

# NEWS DAILY

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## Putin wants Russia to cut inflation to 3.0–3.5% in short, mid term

Russia has to decrease its consumer price inflation to 3.0%–3.5% per year in the short- or mid-term, Russian Prime Minister Vladimir Putin said at a meeting with representatives of German businesses Wednesday, as cited by RIA Novosti.

The growth in consumer prices is slowing down, Putin said, adding that this year inflation could amount to about 7%. “This is still high, we will continue to work to cut it. We want to reach a level of 3.0%–3.5% in the short- or mid-term,” Putin said. Russia’s consumer price inflation was at 0.3% from November 1 through Monday, and amounted to 5.5% from January 1 through Monday, the Federal State Statistics service said earlier Wednesday. Under a draft of the federal budget for 2012–2014, the country’s inflation is expected to amount to 6.0% in 2012; 5.5% in 2013; and 5.0% in 2014. Consumer prices in Russia rose 8.8% in 2010, the statistics service said earlier.

## Ministry sees inflation at 0.6%–0.7% in November, up on month

Russia’s Economic Development Ministry expects the country’s consumer price inflation to amount to 0.6%–0.7% in November, compared to 0.5% in October, Deputy Economic Development Minister Andrei Klepach said Wednesday.

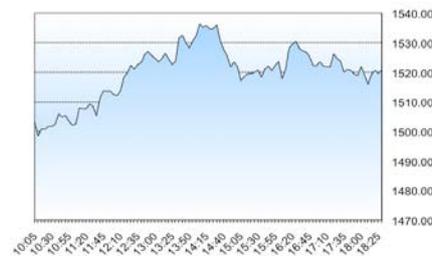
Earlier on Wednesday, the Federal State Statistics service said that Russia’s consumer price inflation was at 0.3% from November 1 through Monday, and amounted to 5.5% from January 1 through Monday. In 2010, consumer prices rose 0.4% from November 1 through November 14, and amounted to 7.2% from January 1, the service also said. Under the Economic Development Ministry’s current forecast, inflation is expected at 6.5%–7.0% in 2011. Consumer prices in Russia rose 8.8% in 2010, the statistics service said earlier.

### KEY EVENTS

- ▶ NOV 17: VEB to deposit 10 billion rubles of pension savings with commercial banks
- ▶ NOV 17: Federal Fund for Promoting Housing, Utilities Reform to deposit up to 22 billion rubles of spare funds with authorized banks
- ▶ NOV 17: Moscow District Federal Arbitration Court to consider cassation appeal of TagAZ, Promstroy Plus against VTB Bank over \$62.879 million loan debt repayment
- ▶ NOV 17: Rostov Region Arbitration Court to consider VTB Bank’s bankruptcy motion against TagAZ
- ▶ NOV 17: Mineral Fertilizers’ board of directors to consider dividends for January–September
- ▶ NOV 18: Russian President Dmitry Medvedev to meet with Belarusian President Alexander Lukashenko, Kazakh President Nursultan Nazarbayev over common economic space

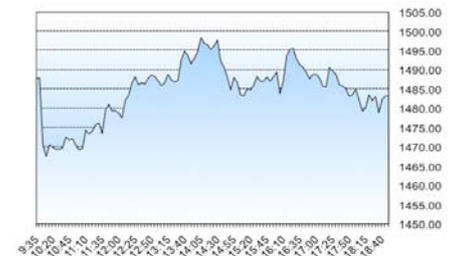
### STOCK MARKET INDICES

#### RTS



▲ RTS 18:45 NOV 16 1520.75 +0.11%

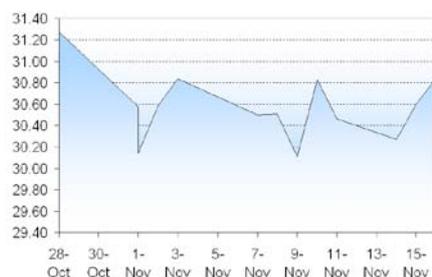
#### MICEX



▼ MICEX 19:00 NOV 16 1483.24 -0.31%

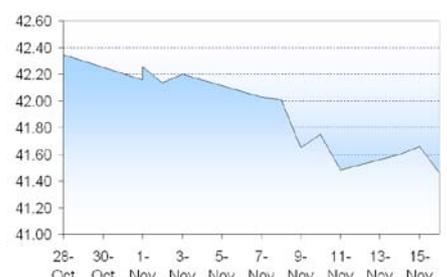
### CBR OFFICIAL RUBLE RATE

#### USD



▲ USD NOV 17, 2011 30.8417 +0.1817

#### EUR



▼ EUR NOV 17, 2011 41.4605 -0.2279

**Politics and Economy****► Storchak: Direct sale of government companies preferable to convertible bonds**

Russian Deputy Finance Minister Sergei Storchak told PRIME late Tuesday he believed that selling stakes in Russian state-owned and state-controlled companies directly to investors is more transparent than issuing convertible bonds.

"I think that selling these stakes directly to investors and thus receiving funds for the federal budget is more transparent and clear than issuing convertible bonds," Storchak said, adding that the ministry has not yet examined this issue in detail.

In October, international investment company Blackstone Group CEO Stephen Schwartzman suggested that the Russian government could issue government bonds that could be converted into shares in the companies included in the privatization list. Later in October, presidential aide Arkady Dvorkovich did not rule out the possibility that this recommendation could be implemented, adding that the usage of this tool was not expected to be widespread.

Separately, Storchak said that the ministry is satisfied with the fact that the demand of Russian banks for extra liquidity has been reducing, which means that the situation in the banking sector is improving. He attributed the decrease to measures taken by the Central Bank of Russia (CBR). Specifically, the combined value of bids submitted by banks for spare budget funds offered by the ministry at the last two auctions was significantly lower than the amount offered, Storchak said.

In early September, Alexei Uvarov, a department director at Russia's Economic Development Ministry, said that the government was expected to raise over 1 trillion rubles through the sale of its stakes in domestic companies in 2012–2014. In particular, the government plans to sell stakes in such large Russian companies and banks as Rosneft, VTB Bank, RusHydro, FGC UES, Transneft, Zarubezhneft, Sovcomflot, Russian Railways, and others in this period.

