which has been operating in Russia for about 40 years, announced in June that it reached agreement with Veropharm's main owner, Roman Avdeyev, on purchase of GardenHills LLC, through which Avdeyev owns 81.1% of Veropharm. GardenHills plans to raise its stake in the company to over 95% in future.

The value of the deal will depend on the size of the Veropharm stake controlled by GardenHills as of the closing. If 100%, the price will be 17 billion rubles (\$495 million) or about 1,700 rubles per Veropharm share.

Abbott, which will also assume debt totaling 4.7 billion rubles (\$136 million), will finance the entire deal with internal resources.

The acquisition gives Abbott Veropharm's existing production capacity in Russia, including a complex now under construction. Abbott plans to expand Veropharm's capabilities and improve existing infrastructure.

Abbott projects that the Veropharm acquisition will add roughly \$150 million to company sales in 2015.

Veropharm, founded in 1997, owns three factories in Belgorod, Voronezh and Pokrov that manufacture primarily prescription generics, as well as cancer drugs and bandages. It plans to launch a new cancer drug production facility in Pokrov in January 2015.

Veropharm's sales declined 4.3% to 5.269 billion rubles in 2013. EBITDA dropped 26.6% to 1.165 billion rubles.

Abbott Laboratories, headquartered in Illinois, produces pharmaceuticals and medical equipment. The company, which operates in 150 countries, had revenue of \$21.8 billion in 2013, including \$525 million or 2.4% in Russia.

Abbott earlier tried to acquire Moscow Region vaccine maker Petrovax Pharm, but in April 2013 the deal was blocked by the government commission for oversight of foreign investment. The head of the Federal Anti-Monopoly Service, Igor Artemyev said at the time that this was a rare case in the practice of the commission, which cited the fact that in many countries developers of vaccines are national companies.

Rigla expands network 8.3% to 1,074 in pharmacies H1

MOSCOW. Sept 3 (Interfax) - Rigla, which belongs to Protek, expanded its pharmacy network to 1,074 pharmacies in H1, the company said in materials.

Net network growth was 82 pharmacies. At the end of 2013, Rigla had 992 pharmacies. Therefore, since the beginning of the year, the network grew 8.3%.

"Our network is continuing to grow organically, we are opening pharmacies in an open format under the Rigla brand, and discount stores under the brands Bud zdorov [Be Healthy] and Zhivika," Rigla CEO Alexander Filippov was cited as saying in the statement.

It was earlier reported that Rigla intended to open 300 pharmacies in 2014, increasing its network to about 1,250 pharmacies.

Rigla represents the retail branch of the Protek group. Revenue in the group's retail segment climbed 17.3% in January-June 2014 to 11.2 billion rubles. Protek's consolidated revenue grew 7.1% in January-September 2013 to 71.275 billion rubles.

Pharmaceuticals plant to be built in Volgograd region for 3 bln rubles

VOLGOGRAD. Sept 3 (Interfax) - The Volgograd region will be the location of the pharmaceuticals enterprise as part of a federal program for import substitution, Russian Industry and Trade Minister Denis Manturov told journalists on Wednesday.

He participated in the brick-laying ceremony for the construction of the new plant, which is being carried out by FSUE Moscow Endocrine Plant.

The minister said that livestock products will be raw materials for the new factory. "Today livestock enterprises not only are recycling, they even pay money for recycling animal products. And here from the livestock products, substances are made with animal origin for the creation of prepared medicines," he said.

The regional government told Interfax that the total cost of the work amounts to more than 3 billion rubles. The enterprise will be built by 2018, it will produce 10 types of pharmaceutical substances for 20 medicines.

The regional authorities suggested several production sites for production of drugs from pharmaceutical substances to the management of FSUE Moscow Endocrine Plant. Territory in the city of Volzhsky was chosen. The new factory will be built "from scratch."

The Russian Industry and Trade Ministry took the initiative to limit state purchases of imported drugs. Manturov said that this initiative of the authorities is aimed at stimulating domestic pharmaceutical production in Russia and is not an answer to sanctions.

FERTILIZER

Purchase of transshipment terminal for liquid ammonia in Latvia costs UralChem 2.65 bln rubles

MOSCOW. Sept 1 (Interfax) - The purchase of the Ventamonjaks transshipment terminal for liquid ammonia in Latvia cost UralChem 2.648 billion rubles, the company said in a report.

"Uralchem subsidiary, Uralchem Freight limited, acted on behalf of URALCHEM as a party to the transaction and became the owner of 55% of the shares in the company [SIA Despina Capital], which has 100% shares in SIA Ventamonjaks. The transaction was carried out with the participation of ABLV bank," the statement said.

"Ventamonjaks is the largest liquid ammonia transshipment terminal in the Baltic Sea. It has an annual capacity of 1 million tonnes and is located in the ice-free port of Ventspils," it said.

At the end of 2013, UralChem opened a terminal for the transshipment of bulk mineral fertilizers in Riga, called the Riga Fertilizer Terminal with a capacity of 2 million tonnes of bulk cargo a year. The project also stipulates increasing the capacity of the terminal to 3.5 million tonnes a year. Total investments in project amounted to more than 60 million euro.

The terminal in Riga was constructed as part of a project by UralChem together with LLC Riga Commercial Port (RTO). UralChem owns 51% of the joint venture, RTO - 49%.

FOOD & AGRICULTURE. PROCESS INDUSTRIES, FORESTRY & TIMBER

AgMin not interested in large grain exports - Fyodorov

YEKATERINBURG. Sept 5 (Interfax) - The Russian Agriculture Ministry is not interested in large grain exports, Agriculture Minister Nikolai Fyodorov said at a briefing in Yekaterinburg on Friday.

"The Agriculture Ministry is not interested in sending a lot of grain abroad," he said.

Fyodorov added that it was better to sell such products with a high value added. "At least macaroni, but even better are animal products. We have a lot of feed grain. It's necessary to convert this into dairy and meat products," he said.

"It's better to sell Russian sausage and cheese, keep taxes here and create jobs," Fyodorov noted.

Asked if Russian ports had the capacity to handle forecast volumes of grain, he said they did and added that export capacity as concerns grain handling totals 40 million tonnes.

Experts from the grain market have forecast that Russia may export a record volume of grain this agricultural year (June 2014 - June 2015), exceeding 30 million tonnes.

Consumer watchdog suspends sweet imports from Ukraine

MOSCOW. Sept 5 (Interfax) - Russian Federal Service for Supervision of Consumer Rights Protection and Human Welfare (Rospotrebnadzor) has banned the import of all confectionaries from Ukraine, the watchdog said on its website Friday.

"In order to guarantee the rights of consumers, Rospotrebnadzor is suspending the import of Ukrainian confectionaries to Russia starting September 5, 2014," the agency said.

This move stems from a number of violations Rospotrebnadzor uncovered.

"The corresponding information has been sent to the governing body in line with WTO rules," the agency said, adding that this concerns the Federal Customs Service and Rospotrebnadzor's division for Russian federal subjects.

The consumer watchdog added that over the course of government supervision over the circulation of confectionaries from Ukrainian companies Konti and AVK, Rospotrebnadzor uncovered legal violations related to consumer rights protection, specifically as concerns product labeling.

Latin America, China will export foods to Russia after Western companies' withdrawal - Putin

VLADIVOSTOK. Sept 1 (Interfax) - President Vladimir Putin said Russia's decision to limit food imports from the West is not clearing a niche for Russian producers and that the missing imports will arrive from other countries.

"Unfortunately, our producers cannot fully substitute imports from the West. Therefore, we are dealing now with producers in Latin America: Brazil, Argentina and Chile. We are also working with our partners in the East - China and other countries," Putin said in an interview with the weekly summary TV program, Voskresnoye Vremya.