**► Government's domestic debt up 36.5% in January–October**

The Russian government's domestic debt increased 36.5% in January–October to 1.073 trillion rubles as of November 1, including government guarantees, according to the Finance Ministry's documents seen by PRIME Wednesday. In October, the government's domestic debt, including government guarantees, increased 0.5%, the ministry said.

**► Official sees unified real estate tax set Russia-wide in 2014**

A unified real estate tax could be introduced Russia-wide no earlier than in 2014, Sergei Razgulin, deputy director of tax and customs policy department at the Finance Ministry, said Wednesday. After the amendments to the Tax Code come into effect, the municipal authorities of Russia's regions would be able to introduce a real estate tax following the cadastral appraisal of regional real estate.

Razgulin said that the cadastral appraisal of real estate property has been completed in 12 of Russia's regions, adding that the tax could be introduced in 2013 in these regions.

Russian President Dmitry Medvedev called for setting a unified real estate tax in Russia in 2012 in regions which have completed the cadastral appraisal of their real estate. The proposed unified real estate tax is expected to replace the current land and property fees.

The Economic Development Ministry said earlier that it did not rule out the possibility that the real estate tax could be introduced in 12 pilot Russia's regions in 2012.

**► Central banker: Net private capital outflow from Russia slows down in October**

Net private capital outflow from Russia has slowed down in October–November so far compared to September, the Central Bank of Russia (CBR) First Deputy Chairman Alexei Ulyukayev told reporters Wednesday.

## Politics & Economy

"We still had high outflow in October, but somehow lower than in September," Ulyukayev said, adding that this trend has so far been kept in November.

The bank expects the net private capital outflow to amount to \$70 billion in 2011. In early November, the CBR nearly doubled its forecast for the net capital outflow in 2011 from \$36 billion estimated previously.

The net capital outflow amounted to \$49 billion in January–September, based on preliminary estimates, the CBR said in October.

In 2010, the net capital outflow from Russia amounted to \$33.6 billion, the bank said earlier, providing revised data.

### ► Russia's inflation at 0.3% November 1–Monday

Russia's consumer price inflation was at 0.3% from November 1 through Monday, and amounted to 5.5% from January 1 through Monday, the Federal State Statistics service said in a statement Wednesday.

Consumer prices grew 0.1% from November 8 through Monday, the service said.

In 2010, consumer prices rose 0.4% from November 1 through November 14, and amounted to 7.2% from January 1, the service also said.

Under the current forecast of the Economic Development Ministry, inflation is expected at 6.5%–7.0% in 2011.

Consumer prices in Russia rose 8.8% in 2010, the statistics service said earlier.

### ► Russia's industrial output up 5.1% on year in January–October

Russia's industrial output rose 5.1% on the year in January–October, the Federal State Statistics Service said in a report Wednesday.

In October, the country's industrial output grew 3.6% on the year and 4.0% on the month, the service said. The country's industrial output, excluding seasonal factors, rose 0.8% on the month in October, the service added.

In April, the Economic Development Ministry increased its forecast for industrial output in 2011 to 5.4% from 4.1%, previously.

Industrial output rose 8.2% on the year in 2010, the service said earlier.

### ► Russia's wage arrears up 1.6% on month in October

Total wage arrears in Russia increased 1.6% on the month in October to 2.427 billion rubles as of November 1, the Federal State Statistics Service said in a report Wednesday, as cited by RIA Novosti.

The data does not include the wage arrears of small businesses.

Total wage arrears caused by delays in government financing increased 71% on the month to 19 million rubles as of October 1.

Wage arrears caused by delays in federal government financing were at 37 million rubles as of November 1; those caused by delays in regional government financing amounted to 2 million rubles; while wage arrears caused by delays in municipal government financing amounted to 5 million rubles.

Wage arrears owed by companies and organizations not funded by the government increased 0.5% in October to 2.383 billion rubles as of November 1.

An estimated 104,000 employees in Russia were owed back wages as of November 1.

**Politics & Economy****► Investments in infrastructure of Ulyanovsk economic zone at 250 million euros**

The Russian government plans to spend 250 million euros over the next two years to finance the construction of infrastructure at a special economic zone based in the Ulyanovsk-Vostochny Airport, the government of the Ulyanovsk Region reported late Tuesday, citing the regional Governor Sergei Morozov, RIA Novosti reported.

The residents of the special economic zone are expected to focus on the production of airplanes and aircraft equipment, aircraft repair and maintenance, as well as on providing airport, transportation, and logistical services.

Morozov said that the construction of the facilities and infrastructure are expected to be financed from both the federal and regional budgets, which could help to reduce investors' expenditures by 30%, he added.

The residents of the zone are also to be freed from paying customs and excise duties, value added tax (VAT) on core activity, as well as property and land taxes, Morozov said, adding that the government would also reduce the profit tax for the zone's residents.

Construction of infrastructure facilities at the zone's first 120 hectare site is expected to be completed in 2012; while the second 520 hectare site is expected to be launched in 2015.

Three residents have been registered in the Ulyanovsk-Vostochny port's special economic zone. Among them is Russian company Volga-Dnepr Technics, which plans build the first Russia's Center of maintenance and repair of aircraft. Construction of the center will begin in 2012, while investments are seen at 2.3 billion rubles, according to the official Web site of the Special Economic Zones, a company that manages Russian special economic zones.

Russia's FL Technics Ulyanovsk, a subsidiary of international Avia Solutions Group, plans to set up a maintenance center to service aircraft manufactured by Boeing, Airbus and others operated by Russian and foreign airlines. Construction of the center will begin in 2013 with investments are expected at 795 million rubles, according to Special Economic Zones.

Russian aviation corporation Vityaz plans to build a plant to assemble the Twin Otter Series 400 regional passenger aircraft from Canada's Viking Air in the economic zone. Investments into the project are seen at 457 million rubles, Special Economic Zones said.

**► EBRD plans to increase investments in Russia in 2011**

The European Bank for Reconstruction and Development (EBRD) plans to increase its investments in Russia in 2011 in comparison to 2010, Natalia Khanzhenkova, managing director of the bank's Moscow branch, told PRIME Wednesday. Exact figures were not provided. "We have already invested 2 billion euros. We hope that this figure increases by the end of the year, with our investments exceeding 2.3 billion euros as of last year," she said. During its 20 years in Russia, the bank has invested more than 18 billion euros into about 700 projects, Khanzhenkova said.

**► Court refuses to review second sentence against Khodorkovsky**

The Moscow City Court has refused to consider an appeal to review the second sentence against Mikhail Khodorkovsky, the former head of now defunct oil company Yukos, and his business partner Platon Lebedev, Khodorkovsky's press office said Wednesday, as cited by RIA Novosti. Specifically, the court rejected appeals to review the decision of Moscow's Khamovnichesky Court, which on December 27, 2010 found Khodorkovsky and Lebedev guilty of embezzlement and money laundering and later sentenced both of them to 13 years in prison; as well as a decision made the Moscow City Court, which in May softened the prison sentence by one year.

Lawyers of Khodorkovsky and Lebedev plan to appeal the decision of the Moscow City Court.

Cases against Khodorkovsky and Lebedev were originally launched in 2003, with both subsequently sentenced to eight years in prison for tax evasion and fraud.

## Politics & Economy

### ► Lisin, VTB Bank may bid for European Media Group - sources

Russian businessman Vladimir Lisin and state-controlled VTB Bank could be among the bidders to buy European Media Group (EMG) from French media group Lagardere, Russian business media reported Wednesday citing sources familiar with the situation and sources on the media market. Bank Societe Generale, which was hired by Lagardere to sell its last asset in Russia, 100% in EMG, has accepted preliminary bids from potential bidders for the company, sources on the media market told Kommersant business daily.

The main bidder for EMG is Georges Polinski, its founder and president, Kommersant said. Polinski is cooperating with VTB Capital, a division of VTB Bank, which is ready to partially finance the deal, a top executive at a media holding and a source close to Lagardere told Kommersant. VTB Bank declined to comment.

Lisin, key shareholder and chairman of major Russian steel manufacturer Novolipetsk Steel (NLMK), was also offered to buy EMG, RBC Daily reported citing sources. A source close to NLMK said the company had received the offer, but was not taking part in the tender due to the high price. Lisin owns radio stations Business FM and Shokolad.

EMG is estimated to be worth around U.S. \$150 million, RBC Daily said. The potential buyers are offering \$130 million–\$200 million for EMG, sources told Kommersant.

The list of potential bidders for EMG also includes businessman Leonid Fedun, vice president of Russian oil major Lukoil, and co-owner of Russian Media Group; as well as Sergei Arkhipov, founder of Russian Media Group and head of VGTRK's radio broadcasting department; Mikhail Fedayev and Vladimir Gridin from Siberian Business Union; and Vitaly Bogdanov, senator from the Kursk Region. Representatives of these companies either denied their interest in EMG or did not comment. However, Bogdanov is very interested in EMG, a representative of his Multimedia Holding, which manages radio stations Nashe Radio, Best FM, Rock FM, and Ru.Fm, confirmed to Kommersant.

EMG was created based on the Europe Plus radio station and manages Retro FM, Radio 7, Keks FM, Svezheye Radio and also sells advertising on radio and the Internet

## Finance and Insurance

### ► Ministry: No return to talks on loan rate limitation

Russia's Finance Ministry does not plan to return to discussion on the possibility of setting the upper limit for interest rates on loans, Deputy Finance Minister Alexei Savatyugin said at an industry conference Wednesday.

It is unreasonable to return to this discussion at this time, Savatyugin said, adding, however, that this problem should not be avoided.

### ► Russian investigators summons Baturina to witness in Bank of Moscow case

The Investigative Committee of Russia's Ministry of Internal Affairs has subpoenaed Russian businesswoman Yelena Baturina, wife of former Moscow Mayor Yuri Luzhkov, as a witness in an embezzlement case versus former executives of the Bank of Moscow, a spokesperson for the ministry said late Tuesday, as cited by RIA Novosti.

Luzhkov, who was questioned by the committee's officers over the same case earlier on Tuesday, obliged to give the relevant notification to his wife.

At the same time, the spokesperson said that the committee repeatedly sent similar notifications to Baturina's real estate company Inteco, while the company replied that Baturina is outside the country and could not attend the questioning.

Speaking about Luzhkov's recent round of questioning, the spokesperson said that the former mayor did not provide any details while answering questions. Meanwhile, the investigators plan to check Luzhkov's testimonies, the spokesperson added.

Luzhkov declined provide any comments after the interrogation.

In late October, the investigative committee's press service said that Luzhkov was to be questioned in regards to the purchase of a 15 billion ruble stake in the Bank of Moscow by the Moscow city government in 2009.

Investigators found that the Bank of Moscow illegally provided a 12.760 billion ruble loan to real estate developer Premiere Estate, linked with Baturina, in 2009. Before the deal, the city government bought a stake in the bank for around 15 billion rubles – part of which was later lent to Premiere Estate.

In February, former top executives of the bank, President Andrei Borodin and First Vice President Dmitry Akulinin, were accused by the committee of abusing their positions of power in connection with an investigation into the alleged embezzlement.

Luzhkov was dismissed from his post as Moscow's mayor in September 2010 by a decree signed by President Dmitry Medvedev following tensions between the two amid a media campaign against Luzhkov.

Luzhkov had served as Moscow's mayor since 1992.

### ► VEB may get 8–12% in Gazprombank via conversion of loan to shares

Russia's state-owned Vnesheconombank (VEB) could receive 8%–12% in the charter capital of Russia's Gazprombank via the conversion of a part of subordinated loan provided earlier to Gazprombank into its additional shares, Gazprombank's Deputy Chairman Alexander Sobol told reporters Wednesday.

The sides are close to completing negotiations on the issue, Sobol said, adding that the share of Russian natural gas monopoly Gazprom in Gazprombank is to decrease to 34%–36% after the conversion. Gazprombank took out a 90 billion ruble subordinated loan from VEB in late 2009. In early September, the bank offered VEB to convert the subordinated loan into its additional shares, business daily Vedomosti reported then.

## Finance and Insurance

Other than VEB's loan, Gazprombank took out a 40 billion ruble subordinate loan from its shareholders, Sobol also said, adding that the loan is to be fully converted.

Gazprom currently holds 41.73% in Gazprombank.