"It was strange to hear our European partners asking them not to export foods to Russia. It's absurd! I don't think any businessman will reject this chance to enter our market," the Russian president said.

Putin also said it would be next to impossible for companies leaving the Russian market to return.

"The risks for traditional exporters lie in that it will be difficult or even impossible to press out companies, or structures that will take root on the market, the Russian market in this particular instance. I think European companies, representatives of businesses, not political circles as we say in such instances, are aware of this and they are disappointed by the policies, pursued by their countries," Putin said.

Elsewhere, Lebanon is also ready to increase its supplies of crops to Russia.

Rosselkhoznadzor, the Russian agricultural watchdog, said that its deputy head, Alexei Saurin, held talks with the Lebanese Ambassador to Russia Shawki Bou Nassar.

The ambassador said that given the restrictions imposed by Russia regarding a number of Western countries, Lebanon is interested in expanding bilateral trade, in particular there is talk about supplying Russia with crop products.

Saurin, in turn, informed the Lebanese side of the need to send Rosselkhoznadzor details about the proposed foods for supply that show the places of their production, and that they are safe in phytosanitary terms.

Rusagro thinking about aquaculture projects in Far East, Atlantic

MOSCOW. Sept 1 (Interfax) - Rusagro, which produces sugar, pork and mayonnaise, is interested in farming fish.

The company is studying the opportunities for launching aquaculture projects in the Far East and in the Atlantic.

The company is considering the possibility of implementing a large project in the Far East, and finding Chinese investors, Rusagro CEO Maxim Basov said during a conference call on Monday. He said the group is holding talks with potential investors from China and from the government of the region.

In addition, Rusagro is considering the possibility of creating a fish farming business in the Atlantic, Basov said.

For now these are ideas, not projects, he said. The board of directors is looking for opportunities to further develop the group and long-term ideas, one of which is aquaculture, Basov said.

Jack Daniel's to quickly resolve Rospotrebnadzor complaints - statement

MOSCOW. Sept 3 (Interfax) - Jack Daniel Distillery owner Brown-Forman Corporation plans to quickly resolve Russian regulatory complaints over Jack Daniel's Tennessee Honey whiskey.

Brown-Forman is continuing a dialog with all the parties concerned to resolve the regulator's complaints as soon as possible, the company said in a statement on Wednesday.

Brown-Forman affirms that the Tennessee Honey brand meets Russian and international quality requirements.

In mid-August, specialists at the Sverdlovsk regional division of consumer rights watchdog Rospotrebnadzor found Tennessee Honey to contain benzyl benzoate, which can produce allergic reactions and changes in the central and peripheral nervous system and is widely used as an insecticide.

Agriculture this week

*** Since the beginning of the year, African swine fever among domestic pigs has been registered in eight regions, while cases of the virus among wild boar have been registered in 11 regions.

*** Belarusian Potash Company (BPC) this week signed a \$40 million contract with Bangladesh Agricultural Development Corporation (BADC) for shipments of 120,000 tonnes of potash.

*** For more on these stories and other news from the Agriculture sector, please see the Interfax Food & Agriculture Weekly.

CONSUMER GOODS. RETAIL

McDonald's to appeal ruling to shut down six restaurants

MOSCOW. Sept 4 (Interfax) - Fast-food giant McDonald's does not agree with the decision of the Russian court to close down six of its restaurants and is planning to appeal the judgment, the company said in a statement published on its website September 4.

The court ruled in favor of the temporary closure of six McDonald's restaurants in Moscow, Serpukhov, Sochi and Yekaterinburg, the company said. "We do not agree with the court's decision and are going to appeal it in accordance with the law," the statement says.

McDonald's press service said that seven restaurants were currently closed, though the court's ruling concerned just six of them.

According to company data, more than 100 McDonald's restaurants are being checked in Russia. Deputy Prime Minister Olga Golodets has said that Russian Federal Service for Supervision of Consumer Rights Protection and Human Welfare (Rospotrebnadzor) did not plan to do a full check of these restaurants around the country. She added that the checks were being carried out according to plan.

FINANCIAL & BUSINESS SERVICES

CBR to discontinue ruble trading band in current form before year-end - Yudayeva

MOSCOW. Sept 5 (Interfax) - The Central Bank of Russia will no longer make use of the ruble trading band in its current form as the bank completes its transition to inflation targeting, Central Bank First Deputy Chairman Ksenia Yudayeva wrote in an article published in the journal Voprosy Ekonomiki.

The goal of inflation targeting is to ensure price stability by establishing a quantitative inflation target that is achieved by raising or lowering interest rates. The Central Bank of Russia has set the long-term inflation target at 4%.

The policy also means that the ruble exchange rate will float, although countries that use inflation targeting may still conduct currency interventions in the event financial stability is at risk, she said.

"Given the experience in other countries, the Central Bank of Russia is now gradually shifting to a floating exchange rate. This means that before 2015 the currency trading band in its current form will be discontinued and interventions will become less frequent," Yudayeva said in the article.

The trading band for the bicurrency basket (\$0.55 and 0.45 euro) is the benchmark the Central Bank uses to implement exchange rate policy. The regulator has liberalized the exchange rate policy over the past year, reducing the volume of interventions triggered when the exchange rate approaches the boundaries of the trading band. In August, the Central Bank widened the trading band to 9 rubles from 7 rubles and reduced to zero the volume of interventions when the exchange rate is within the trading band.

There must be a swift response to steep fluctuations in the ruble exchange rate that could undermine financial stability, she said. That is how the Central Bank reacted in March 2014, when the ruble weakened sharply due concerns about a possible invasion of Ukraine. The bank adjusted currency exchange rate policy and succeeded in extinguishing the speculative mood on the market with massive interventions.

"That is how it [the Central Bank] will respond in future, after the transition to inflation targeting," Yudayeva said.

Inflation targeting does not prohibit the Central Bank from serving as creditor of last resort or from conducting currency interventions when threats to financial stability arise.

"That is exactly how the Russian Central Bank intends to respond. It is a different matter that in the current situation, more risks are associated with deviations from the policy of fiscal stability rather than the policy itself, all the more so with attempts to use monetary policy to stimulate economic growth," Yudayeva said.

Inflation targeting is desirable because holding inflation level over an extended period substantially raises confidence in the national currency and financial system, she said. Fear of inflation in the developed economies, where the typical inflation target is 2%-2.5% a year, has not discouraged the public and business keeping their savings in the national currency.

"Ordinary people stop reacting to exchange rate changes, since it has no discernible effect on the purchasing power of their incomes and savings. Businesses do not bother to change prices given exchange rate declines, and when demand for their products increases, are more likely to raise output than prices," Yudayeva said.

Interest rate changes can affect the exchange rate as well as interventions, she said. Raising rates increases the appeal of assets denominated in the local currency and reduces potential gains from speculating against them.

The Central Bank does not want the government's tax decisions to push it into tightening its monetary policy when the situation does not call for it, Yudayeva said later in the week.

Asked about plans on the introduction of a sales tax, she said such steps by the government could pose a risk "as concerns fixating inflationary expectations at an increased level." In this situation, the regulator will be required to "take measures in the monetary policy that will be superfluous in this situation from all other points of view," Yudayeva said.

"We would like to discuss with the government the issue of them factoring in the impact of decisions they make on overall inflation and for them to make decisions in a way that does not lead to sharp spikes in inflation, does not subsequently impact medium-term economic expectations, and does not push us, if you will, towards a policy that is necessary as concerns inflation, but that might be harmful as concerns economic growth," Yudayeva said.