### ► Finance Ministry places 2.152 billion ruble OFZ-PD bonds

Russia's Finance Ministry has placed 2.152 billion rubles worth of OFZ-PD 26205 fixed-rate government bonds out of 10 billion rubles offered, the ministry said Wednesday.

The weighted average price was set at 95.6481, while the cut-off price was at 95.5000. The annual yield for both prices was set at 8.45%. Bids for the bonds amounted to 2.352 billion rubles at par value and the ministry raised 2.255 billion rubles from the offering.

The issue matures on April 14, 2021, with an annual coupon rate of 7.60%.

### ► Rapsadskaya share price soars on buyback approval, RTS down

Russian mining company Rapsadskaya's share price soared on Wednesday on the board's approval of an 11.7 billion ruble share buyback, while the broader market closed lower after a volatile trading session, pulled down by European officials' pessimistic statements about the global economy's prospects.

The RTS index decreased 0.41% to 1,520.75, while the MICEX index declined 0.31% to 1,483.24. Investors' mood was spoiled, in particular, by statements from the Bank of England's officials that the inability of E.U. leaders to tackle the debt crisis might lead to negative consequences for the global economy and by European Commission President Jose Manuel Barroso's warning of a possible economic standstill in Europe, investment company Aton analyst Yelena Kozhukhova said.

Falling oil prices and U.S. stock futures also had a negative effect on Russian stocks, Investment company Moscow Stock Center's (MFC) Director of the Analytical Department Yekaterina Kondrashova said.

Despite the slight decline of the broader market, Rapsadskaya jumped 10.2% on the company's board approval of a share buyback at a price of 150 rubles per share, which is about 50% higher than the current market price of the company, Promsvyazbank analyst Oleg Shagov said.

Other metallurgy companies, on the contrary, decreased on Wednesday. In particular, Novolipetsk Steel (NLMK) fell 3.4% on weak financial results for July–September under U.S. GAAP, which showed a significant year-on-year decline in the company's net profit in this period, Shagov said.

Norilsk Nickel and Mechel both decreased about 4% on downgrade of recommendations regarding these companies by some investment banks, Shagov said.

Multi-industry holding AFK Sistema, meanwhile, rose 1.4% on an increase in the company's weight in the MSCI index, Kondrashova from MFC said.

Below are the five most active stocks on the MICEX on Wednesday:

Company	Change, %	Last price, rubles	Trading volume, billion rubles
Sberbank	-1.05	79.75	23.979
Gazprom	+0.92	187.70	17.188
Norilsk Nickel	-4.30	5051.00	4.276
Lukoil	-0.06	1741.10	3.866
Rosneft	+1.65	224.20	3.229

## Finance and Insurance

### ► MICEX, RTS to unify trading codes of Russian companies on November 21

The Moscow Interbank Currency Exchange (MICEX) and Russian Trading System Stock Exchange (RTS), which are currently being merged, plan to unify the trading codes of Russian companies' securities, which are traded on both exchanges, on November 21, the MICEX and RTS said in a joint statement Wednesday.

Specifically, the trading codes of 25 securities used by the MICEX are to be replaced with trading codes used by the RTS, while trading codes of eight securities used by the RTS are to be replaced with trading codes used by the MICEX.

The creation of a merged exchange is scheduled to be completed by 2013.

In late June, the RTS and MICEX signed legally-binding documents on the merger. In early September, the Federal Antimonopoly Service approved the deal. All legal procedures on the merger are expected to be completed in late 2011 or early 2012, Aganbegyan said in late June.

### ► MSCI Barra includes IDGC Holding in MSCI Russia Standard Index

U.S.-based investment risk management agency MSCI Barra has included Russian state-controlled power utility IDGC Holding in its MSCI Russia Standard Index effective from November 30, MSCI said in a report Wednesday.

MSCI said it excluded Russian coking coal producer Rospadskaya from the MSCI Russia Standard Index. MSCI also said it included power producer Wholesale Generating Company-1 (WGC-1), pharmaceutical distributor Protek, titanium producer VSMPO-Avisma in its MSCI Russia Small Cap Index, and excluded power producers TGC-2 and TGC-9 from this index.

MSCI Russia is a benchmark index for investors on the Russian stock market. The index includes the country's most liquid stocks.

### ► Rospadskaya to buy back up to 10% of shares for 11.7 billion rubles

The board of directors of Russian coking coal producer Rospadskaya has decided to buy back up to 78.08 million of its shares, or up to 10% of its charter capital, for a total of 11.71 billion rubles, the company said Wednesday.

Specifically, the company plans to acquire shares at 150 rubles each, while applications to sell the shares are accepted from December 19 to January 31, 2012.

As of 10.35 a.m. Moscow time on Wednesday, the company's shares were worth 110 rubles each on the Moscow Interbank Currency Exchange (MICEX), up 20% from Tuesday's closing price.

Rospadskaya' CEO Gennady Kozovoi said that the company's management believes that the buy-back will optimize the company's capital structure and increase the return per share, while improving the investment appeal as well as provide additional benefits to all shareholders.

Corber Enterprises Ltd, a company co-owned by Rospadskaya executives and steelmaker Evraz, holds an 80% interest in Rospadskaya.

### ► Baltika buys back 108 million ruble preferred shares from holders

Russian brewer Baltika has bought back type A preferred shares worth a total of 107.635 million rubles from shareholders who disagreed with the company's program on the conversion of the preferred shares into common, Baltika said in a statement Wednesday.

In particular, the company has bought back 91,628 preferred shares at a price of 1,175 rubles per each. The company's board of directors and shareholders approved the conversion in September. Before the conversion, Baltika's capital was split into 151,714,594 common shares and 12,326,570 preferred shares with a face value of 1 ruble each.

## Finance and Insurance

Earlier in November, Baltika completed converting 12,326,570 preferred shares into common shares, with one preferred share being equal to one common share.

Russia's leading beer exporter, Baltika currently operates 11 breweries in Russia and one in Azerbaijan. Sweden's Baltic Beverages Holding (BBH) owned an 89.01% stake in Baltika's charter capital as of March 31.

### ► Deputy CEO: Sberbank holders may get “good dividends” for 2011

The shareholders of Russia's largest bank, state-controlled Sberbank may receive “good dividends” for 2011, the bank's Deputy CEO Bella Zlatkis said in an interview with the Rossiya-24 TV channel Wednesday.