CBR expecting Russian cos. to need up to 1 trln in loans by end of year, banks to refinance 300 bln rubles in debt

SOCHI. Sept 4 (Interfax) – The Central Bank of Russia (CBR) is expecting Russian companies to need up to 1 trillion rubles in loans by the end of 2014, CBR Deputy Chairman Mikhail Sukhov said at the international banking forum Russian Banks - 21st Century on September 4.

"No less than a trillion rubles. Demand will grow by the end of the year due to various factors," he said.

Sukhov added that the growth in companies' demand will take place against the backdrop of recent measures to capitalize banks. "Over the course of the year, the main source of bank capitalization must be profit," he said.

Russian banks will be able to refinance debt on the domestic market, he said. "The change in the conditions on financial markets is entirely manageable for our banks," he said.

Banks will need to refinance 300 billion rubles in debt in 2014, and this amount will be more next year, Sukhov said, adding that banks will be able to refinance debt on the domestic market, however.

Lending

The CBR is forecasting that the Russian banking sector will increase its loan portfolio by 15%-17% this year, Sukhov said.

"We are maintaining fairly high development forecasts for the sector. We are expecting 15%-17% due to an increase in the rate of growth at which companies borrow," he said.

Shareholders in commercial banks must provide recapitalization if the corporate loan portfolio grows 20% a year, he said.

"Over the next few years, the main source for recapitalizing banks will be their earnings. Although it is impossible to rule out the possibility that growth in lending to the nonfinancial sector may rise to 20% due to higher demand for loan products primarily. I think that if such a pace persists for more than one quarter, the bank's shareholders must undertake additional efforts to strengthen bank capital," Sukhov said, adding that he had in mind a growth rate of 20% on an annual basis.

"We must create conditions to encourage investors to invest money in the capital of their banks. I believe foreign investors that are ready to continue operations here are entirely capable of finding a favorable economic answer for themselves," Sukhov said.

The CBR is prepared to allow Russian banks not to form loss reserves on loans that are overdue because of clients' payment delays, and this includes payments through western banks, he said.

"The Central Bank is prepared to consider all objective scenarios not connected with the financial solvency of borrowers [...] There are situations connected with payments made by our companies. For now, companies and banks are getting by," he said, adding that these were the only cases so far.

Systematically important banks -

Meanwhile, a total of 19 Russian banks currently meet the criteria for being called systemically important, Sukhov said.

"Of the 19 of our largest banks that we are suggesting be supervised by the Systemically Important Banks Supervision Department, seven banks are already meeting the indicator for short-term liquidity without any additional measures," he said.

The CBR will carry out new regulatory measures for these 19 banks, including the development of plans to support their financial standing in unforeseen situations. Five banks are already developing such a plan.

All of these banks will also carry out advanced Basel II approaches in risk assessment. "I don't want to create any illusions here either. Really, several banks will receive the possibility of a purely technical 10% discount to capital adequacy, which must be completely compensated by a fundamentally different degree of transparency for the system of making lending decisions," Sukhov said.

"We must maintain confidence in the banking sector by preserving our intentions to implement Basel III standards. Investors from various categories must trust our banks as concerns capital adequacy and other parameters. I don't think that there is any reason to change the timeframe or previously announced quantitative parameters," he added.

In addition, the CBR will factor in its regulatory system when identifying "new zones of heightened or decreased risk."

Along with the implementation of the liquidity coverage ratio (LCR), an important part of the Basel III standards, the regulator is assessing its possibilities in providing contractual liquidity lines that must compensate the particularities of the Russian financial market.

"Around half of them [the 19 banks] are able of keeping in line with the fairly rigid liquidity figures, even under conditions of low government security ratings. The remaining banks will receive additional opportunities in the form of CBR resources. The need is not large - just under 700 billion rubles. These estimates and criteria may be refined," Sukhov said.

VTB shareholders approve supplementary issue of preferred shares in loan conversion

MOSCOW. Sept 1 (Interfax) - Shareholders in state-controlled VTB voted at an extraordinary meeting on August 29 to place 21.403 trillion preferred, 0.01-ruble shares, the bank said in a press release.

The shares will be placed in favor of the state at par.

The government authorized the biggest banks to convert the subordinated anti-crisis loans they received from VEB into preferred shares in order to boost Tier 1 capital and satisfy growing demand from companies that are unable to borrow abroad due to sanctions against Russia.

VTB received a subordinated loan of 200 billion rubles during the 2008-2009 global financial crisis. The bank currently has no preferred shares in circulation.

The Finance Ministry prepared a draft resolution in July providing for the state to purchase preferred shares totaling 214.037 billion rubles using money from the National Welfare Fund (NWF) on condition that the bank repay the subordinated loan made by VEB.

VTB 24 planning to register new payment system

MOSCOW. Sept 4 (Interfax) - Russian bank VTB 24 is planning to register a new payment system, the bank's press service told Interfax.

"Registering the new payment system is necessary for VTB 24 in carrying out measures to unite the payment infrastructure of Russian banks by organizing interhost connections," a representative of the press service said, adding that this was being done in accordance with Central Bank letter No. 86-T dated May 8, 2014, 'On Establishing Interbank Cooperation Channels'.

Yesterday VTB, the parent company of VTB 24, announced a tender on the government procurements website for information and technological support in servicing all of the customer's programs for issuing and acquiring cards of international payment systems that are issued and/or serviced by the customer. The starting and maximum price of the contract is 400 million rubles. Bids are being accepted until September 10. VTB has not yet issued commentary on this tender.

According to information in the register of payment system operators on the Central Bank's website, VTB is the settlement center for a number of payment systems - Visa, Multiservice Payment System and Western Union - and is also the operator, settlement center, payment clearing center and operating center of its own payment system, Payment System VTB. The VTB group includes VTB MultiCarta, which provides processing services.

VTB 24 was Russia's 4th largest bank by assets and 2nd at by retail deposits and retail lending at the end of H1 2014, according to the Interfax-100 ranking.

In its May letter No. 86-T, the Central Bank recommended that credit institutions that participate in international payment systems organize channels for interbank cooperation by way of two-sided agreements or by participating in other payment systems that allow money transfers to be carried out in Russia with the use of the operating and payment clearing centers of these systems.

The letter states that credit organizations should support such interbank channels and be ready to use them in providing legal, organizational, technical, technological conditions. The banks must also regularly test such channels, the Central Bank said.

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Finance this week

*** Russia's Expobank has closed a deal on the acquisition of the Czech bank, LBBW Bank CZ, from German Landesbank Baden-Württemberg (LBBW).

*** For more on these stories and other news from the Banking sector, please see the Interfax Banking & Finance Weekly.

FORECASTS & MARKETS ANALYSIS

CURRENCY MARKETS

Ruble slumps to a low then corrects up

The ruble fell to an all-time low against the dollar amid increased geopolitical risks before correcting up against the dollar and euro on the Moscow Exchange in the first week of September. Toward the end of the week the market began to take advantage of indications of a de-escalation in the situation after the Russian and Ukrainian presidents reached an agreement on plans for a ceasefire in southeast Ukraine.

There are indications that pressure on Russia from the United States and the EU may ease, including the threat of additional economic sanctions.

The dollar slid toward the end of the week to 36.8-36.9 rubles/\$1 and the euro came down to 47.7 rubles/EUR1. The bi-currency basket (\$0.55 and EUR0.45) fell 60 kopecks in the week to 41.8 rubles.

Pressure on the ruble was most evident on Monday when the dollar climbed to 37.51 rubles/\$1, hitting a new high. The euro rose to 49.275 rubles/EUR1, a high since May. The dollar saw non-stop growth since August 26 and gained 1.3 rubles, or 3.6%, while the euro climbed 1.5 rubles, or 3.2%. This pressure came amid fighting in Donbass, which, according to the U.S. and EU involved Russians. The EU threatened new sanctions against Russia, which might affect the financial and energy sectors.

The bi-currency basket reached 42.8 rubles on Monday. The basket reached an all time high on March 3 of 43.375 rubles. The Central Bank of Russia decided on August 18 that the regulator can start intervening to protect the ruble when the basket reaches 44.4 rubles.

A drop in oil prices provided another negative factor for the ruble.

The ruble began climbing on Wednesday: soon after midday the dollar and euro tumbled and the ruble appreciated on news that Russian President Vladimir Putin and Ukrainian President Petro Poroshenko had agreed a ceasefire plan. The dollar and euro fell 1.5%-2% below the long-term highs achieved at the start of the week. Putin said that during the talks the presidents had agreed on ways of resolving the conflict in eastern Ukraine. Donetsk militia announced they were ready for a ceasefire if Kyiv reciprocates.

The next important step to support the ruble was the ceasefire protocol signed Friday in talks between Ukraine, Donetsk and Luhansk with the participation of Russia and the OSCE in Minsk. The dollar and euro fell to a low of over a week following news that the protocol had been signed.

The euro fell harder than the dollar against the ruble due to a plunge on the Forex market. The euro plummeted after the ECB said Thursday it would lower interest rates and start an asset buying program.

The official exchange rate of the dollar went down just 1 kopeck to 36.92 rubles while the official exchange rate of the euro dropped 85 kopecks to 47.78 rubles.

The weighted average exchange rate of the dollar rose 3 kopecks on the Moscow Exchange to 36.91 rubles/\$1 in Today deals and fell 6 kopecks to 36.88 rubles/\$1 in Tom deals. Trading volume was \$34.5 billion.

The euro fell 79 kopecks to 47.79 rubles/EUR1 in Today deals and lost 86.5 kopecks to 47.79 rubles/EUR1 in Tom deals. Banks traded EUR3.27 billion.

The overnight MosPrime Rate fell 56 basis points to 7.62% on Friday, dropping to a low since August 8. Dealers attributed the drop to the end of a tax period, reducing demand for liquidity.

Another factor behind the drop in short-term interbank loan rates was the fact that the ruble stopped depreciating. The three-month MosPrime Rate slid 1 basis point to 10.18% per annum and the six-month MosPrime Rate fell 7 basis points to 10.3% pa. Both rates had hit new highs since the fall of 2009 on Tuesday, September 2 (the three-month MosPrime Rate reached 10.23% pa and the six-month rate – 10.39% pa).

Banks continued to reduce debts to the Central Bank on repo deals and this fell 0.31 trillion rubles to 2.12 trillion rubles. Central Bank claims on loans secured by assets or guarantees went down 0.01 trillion rubles to 2.72 billion rubles.

At the weekly seven-day repo auction the weighted average rate was 8.08% pa, up 2 basis points on the previous week. The Central Bank placed 2.1 trillion rubles (100% of the allocated limit) compared to 2.41 trillion rubles at the previous auction. The regulator is trying to offer more liquidity at auctions secured by assets and the next such auction, due on September 8, may further increase the share of this kind of bank debt before the regulator. In addition, the federal treasury will on September 9 and 11 select bids from banks for the placement of temporarily available federal budget funds in deposits with limits of 195 billion and 50 billion rubles, respectively.

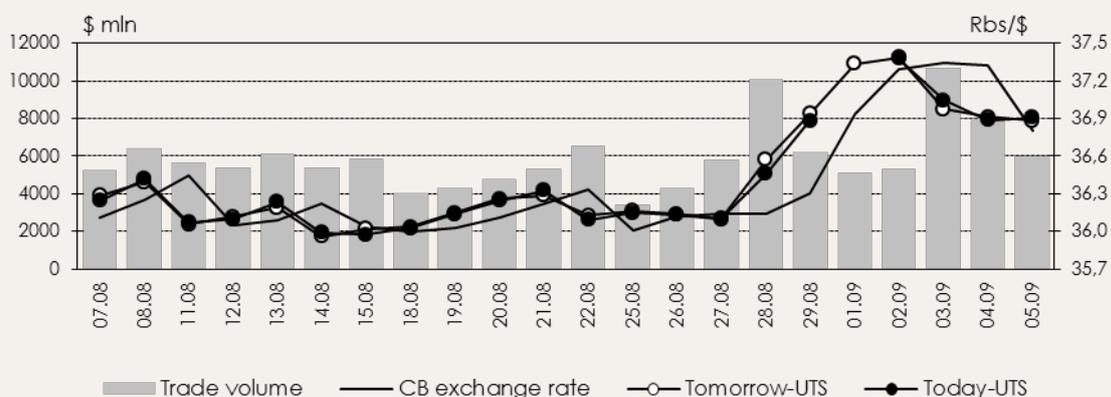
The Central Bank of Russia said the structural liquidity deficit in the banking system may grow to 1 trillion rubles by year-end due to a rise in cash requirements in the economy.

The dollar will stay a little under 37 rubles/\$1 in the week of September 8-11 and the euro may correct up but is unlikely to top 48 rubles/EUR1, analysts predict. The bi-currency basket will stay a little under 42 rubles.

Analysts say the gradual settlement of the situation in southeast Ukraine, which was heavily discussed in the first days of September, will help find a way to de-escalating confrontation. They also expect the ceasefire protocol to be maintained.

Geopolitical pressure will remain on Russia, but it will be moderate and new sanctions will not have destructive impact on the Russian financial system or lead to additional restrictions in financing for major Russian companies and banks, analysts say. The market will maintain a wait-and-see attitude and trading is likely to be light.

Results of forex trading on MICEX



GOVERNMENT SECURITIES

Hope for peace in southeast Ukraine pushes OFZ prices up

After a slide at the beginning of September, OFZ prices picked up midweek thanks to news of a possible peace deal for southeast Ukraine.

The week began with a drop in prices for OFZ bonds amid a volatile geopolitical situation. The press quite actively discussed options for new sanctions from the EU and Russia against Russia, including the possible exclusion of Russia from the SWIFT system and a ban on the purchase of Russian government bonds, which would hit the OFZ market hard.

Yield for mid-term and long-term bonds climbed 5-20 basis points. Nine-year OFZ 26215 bonds saw the highest number of deals on September 1 and the bonds fell 30 basis points. Among the liquid bonds, 13-year OFZ 26207 plunged 40 basis points and seven-year OFZ 26205 lost 65 basis points.

There were no major changes on Tuesday. Investors continued to mostly be in a negative mood. Bond quotes went down 30 to 50 basis points. The biggest losses among the relatively liquid bonds were seen by 13-year OFZ 26207, which dropped 30 basis points. Fourteen-year OFZ 26212 lost 65 basis points.

Not surprisingly the Finance Ministry decided not to hold a primary auction so there has been a pause in such auctions now since mid-July. Yield rates remain high so it is not a good time for the ministry to borrow. Moreover, it is not in desperate need of the money right now as the year's budget may show a small surplus.

Optimism suddenly returned to the market midweek following a phone call between Russian President Vladimir Putin and Ukrainian President Petro Poroshenko, resulting in the Ukrainian president announcing that steps to establish peace in Donbass had been discussed. With investors tired of bad news, the announcement encouraged aggressive buying of Russian assets. In essence, one day completely compensated for the slump seen after Ukraine announced an alleged invasion by Russia.