“We hope that under rather high profits, investors may expect good dividends,” Zlatkis said without providing exact figures.

In January–October, Sberbank's net profit more than doubled to 276 billion rubles from 126 billion rubles in the same period a year earlier, as calculated under Russian Accounting Standards (RAS), the bank said on November 10.

Moreover, Zlatkis said that despite turbulence in the world's economy, Sberbank's shareholders and clients have no reason to worry as the bank's has enough liquidity and profit.

In early October, the Central Bank of Russia (CBR) First Deputy Chairman Alexei Ulyukayev said that Sberbank planned to increase dividend payments for 2011 to 15% of its net profit from 12% paid for 2010.

Sberbank paid 21 billion rubles in dividends for 2010, the bank said earlier.

The CBR currently holds a 57.58% stake in Sberbank, while a 33.43% stake is owned by legal entities, which are non-residents to Russia. Sberbank's total number of shareholders exceeds 245,000 units, according to Sberbank's Web site.

In 2010, Sberbank's net profit soared to 183.6 billion rubles from 36.2 billion rubles in 2009.

### ► Gazprombank unit sells major stake in Severgazbank

New Financial Technologies, a unit of Russian bank Gazprombank, has sold a major stake in Severgazbank to a third party, unaffiliated with Gazprombank group, Gazprombank said in a statement Wednesday. Details regarding the stake were not provided.

The sale of a non-specified stake in Severgazbank is another stage in the business optimization plan of Gazprombank group directed at unifying the corporate management structure, as well as increasing the group's reliability and efficiency, Gazprombank's Deputy CEO Nikolai Korenev said as cited in the statement.

Under the plan, Gazprombank's regional branches received the business of Severgazbank and Noyabrskneftekombank, which are undergoing voluntary liquidation activities.

Severgazbank was established in 1994. The bank's charter capital amounts to 661.215 million rubles. Before the deal, New Financial Technologies owned an 86.815 stake in Severgazbank, while Gazprombank held an 11.55% stake, according to Severgazbank's Web site.

### ► Bank of Moscow RAS net profit down 59% in January–October

The net profit of Russia's Bank of Moscow decreased about 59% on the year to 4.057 billion rubles in January–October, as calculated under Russian Accounting Standards (RAS), according to the bank's report seen by PRIME Wednesday.

Shareholders' equity fell to 58.98 billion rubles in January–October from 115.90 billion rubles in early January. Personal account balances with the bank fell 16% in January–October to 140.6 billion rubles as of the end of this period. In late September, Russia's VTB Group consolidated 80.57% in the Bank of Moscow via its unit VTB Debt Center under a bailout.

## Finance and Insurance

### ► Bank of Moscow inks deal to restore stake in Estonian bank to sell it

Russia's Bank of Moscow has signed a contract to restore its 43.79% stake in Estonian bank Eesti Krediidipank, which will then be fully sold to Switzerland's RLS Finance SA, the Russian bank said in a statement Wednesday.

In March, the Bank of Moscow reduced its stake in Eesti Krediidipank to 16.22%.

However, in May, the management of the Bank of Moscow applied to the Investigative Committee of Russia's Ministry of Internal Affairs asking to look into the deal. The management claimed that the agreement signed by the bank's former President Andrei Borodin violated a number of corporate procedures.

Moreover, the Russian bank said on Wednesday that the restoration of its property rights and the sale of its stake in the Estonian bank are to be completed in the coming months.

The procedure is being supervised by the Estonian Financial Supervision Authority (EFSA).

Registered in Geneva, RLS Finance SA handles financial operations, assets and investments management, as well as carrying out deals in commercial real estate.

### ► Bank of Moscow repays 680 million rubles to DIA ahead of schedule

The Bank of Moscow has repaid 679.4 million rubles to partially cover its debt to Russia's Deposit Insurance Agency (DIA) ahead of schedule, the bank said in a statement Wednesday.

As of Wednesday, the total repayment of the Bank of Moscow to the DIA amounted to over 1.4 billion rubles.

In late September, the DIA provided a 295 billion ruble loan to the bank under a bailout. The loan was provided for 10 years at an annual interest rate of 0.51%. The funds were then invested into government bonds.

Before the loan was provided, Russia's VTB Group consolidated 80.57% in the Bank of Moscow via its unit VTB Debt Center under a bailout.

### ► Raiffeisenbank RAS net profit up 31% in January–September

The net profit of Russia's Raiffeisenbank increased 31.3% on the year to 8.941 billion rubles in January–September, as calculated under Russian Accounting Standards (RAS), according to the bank's statement released late Tuesday.

The pretax profit rose 13.8% on the year to 12.259 billion rubles in January–September. The shareholders' equity amounted to 72.854 billion rubles as of October 1, up 9.9% on the year.

In 2010, Raiffeisenbank's net profit increased to 10.094 billion rubles from 4.836 billion rubles a year earlier, the bank said in late January.

Russia's Raiffeisenbank is 100%-owned by Austrian banking group Raiffeisen.

### ► OTP Bank to open 25 branches in country's Far East

Russia's OTP Bank, a subsidiary of Hungary's OTP Bank, plans to open 25 branches in Russia's Far East, Istvan Hamecz, chairman of the Russian bank's board of directors, said late Tuesday.

The bank, currently comprised of eight regional divisions, plans to open its first branch in the Far East city of Khabarovsk on December 16 and to expand to 10 branches by 2012, Hamecz said, adding that OTP Bank was ready to consider proposals on the acquisition of any banking chains in future.

**Finance and Insurance****► Rossiya Insurance Company RAS premium collections up 55% on year in January–September**

Rossiya Insurance Company collected insurance premiums worth 3.562 billion rubles in January–September, up 55% on the year, as calculated under Russian Accounting Standards (RAS), according to the company's report seen by PRIME late Tuesday.

The company's net profit soared 79% on the year to 214.882 million rubles in January–September. Insurance payouts amounted to 1.623 billion rubles in January–September, down 33% on the year. The company's income from investments were at 418.295 million rubles in January–September, up 34% on the year.

The assets amounted to 8.243 billion rubles as of September 30, up 12% from January 1, while insurance reserves were at 3.902 billion rubles as of September 30, up 15% from January 1.