Long-term OFZ prices shot up 150-200 basis points on average and yield fell 30-40 basis points. Trading was rather brisk. The most liquid bonds on September 3 were 13-year 26207, which saw quotes climb nearly 2 percentage points. Fourteen-year OFZ 26212 went up 1.5 percentage points and other liquid shares added around one percentage point.

The situation stabilized at the end of the week and the market drifted into a lateral trend with yield fluctuating 1-3 basis points both up and down after slumping on Wednesday. Investors impatiently awaited the results of peace talks in Minsk.

Russia's Central Bank will promote OFZ and Russian corporate bonds on Asian and Arabian markets under conditions of closing western markets, the head of the Central Bank's Financial Stability Department, Sergei Moiseyev, said at the international banking forum Russian Banks - 21st Century in Sochi on Friday. "Considering the current political trend, we will seemingly need to make a certain adjustment in the development vector - not towards European markets, but to other financial markets," he said. Western markets closed for Russian borrowers after the latest round of Ukraine-driven sanctions against Moscow. The EU is currently threatening to impose additional sanctions and ban European investors from purchasing OFZs.

The OFZ market is likely to calm down next week and fluctuations for most bonds will remain within a lateral trend amid the impact of contradictory factors.

Further dynamics will heavily depend on the geopolitical situation surrounding Ukraine. A ceasefire deal will support the market. However, possible new sanctions from the EU and the United States and the high risk of the Central Bank of Russia putting up interest rates at its next session will hold back buyer activity.

Russian Eurobonds surge after low-key start to week

Following a low-key start to the week, Russian Eurobonds surged after geopolitical risk started to subside on September 3 amid talk of a possible ceasefire in southeast Ukraine.

US Treasuries fell moderately, and spread between these and Russian bonds narrowed.

Trading was wafer thin on Monday due to the U.S. holiday and Russian bonds were static on September 2, when US Treasuries fell markedly.

However Russia's benchmark 2030 bond surged by 132 basis points to 112.38% on September 3 on news that the Russian and Ukrainian presidents had agreed on steps to achieve a ceasefire in the Donbass. Yield on the bonds fell 27 bps to 4.78% and spread narrowed 25 bps to 238 bps.

The positive trend continued into Thursday, enhanced by the European Central Bank's decision to expand its monetary stimulus package and launch a quantitative easing program in October.

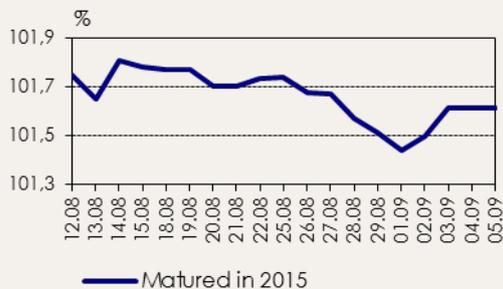
Friday's news that a contact group of representatives of Ukraine, the self-proclaimed Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) with the participation of Russian and Organization for Security and Cooperation in Europe (OSCE) representatives in Minsk had signed a protocol on an immediate ceasefire in the Donbass kept bond prices on an upward curve.

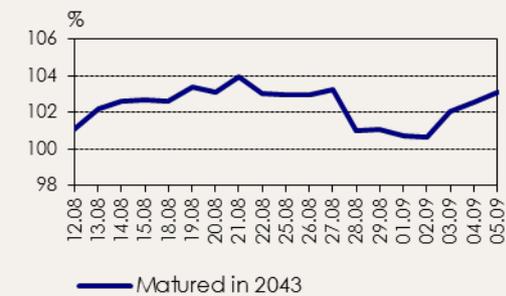
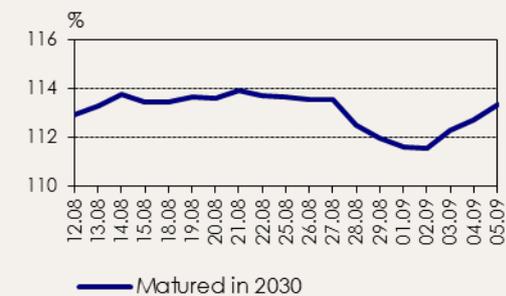
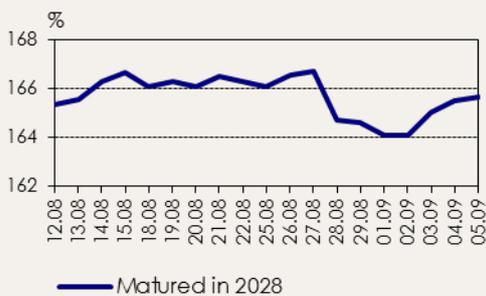
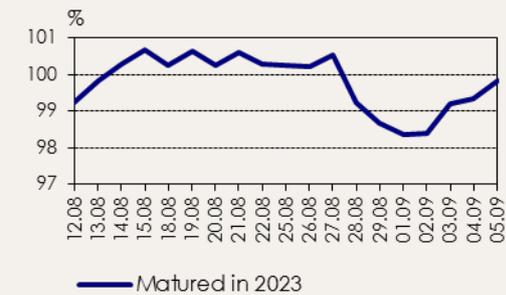
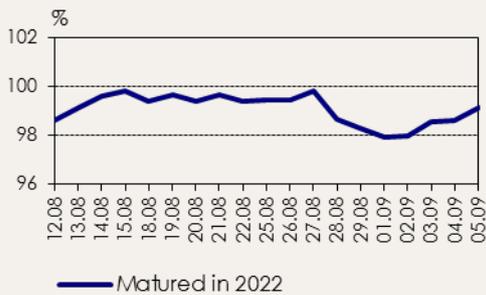
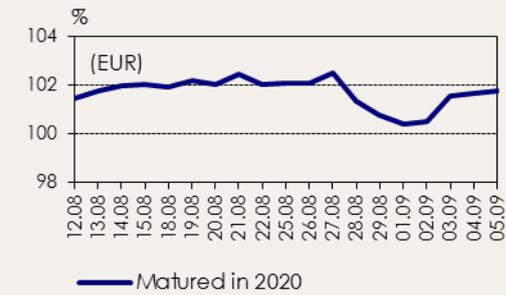
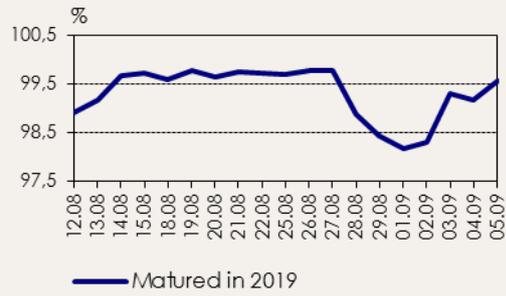
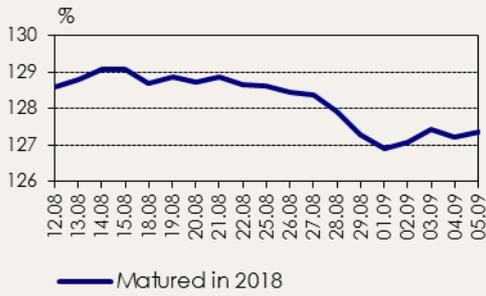
In the week as a whole, Russia 30 rose 1.8% to 113.34%. Spread between these and UST10 narrowed 49 bps to 265 bps, the 2043 bond was up 2.9%, 2014 - 2.6%, 2020 - 1.1%, 2018 - 0.13% and 2015 - 0.02%.

The situation in the Eurobond market is likely to calm down in the week ahead and bonds are likely to trade sideways, the Interfax Center for Economic Analysis said.

Trends will depend largely on the geopolitical situation with Ukraine, and the signing of the ceasefire protocol will support the market, however the possibility of further U.S. and European sanctions against Russia and deterioration in the world capital markets will keep buying in check.