The company's charter capital amounted to 2 billion rubles as of September 30.

Rossiya Insurance Company is also known as Rossia Insurance Company.

**► Source: Indicative yields for Gazprom's Eurobonds at 5.125%, 6.125%**

The indicative yield for Russian natural gas giant Gazprom's Eurobond offering worth U.S. \$1 billion has been set at 5.125% for a tranche maturing in four and a half years, and at 5.125% for a tranche maturing in nine years, a banking source told PRIME Wednesday.

The road show for the offering started on Monday, while the bonds are expected to be placed on Wednesday, the source said.

The offering is organized by BNP Paribas and J.P. Morgan, while investment company Metropol acts as the co-organizer of the offering.

**► Absolut Bank to open book for ruble bonds on November 23**

Russian bank Absolut Bank, a subsidiary of Belgium's KBC Group, plans to start book building for its first 3 billion ruble 3-year exchange bond issue at 10.00 a. m. Moscow time on November 23. The guideline for the coupon rate has been set at 10.5–11.0%. The bonds carry semiannual coupons and have an 18-month buyback offer.

The bidding book is expected to be closed at 3.00 p. m. Moscow time on November 25, while the technical placement is slated to take place on November 30.

Raiffeisenbank and Rosbank are expected to act as the organizers of the offering.

**► TransFin-M to offer 1 billion ruble exchange bonds November 22**

Russian leasing company TransFin-M plans to start offering its 16th, 1 billion ruble 10-year bond issue on November 22, the company said in a statement Wednesday.

The bonds are expected to be publicly offered in 1,000-ruble denominations.

TransFin-M, an affiliate of state-owned railroad company Russian Railroads, focuses on leasing out high-tech, railroad, and industrial equipment.

**► Banca Intesa board approves offering ruble exchange bonds**

The board of directors of Banca Intesa, a Russian unit of Italy's Intesa Sanpaolo Group, has approved offering 16 billion rubles worth of 3-year exchange bonds, according to the Russian unit's documents seen by PRIME on Wednesday.

Specifically, Banca Intesa plans to offer its first and second, 3 billion ruble exchange bond issues, and third and fourth 5 billion ruble exchange bond issues. The bonds are to be offered publicly in 1,000-ruble denominations.

Intesa Sanpaolo Group owns 86.74% in Banca Intesa.

## Finance and Insurance

### ► EurAsEC council to decide on second loan tranche to Belarus November-end

The council of the Eurasian Economic Community's (EurAsEC) financial bailout fund plans to consider providing the second tranche of a loan to Belarus at the end of November, Russian Deputy Finance Minister Sergei Storchak told PRIME late Tuesday.

Specifically, the council is to review Belarus' implementation of macroeconomic measures that were stipulated as required conditions under which Belarus would receive the tranche.

Belarus received the first, U.S. \$800 million tranche in June, following a severe financial crisis in the country.

On the whole, Belarus is to receive a \$3 billion loan over a three year period. The second tranche is expected to amount to \$440 million.

The EurAsEC comprises Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan 

## Oil & Gas

### ► Putin sees Nord Stream second line launched ahead of schedule

The second line of the Nord Stream gas pipeline could be put into operation ahead of schedule, Russian Prime Minister Vladimir Putin said Wednesday at a meeting with German businessmen.

"Half of the total route of the second line has already been completed," Putin said.

On November 8, leaders of Russia, Germany, France, and the Netherlands launched the first line of the Nord Stream project with an annual throughput capacity of 27.5 billion cubic meters of gas. The launch of the second line was initially scheduled for October 2012.

The Nord Stream project comprises a 1,220-kilometer pipeline that is to carry Russian natural gas under the Baltic Sea to Germany. The project's total annual capacity is planned at 55 billion cubic meters of gas once its two lines are launched.

At present, Russian natural gas giant Gazprom holds 51.0% in the Nord Stream project, while Germany's BASF SE/Wintershall Holding GmbH and E.ON Ruhrgas each hold 15.5%, and N.V. Nederlandse Gasunie and France's GDF Suez each hold 9.0%.

### ► Russian official: Too early to comment on new gas deal with Ukraine

Russian Prime Minister Vladimir Putin's press secretary Dmitry Peskov believes that it is premature to speak about a revised agreement over the price of Russian natural gas supplies to Ukraine until the relevant documents are signed, RIA Novosti reported Wednesday.

"We are of the view that so long as the talks continue, any comments regarding the matter would be premature prior to the signing of the (relevant) documents," Peskov said.

Earlier on Wednesday, a source in the Ukrainian government said that Russia and Ukraine had agreed on a price for Russian natural gas supplies to Ukraine, with plans to sign the revised contracts shortly.

Russian natural gas giant Gazprom declined to comment on the deal.

The Ukrainian government has long sought to revise 2009 contracts on the purchase of Russian gas, claiming that the cost is excessively high.

### ► Russia's oil output up 0.7% on year in January–October

Russia's oil output rose 0.7% on the year to 423 million tonnes in January–October, the Federal State Statistics Service said in a statement Wednesday.

In October, oil output fell 0.2% on the year, but grew 3.3% on the month. Russia's oil refining rose to 214 million tonnes of oil in January–September, up 3.5% on the year.

In 2010, oil and gas condensate output in Russia rose 2.1% on the year to 505 million tonnes, the service said in late January.

### ► Russia's natural gas output up 3.6% on year in January–October

Russia's natural gas output increased 3.6% on the year to 546 billion cubic meters in January–October, the Federal State Statistics Service said in a statement Wednesday.

In October, natural gas output was down 4.2% on the year and up 16.5% on the month, the service also said. Natural gas output in Russia increased 12.1% on the year to 591 billion cubic meters in 2010, the service said in January.

### ► Japan seen interested in joining gas projects in Russia's Primorsky Region

Japan is interested in participating in natural gas projects in Russia's Primorsky Region, the region's Governor Sergei Darkin said Wednesday at a news conference, RIA Novosti reported.

## Oil & Gas

The matter was discussed at the recent summit of the Asia-Pacific Economic Cooperation (APEC) held on November 12–13 in the U.S. state of Hawaii, Darkin said.