RUSSIAN USD DENOMINATED EUROBONDS' PRICES





STOCKS. CORPORATE BONDS

Stock prices climb as market anticipates Ukraine ceasefire

The first trading week in September saw the Russian stock market recover all its losses from the end of August as players closed short positions amid growing anticipation of a ceasefire in Ukraine as well as news that the ECB was launching a new economic stimulus program. The gains were held back, however, by fears of tougher anti-Russian sanctions and weaker demand among non-residents for Russian assets. The net influx into funds investing in Russian shares dropped to \$45 million between August 28 and September 3 following an influx of \$111 million the previous week (EPFR data).

The MICEX index rose 5.3% between September 1 and 5 to 1474.71 points and the RTS index added 5.6% to 1257.26 points.

September kicked off with the MICEX slipping to under 1400 points as attempts by bulls to push up blue chips amid a lack of new anti-Russia sanctions were not supported by buyers. The European Union announced possible sanctions against Russia, which could affect the financial and energy sectors, in the week if the conflict in Ukraine continued to escalate.

Moscow Exchange shares dropped 5% when their weight on the MSCI Russia index actually increased from 0.9% to around 1.1% on September 1. The shares surged more than 12% in mid-August.

The MICEX went over the 1400 threshold Tuesday amid somewhat of a lull in the flow of geopolitical news.

Veropharm shares shot up nearly 20% on news that the government commission for foreign investments had approved a deal for U.S. company Abbott to buy the Russian pharmaceuticals company.

Rosneft shares were pushed up by news of company plans to attract Chinese partners to develop the Vankor field. The company offered China a share of this major East Siberian project.

The market rallied midweek on news that the Ukrainian and Russian presidents Petro Poroshenko and Vladimir Putin had agreed ceasefire plans for Donbass. The RTS surged 5.2% and the MICEX gained 3.5% to reach 1450 points, showing record growth since March when the market corrected after a collapse due to fears of a Russian invasion in Ukraine. Share gains were accompanied by a considerable jump for the ruble against the bi-currency basket.

The market rose to 1460 points on the MICEX Thursday as players anticipated a ceasefire in Eastern Ukraine and due to the ECB's decision to lower key interest rates to a record low and its announcement of a QE program.

Among the growth leaders were Pharmacy Chain 36.6, which climbed 9% on news that Palesora Ltd, which acquired 51% of the chain in July, has made an offer to buy the remaining 49% stake for 14.5 rubles per share (higher than the market).

The optimistic mood remained on the market on Friday and the bulls pushed the MICEX up over 1470 points after a contact group of representatives of Ukraine, the self-proclaimed Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) with the participation of Russian and Organization for Security and Cooperation in Europe (OSCE) representatives in Minsk had signed a protocol on an immediate ceasefire in the Donbass. The ceasefire mitigated the risk of fresh Western sanctions being imposed against Russia, to which the market responded with buying.

Among the tier-one and tier-two shares listed on the Moscow Exchange, the best performers were "IDGC of Centre" (+20%), "Veropharm" (+18%) and "Pharmacy Chain 36.6" (+17%); while the worst performers included "AFK Sistema" (-7%), "Sofrinsky Experimentel Mechnicak Plant" (-5%), "International Trade Centre" (-5%).

News about Ukraine and EU sanctions will determine market dynamics in the coming week. Market support will be around 1440-1450 points on the MICEX and the next target for the bulls will be 1480 points, and then 1500 points.

Results of Russian stocks trading in Russian trading system

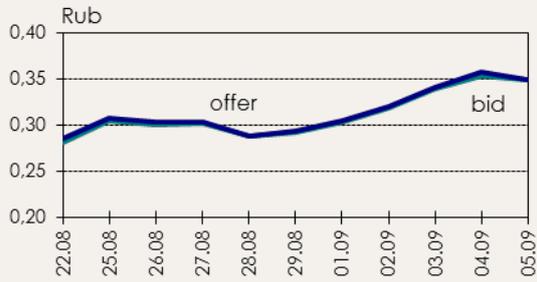
Company	MOEX Ticker	Prices on 05.09.2014, Rub		Min Prices, Rub	Max Prices, Rub	Trade Volume, September 1 - 5		Return on Rub investment for		
		Bid	Offer	September 1 - 5		Mln Rub	'000	1 month	3 months	6 months
1-Level Quotation List										
Norilsky Nickel	GMKN	7525	7480	7086	7535	10090.7	1383	7.5%	9.3%	26.8%
Sistema	AFKS	34.737	34.45	34.376	37.998	1716	47482	-8.2%	-19.2%	-6.6%
Aeroflot	AFLT	48	47.6	46.21	48.4	2312	48781	-2.2%	-16.1%	-20.7%
Acron	AKRN	1247.6	1215	1140	1219.3	49.7	42	8.3%	-8.6%	18.6%
ALROSA	ALRS	41.59	40.464	38.65	42.898	1306.3	32117	-7%	-5.5%	11.3%
ANK Bashneft	BANE	1861.3	1850	1850.3	1950	174.8	92	-5.8%	-19%	-2.1%
Severstal	CHMF	369.2	368.5	354.6	374.2	2201.8	6033	7.9%	27.2%	32.4%
DIXY GROUP	DIXY	418.55	418.98	408.1	439.66	121.6	289	1.6%	13.1%	64.9%
E.ON Russia	EONR	2.5406	2.53	2.3904	2.57	452	181122	5.3%	-8%	21.2%
Unified National Electric	FEES	0.05524	0.055	0.0534	0.05624	993.2	18138300	0.8%	-8.3%	-5.8%
Gazprom	GAZP	140	135.67	131	140.13	28858.4	211731	8.4%	-2.9%	8.5%
Cherkizovo Group	GCHE	634.9	634	593	658.8	1.7	3	1.1%	5.8%	15.4%
Norilsky Nickel	GMKN	7525	7480	7086	7535	10090.7	1383	7.5%	9.3%	26.8%
RusHydro	HYDR	0.7202	0.6975	0.6819	0.7242	1193.7	1694164	19.8%	-1.3%	37.6%
Inter RAO	IRAO	0.00917	0.009079	0.00875	0.009275	1067.4	118222700	9.6%	-4.2%	5.4%
Irkutskenergo	IRGZ	6.737	6.8	6.599	6.899	2.2	327	0.5%	-7.7%	8.1%
KamAZ	KMAZ	34.34	34.52	33.83	35.2	7.8	227	5.4%	-6.5%	-11.9%
LUKOIL	LKOH	2171.8	2150.9	1985.3	2169.4	11805.5	5643	9.9%	6.3%	14.3%
LSR Group	LSRG	628	612.9	573	614.3	28.6	48	10.5%	3%	26.1%
MegaFon	MFON	1054	1055	970	1064.9	115.5	114	6.5%	1.8%	11.5%
Magnit	MGNT	9780	9534.5	8716.5	9869.6	7359.9	794	4.9%	9.5%	14.6%
Moscow Exchange	MOEX	64.55	64.2	60.05	65.37	2785.4	44559	10.3%	1.1%	14%
MRSK of Center	MRKC	0.3499	0.3499	0.2892	0.3635	108.3	310019	24.1%	60.9%	57.4%
MRSK of Center and Volga	MRKP	0.10901	0.11	0.09613	0.1135	9.7	92890	-3.5%	26.4%	59.9%
MRSK of Urals	MRKU	0.06101	0.0634	0.057	0.0641	0.5	7570	6.3%	5.1%	35.6%
MRSK of Volga	MRKV	0.02577	0.02604	0.0238	0.0276	6.8	264080	13.3%	32.8%	36.9%
MRSK of North-West	MRKZ	0.0325	0.03492	0.03053	0.03498	3.2	100530	0.6%	12%	41.3%
Mosenergo	MSNG	0.868	0.8725	0.834	0.8749	58.4	68508	7.1%	6.8%	12.5%
MOESK	MSRS	1.0129	1.0129	1.0015	1.0286	13.8	13470	-0.4%	-16.3%	-5.3%
MOSTOTREST	MSTT	84.28	84.2	83.53	88.84	77.2	907	-10.7%	-24.8%	-3.3%
Mechel	MTLR	36.3	36.2	33.1	37.9	231.6	6403	-2.2%	-24.7%	2.3%
Mechel, pr.	MTLRP	12.22	12.23	11.95	12.78	24.4	1991	-24.2%	-52.2%	-42.6%

Company	MOEX Ticker	Prices on 05.09.2014, Rub		Min Prices, Rub	Max Prices, Rub	Trade Volume, September 1 - 5		Return on Rub investment for		
		Bid	Offer			September 1 - 5	Mln Rub	'000	1 month	3 months
Mobile TeleSystems	MTSS	305.24	297.49	275.56	303.2	4281.5	14873	8.2%	5.1%	20.1%
M.Video	MVID	199.3	194.25	182.02	201.7	221	1133	-9.9%	-23.2%	-7.2%
Nizhnekamskneftekhim	NKNC	20.254	20.599	20.014	21.289	0.2	9	0.3%	-11%	-11.6%
Nizhnekamskneftekhim, pr.	NKNCP	14.145	14.1	14.001	14.253	1.6	115	-0.4%	-5.3%	-21.5%
Bank FK Otkritie	NMOS	932.5	937.9	880.3	937	32.1	35	8.7%	5.7%	6.9%
NOVATEK	NVTK	410	405	364.5	407.7	3652.7	9494	12.1%	7.3%	8.7%
Enel Russia	OGKE	1.0252	1.037	1.0001	1.086	2	1980	1.8%	11.4%	6.6%
PhosAgro	PHOR	1263.1	1264.6	1200	1300	54	43	-5.4%	5.3%	4.5%
PIK Group	PIKK	107.32	107.3	94.27	112.47	498.6	4734	34.4%	14.8%	35.8%
Polymetal International	POLY	317	316	314.02	340.86	70.2	215	2.2%	3%	-7.8%
Rosgosstrah	RGSS	4.1726	4.2725							-3%
Rosneft	ROSN	239.06	238	226.25	239.09	5810.5	24899	8.7%	4%	0.5%
Rossety, pr.	RSTIP	0.5213	0.5287	0.4885	0.53	68.8	134713	10.9%	-5.2%	-21%
Rostelecom	RTKM	102	101.49	97.31	101.9	934.2	9390	13.7%	18.9%	8.2%
Rostelecom, pr.	RTKMP	66.97	66.48	63.76	67.39	104.5	1583	14.1%	18.3%	3%
Sberbank	SBER	80.61	78.23	72.52	81.3	66289.6	863358	10.9%	-8.1%	-1.1%
Sberbank, pr.	SBERP	61	60.18	54.17	61.23	8406.8	146939	7.5%	-15.3%	-14.6%
Seligdar	SELG	4.551	4.649	4.414	4.788	1.1	241	1%	-18.2%	2.5%
Seligdar, pr.	SELGP	27.001	32	27	27			33.8%	22.7%	31.3%
Sollers	SVAV	530.4	534.4	529	559.9	34.5	64	-0.5%	-14%	-5.7%
Synergy	SYNG	497.6	509.5	501.3	530.9	0.3	1	-13.1%	-7.7%	10.3%
Transaero	TAER	202	203	202	205	1.8	9	-0.7%	0.9%	23.2%
Tatneft	TATN	243.29	242.51	224.95	247.37	2670.3	11316	14%	15.4%	17.5%
Tatneft, pr.	TATNP	143.44	143.15	134.11	143.15	47.3	341	10.7%	15.9%	17.4%
TGK-1	TGKA	0.006431	0.006445	0.006223	0.00659	6.9	1075800	0.4%	1.1%	2.7%
Kvadra	TGKD	0.00254	0.0026	0.002259	0.0026	3.6	1488800	-13.3%	-3.2%	27%
Transkonteyner	TRCN	2400	2424.8	2399.9	2550	3.1	1	5.4%	1.8%	-17.6%
TMK	TRMK	90.93	91.49	86.41	92.5	41.2	457	17%	12.4%	18.6%
Transneft, pr.	TRNFP	88000	84002	80892	87599	1686.6	20	20.7%	13.4%	13.9%
Uralkali	URKA	144.51	140.94	133.57	142.1	2439.3	17688	7.6%	-8.4%	-9.4%
VTB	VTBR	0.04153	0.0405	0.03803	0.04153	7211.5	181596830	0.9%	-18.8%	11%
Volga TGK	VTGK	1.5	1.525	1.4501	1.5397	3.5	2326	-19.4%	-17.6%	-16.7%
Bank Vozrozhdenie	VZRZ	395	397	384.8	401.7	2.6	7	1.8%	2.3%	-13.4%
World Trade Center	WTM	11.65	12.2	11.6	13.4	1.1	97	-3.8%	16.5%	15.2%
YANDEX N.V.	YNDX	1159.6	1159.6	1050.5	1160	89.6	81	7.6%	-0.8%	
Gazprom	GAZP	140	135.67	131	140.13	28858.4	211731	8.4%	-2.9%	8.5%
QIWI Ltd	QIWI			1351.1	1440	2.7	2			
2-Level Quotation List										
Ashinsky Metallurg Plant	AMEZ	6	6.08	5.999	6.324	0.8	137	1.5%	4.5%	48.6%
Pharmacy Chain 36.6	APTK	14.07	14.06	11.93	14.23	22.3	1615	16.9%	-0.8%	-4.8%
ARMADA	ARMD	68.93	68.93	62.23	69.5	13.7	206	-46.2%	-34.4%	-52.8%
AVTOVAZ	AVAZ	9.881	9.938	6.3	10.289	10.4	1077	6.6%	-1.7%	-5%
AVTOVAZ, pr	AVAZP	3.28	3.29	3.153	3.396	6.1	1883	8.2%	11.6%	20.6%