In particular, Darkin said that negotiations on Japan entering the projects of Russian natural gas Gazprom in Russia's Far East were ongoing. Primarily, the talks concerned plants that Gazprom is planning to construct in the Primorsky Region, Darkin also said.

In January, Russia and Japan signed an agreement of cooperation to jointly develop a feasibility study for the construction of a liquefied natural gas (LNG) plant in Vladivostok. Russia and Japan also plan to look into the possibility of transporting and selling natural gas and petrochemical products from Vladivostok to countries of the Asian–Pacific Region.

### ► Moscow Oil Refinery oil processing up 19% in January–October

Oil processing at the Moscow Oil Refinery rose to 9.327 million tonnes in January– October, a 18.99% increase from last year, the company said in a statement Wednesday.

In October, the company's oil processing amounted to 1.02 million tonnes, a 5.30% increase from last year. In 2010, the refinery processed 10.15 million tonnes of oil, up 1.45% on the year, the refinery's controlling shareholder, Russian oil company Gazprom Neft, said earlier.

### ► Surgutneftegas: No factors for fuel shortage in Russia's northwest

No factors exist for a fuel shortage in Russia's Northwest Federal District, Russian oil company Surgutneftegas deputy CEO Nikolai Kiselyov said Wednesday, as cited by RIA Novosti.

"We see no conditions for a fuel shortage in the Northwest Federal District, or in the whole Russia," Kiselyov said speaking at a meeting in St. Petersburg devoted to oil products supplies to the district.

Surgutneftegas plans to increase fuel supplies to the district's market, Kiselyov said without providing the exact figures.

In turn, Yury Antonov, chairman of the board of directors of Russian independent fuel operator Petersburg Fuel Company, said that the district could suffer a fuel shortage in the future, as Petersburg Fuel Company has so far not been supplied with fuel since July.

Separately, Alexander Kazhukov, deputy head of Gazprom Neft North West, a unit of Russian oil major Gazprom Neft, said that the oil major was ready to increase its fuel wholesale sales in the Kaliningrad Region to 15,000 tonnes per month from the current 7,000 tonnes per month.

In September, the region suffered the fuel shortage, as regional independent retail operators were not supplied with enough amount of gasoline.

Gazprom Neft also plans to expand its retail chain in the Kaliningrad Region, Kazhukov also said.

### ► CEO expects Russia's Bashneft capex up 17% on year in 2012

Russian oil company Bashneft plans to increase its capital expenditures 17% on the year to around 35 billion rubles in 2012, the company's CEO Alexander Korsik in an interview with Republic of Bashkortostan newspaper published Wednesday.

The company's capital expenditures are expected to amount to around 30 billion rubles in 2011, Korsik said. Bashneft also expects its net profit to rise on the year in 2011 due to high oil prices and an improved efficiency, Korsik said, although he declined to specify any figures. The company's net profit, calculated under International Financial Reporting Standards (IFRS), more than tripled to U.S. \$1.429 billion in 2010 from \$420 million in 2009.

Bashneft, based in the constituent republic of Bashkortostan, is controlled by the Russian multi-industry holding AFK Sistema.

**Oil & Gas****► Russia's TNK-BP says talks on buying 50% stake in Itera halted**

Russian oil major TNK-BP has halted negotiations over buying a 50% stake in domestic gas producer Itera due to disagreements on the terms of the deal, a representative of TNK-BP told PRIME Wednesday.

In early October, TNK-BP's Executive Vice President Mikhail Slobodin told reporters that the oil company was discussing a deal to buy a stake in Itera. TNK-BP was interested in getting a 50% stake in the gas producer, Slobodin said then.

On August 9, a source close to TNK-BP said that the company hoped to close a deal to acquire a stake in Itera before the end of 2011.

**► Ukraine to sign revised deal on purchase of Russian gas soon**

Russia and Ukraine have agreed on the price of Russian natural gas supplies to Ukraine and plan to sign revised contracts in the imminent future, a source in the Ukrainian government said Wednesday, as cited by RIA Novosti.

"An agreement on the gas price has been reached. The signing of the relevant documents is expected to take place in the coming days," the source said, while declining to provide details on the newly set price.

Russian natural gas giant Gazprom declined to comment on the deal.

The Ukrainian government has long sought to revise 2009 contracts on the purchase of Russian gas, claiming that the cost of Russian gas to Ukraine was excessively high.

**► Ukraine to save \$6 billion annually with revised Russian gas contract**

The Ukrainian government expects to save about U.S. \$6 billion per year after with impending revision of 2009 contracts concerning Russian gas supplies, Ukrainian Prime Minister Nikolai Azarov said late Tuesday in an interview with Ukrainian First National Channel, as cited by RIA Novosti. The Ukrainian government is seeking to revise contracts signed in 2009 on both the transit of natural gas and its purchase from Russia, claiming the price it pays for Russian gas is too high. "As soon as we agree on the price of (Russian) gas, we... could save \$500 million per month... or \$6 billion per year," Azarov said.

Earlier in November, Ukrainian oil and gas company Naftogaz Ukrainy said it had paid slightly over \$1 billion to Russian natural gas giant Gazprom for gas supplied in October. The current price of Russian gas to Ukraine is at about \$446 per 1,000 cubic meters, including a \$100 discount allowed for by an earlier supplementary agreement to the 2009 contract

## Chemicals

### ► Acron to up fertilizer prices 7%–11% in January–June 2012

Russian fertilizer producer Acron is expected to increase its mineral fertilizer prices for domestic agricultural producers 6.9%–11.0% on the year for January–June 2012, according to the company's statement seen by PRIME Wednesday.

The price of ammonia nitrate is to increase 7.0% on the year to 6,750 rubles per tonne in January–June 2012, while the price of carbamide is to rise 6.9% on the year to 9,870 rubles per tonne for the same period. Also, the price of compound fertilizers is to increase 11.0% on the year to 12,730 rubles per tonne for January–June 2012.

All the prices are stipulated on the free-carrier terms, without value-added tax (VAT) and transportation expenses. The company announced the previous prices for January–June, later extending the period to July–December.

Acron, located in the Novgorod Region, is the flagship company of Russia holding Acron.

### ► Acron to launch \$400 million ammonia production in 2014

Russian fertilizer producer Acron plans to launch ammonia production worth U.S. \$400 million in Veliky Novgorod in 2014, the company's President Vladimir Kunitsky told reporters Wednesday.