Company	MOEX Ticker	Prices on 05.09.2014, Rub		Min Prices, Rub	Max Prices, Rub	Trade Volume, September 1 - 5		Return on Rub investment for		
		Bid	Offer			September 1 - 5	Mln Rub	'000	1 month	3 months
St.Petersburg Bank	BSPB	34.15	34.43	32.86	35.3	4.3	126	-0.5%	-9%	14.6%
Chelyabinsk zinc factory	CHZN	143.9	144.9	137.13	150	0.5	4	3%	4.9%	10.5%
Far Eastern Energy Company	DVEC	0.9601	0.9998	0.95	0.98	0.5	472	-2.5%	11.6%	57.1%
Fesco	FESH	3.062	3.12	2.97	3.15	3.1	1019	-3.9%	-11.5%	-13.6%
HALS-Development	HALS	1282.3	1307.9	1270	1326	2.9	2	-8.3%	37.1%	28.1%
KUZBASSKAYA TK	KBTK	62	63	56.98	67.18	19	311	-14.5%	-10.2%	-4.6%
Lenenergo	LSNG	2.68	2.699	2.575	2.8	4.3	1581	1.3%	-6.9%	20.8%
Lenenergo, pr.	LSNGP	15.402	15.5	15.2	15.5	3.3	218	1.7%	6.2%	33.2%
MMK	MAGN	7.479	7.477	7.101	7.555	368.8	49920	10.4%	10.9%	36.7%
MRSK of Siberia	MRKS	0.0853	0.088	0.087	0.08901	0.2	2720	-3.2%	28.1%	96.1%
MRSK of South	MRKY	0.039	0.0392	0.03552	0.04338	3.7	94480	-4.2%	22.3%	44.4%
Mosenergosbyt	MSSB	0.2537	0.2573	0.2503	0.26	3.2	12500	-0.5%	4.8%	20.8%
Novolipets Steel	NLMK	54.57	54.51	52	55.66	594.8	11040	14.4%	13%	18.7%
Novorossiysk Commercial Sea Port	NMTP	2.065	2.0375	1.9953	2.0729	2.2	1070	-1%	-7.3%	-8.6%
OGK-2	OGKB	0.1996	0.1967	0.1933	0.2003	94.4	478949	2.9%	-12.9%	-5.8%
Open Investments	OPIN	270	270	252.1	282	0.5	2	-0.4%	-2%	0.5%
Pharmstandard	PHST	1220.1	1242.7	1144	1300	9.4	8	7.3%	4.2%	41.3%
PROTEK	PRTK	37	37	35	37.24	6.9	193	-5.5%	-4.3%	-13%
Raspadsкая	RASP	19.02	19	17.74	19.22	116.3	6268	6.2%	-12.6%	-7.4%
RBK	RBCM	4.284	4.31	4.135	4.568	9.5	2214	4.7%	-2.7%	-4.8%
Russkoe more GK	RSEA	44.2	45.11	44.2	46.72	0.8	17	-8.2%	4.6%	66.7%
Rossety	RSTI	0.533	0.531	0.503	0.541	679.9	1300918	6.2%	-1.8%	-7.6%
SEMZ	SEMZ	5.08	4.94	3.3	6.29	10.1	2363	-37.7%	-67.3%	-83.1%
Surgutneftegaz	SNGS	27	26.619	25.522	27.025	2347.3	89152	4.7%	1%	0.3%
Surgutneftegaz, pr.	SNGSP	27.594	27.567	26.148	27.832	3325.8	122709	4.9%	2.8%	5.3%
TGK-2	TGKB	0.00088	0.000898	0.000839	0.000899	0.3	343000	-3.1%	-16.9%	7.2%
TGK-5	TGKE	0.00148	0.001515	0.001453	0.001516	0.4	240500	-7.6%	-19.3%	-7.6%
TGK-6	TGKF	0.001412	0.001423	0.00135	0.00148	0.5	381500	-5.9%	-18.5%	-12%
TGK-9	TGKI	0.002411	0.002419	0.002359	0.00246	0.7	295000	-19%	-21.6%	-29.1%
TGK-14	TGKN	0.00143	0.001532	0.001415	0.00151	0.3	175000	-3.6%	-7.1%	21.7%
United Aircraft Corporation	UNAC	0.10185	0.10264	0.0999	0.10559	4.6	45490	-2.6%	-3.1%	-7.4%
Energy System of East	VRAO	0.16308	0.167	0.16262	0.16999	2.7	16440	0.2%	-2.4%	-8.4%
VEROFARM	VRPH	1450	1455	1226.5	1575	13.4	9	17.4%	37.8%	47.9%
VSMPO-AVISMA	VSMO	7430.2	7498.8	7214	7588.2	1.8		-0.9%	-9%	8.2%
World Trade Center, pr.	WTCMP	5.8	5.8	5.5	6.5	0.4	69	-3.3%	-1.7%	15.8%
Zhivoi ofis	ZHIV	66.5	66.7	66.15	73	10.1	149	-17.2%	-43.4%	-2.9%

BEST PERFORMERS

MRSK OF CENTER



VEROFARM



WORST PERFORMERS

SISTEMA



SEMZ



Stock Indexes

RTS Index



RTS - Oil & Gas



RTS - Telecom*



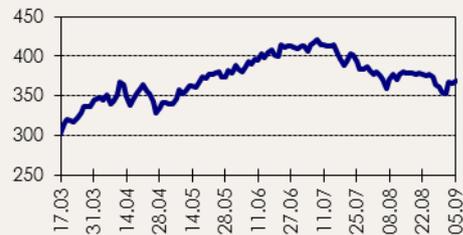
RTS - Metals & Mining



RTS - Industry



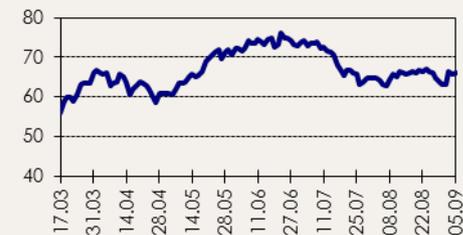
RTS - Consumer & Retail



RTS - Finances



RTS - Electric Utilities



More volatile week in store for Russian Cbonds

A more volatile week could be in store for Russian corporate bonds, the Interfax Center for Economic Analysis said.

Trends will depend largely on how international investors react to a probable broadening of sanctions against Russia by the United States and European Union. The Russian leadership's response to any sanctions will also determine how the situation unfolds on the Russian trading floors. In any event, the geopolitical factor will continue to prevail in tendencies in the world markets, which will be reflected directly in price fluctuations for Russian bonds.

Trading volume on the Moscow Exchange in the period August 29-September 4 remained below average at around 78.6 billion rubles. Bond prices rose moderately: the IFX-Cbonds-PM price index rose 0.09% to 102.49, and the IFX-Cbonds full-yield index rose 0.25% to 379.96.

LLC TM-energo Finance last week placed 6 billion rubles in five-year first-series bonds at yield of 8% pa for the first coupon; and Rusfinance Bank placed 3 billion rubles in 12th series bonds at 10.88%.

Biggest gainers/losers on Moscow Exchange August 29-Sept 4:

Issuer	Change in ave. weighted price, %	Price, % of par value	Change in yield, pp	Yield, % pa	Volume, mln rubles
Rusal-Bratsk-08	+2.27	97.25	-3.97	13.74	449.563
RZD-16	+1.27	98.26	-0.81	9.18	562.351
Bashneft-02	+0.91	96.66	-0.46	10.26	546.214
RusStandard Bo-04	-0.81	97.48	+2.10	16.21	122.580
Utair Finance Bo-11	-0.82	99.18	+1.22	13.76	202.186
GTLK Bo-01	-3.56	93.00	+2.14	14.01	195.308

Leading issues by trading volume on Moscow Exchange:

Issuer	Change in ave. weighted price, %	Price, % of par value	Change in yield, pp	Yield, % pa	Volume, mln rubles
Rosneft Bo-06	-	100.00	-	8.10	3382.775
Bank VTB-06	+0.40	99.73	-0.52	9.99	3197.391
RusStandard Bo-03	-	100.00	+1.97	11.83	3095.090
RZD-18	-0.75	99.15	+0.47	9.98	1905.733
Gazprom Capital-05	+0.24	94.42	-0.10	10.43	1819.836
Rosselkhozbank Bo-07	-0.20	99.10	+0.30	11.00	1808.370
Credit Bank of Moscow Bo-10	-0.10	99.30	+0.15	11.67	1394.659

Trading volume on Moscow Exchange:

Sector	Trading volume for week, mln rubles	Trading volume for prev week, mln rubles	Change %
Main floor, Cbonds	18 400.142	18 150.468	+1.38
Cbonds overall, including negotiated deal mode (Cbonds)	78 575.011	53 601.984	+46.59
Subfederal and municipal bonds, including negotiated deal mode	4 008.426	2 525.024	+58.75

CORPORATE BOND INDEX RUXCBONDS



CORPORATE BOND INDEX RUXCBONDS-P



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