Acron is currently conducting a feasibility study for the project, with the production capacity amounting to 700,000 tonnes of ammonia per year.

Once production is launched, Acron Group's ammonia production capacity is to increase to 2.4 million tonnes per year from 1.7 million tonnes.

Acron, located in the Novgorod Region, is the flagship company of Russia holding Acron.

### ► Uralkali RAS revenue at 64.072 billion rubles in January–September

The revenue of Russian fertilizer producer Uralkali amounted to 64.072 billion rubles in January–September, as calculated under Russian Accounting Standards (RAS), according to the company's report seen by PRIME Wednesday.

Uralkali's revenue in January–September 2010 was about 32 billion rubles. Any year-on-year comparison would not be valid as Uralkali completed a merger with Silvinit, another Russian fertilizer maker, in June.

Uralkali's gross profit was at 50.925 billion rubles in January–September. The company's gross profit in January–September 2010 was at 22.753 billion rubles. Also, the net profit amounted to 29.019 billion rubles in January–September, the company said in late October. The company's net profit in January–September 2010 was at 9.985 billion rubles.

### ► Soda holdres approve paying dividends for January–September

Shareholders of Russian sodium carbonate producer Soda approved paying 2.001 billion rubles, or 100.44 rubles per common and preferred share, in dividends for January–September, the company said in a statement Wednesday.

No information on the company's net profit in January–September was available.

Soda's charter capital is split into 19.606 million common shares and 315,888 preferred shares with a face value of 40 rubles each.

In 2010, the company paid 5.900 billion rubles in dividends.

Soda is located in the constituent republic of Bashkortostan. Bashkirkaya Khimiya, or Bashkirian Chemistry, owns 96.40% in Soda.

## Chemicals

### ► Gazprom unit starts building hydrogen plant in Bashkortostan

Russian chemical company Gazprom Neftekhim Salavat, a unit of natural gas giant Gazprom, has launched the construction of a hydrogen facility in the constituent republic of Bashkortostan, the chemical company said in a statement Wednesday, RIA Novosti reported.

The facility, with a capacity of 25,000 normal cubic meters per hour, is planned to be put into operation in January–June 2014. The production of hydrogen would ensure supplies of pure hydrogen to a hydrofining facility that is required to produce diesel fuel corresponding to Russian technical regulations and European standards.

The amount of investments into the construction of the hydrogen facility was not provided.

Gazprom Neftekhim Salavat, based in Bashkortostan, focuses on oil processing and the production of oil products. In 2010, the company processed 6.5 million tonnes of oil, up 16% on the year

## Power and Coal

### ► Putin sees 8 GW of power capacities launched in Russia in 2012

Up to 8 gigawatts (GW) of power capacities are projected to be launched in Russia in 2012, Prime Minister Vladimir Putin said Wednesday at a meeting with German businessmen, RIA Novosti reported.

In 2010, power facilities with a combined capacity of 3.5 GW were launched in Russia, Putin said, adding that the launch of more than 6 GW of power capacities was projected in 2011.

### ► Sechin calls for steps against companies combining power transmission, sales

Russian Deputy Prime Minister Igor Sechin said Wednesday it was necessary to impose sanctions on companies combining power supplies via distribution grids with power sales to end consumers, RIA Novosti reported.

Branches of North Caucasus Interregional Distribution Grid Company (North Caucasus IDGC) combine power supplies via grids with power sales to end consumers, Sechin said, adding that grid companies should carry out their operations in compliance with current legislation and should not combine them with power sales to end consumers.

North Caucasus IDGC focuses on short-haul power transmission in the North Caucasus. Power grid company IDGC Holding holds 58.25% in North Caucasus IDGC.

### ► Russia's electric power output up 1.5% in January–October

Russia's electric power output rose 1.5% on the year to 852 billion kilowatt-hours (kWh) in January–October, the Federal State Statistics Service said Wednesday, RIA Novosti reported.

Of the total, nuclear power plants produced 140 billion kWh of electric power in this period, up 1.5% on the year; thermal plants produced 573 billion kWh of power, up 2.6% on the year; and hydropower plants produced 139 billion kWh, down 2.6% on the year.

Thermal power output fell 1.8% on the year to 999 million gigacalories in January–October, the service also said.

### ► Regulator finds Saratovenergo guilty of power violations

The Saratov Region's branch of the Federal Antimonopoly Service (FAS) has found power vendor Saratovenergo guilty of violating the law concerning protected competition, said the regional prosecutor's office late Tuesday, RIA Novosti reported.

Saratovenergo, which occupies a dominant position in the retail power market of the regional city of Volsk, violated the law by trying to cut electric power supplies to an apartment building and refusing to terminate public power supply agreements with consumers, the regulator said.

The regulator instructed Saratovenergo to cease the violations.

A Saratovenergo representative said the company planned to contest the regulator's decision.

### ► Official sees thermal plant in Krasnoyarsk Reg launched Nov 25

The first stage of the Zheleznogorskaya thermal power plant in Russia's Krasnoyarsk Region is expected to be launched on November 25, the regional governor's press office said Wednesday, as cited by RIA Novosti.

The power plant is being built as part of a Russian–U.S. governmental agreement on ceasing the production of weapons-grade plutonium at the ADE-2 reactor of the Zheleznogorsk-based Mining and Chemical Combine, part of nuclear power corporation Rosatom. The reactor, launched in 1964 and shut down in April 2010, was the main source of thermal power in Zheleznogorsk.

## Power and Coal

The power plant is expected to have an installed electric power capacity of 116 megawatts (MW) and thermal power capacity of 573,000 gigacalories per hour. The total cost of the project amounts to U.S. \$450 million.

### ► FGC UES tariffs to grow 15% in 2012 - source

The tariffs of Russia's Federal Grid Company of Unified Energy Systems (FGC UES) are expected to grow around 15% in 2012, RBC Daily reported on Wednesday citing a source at the Economic Development Ministry.

The tariff increase was determined following a preliminary analysis of the launch of new capacities by FGC UES in 2011, the source said.

In April, the government revised down FGC UES' tariff growth in 2012 to 26.4% from 27.0% expected previously. In October, Sergei Novikov, director of the Federal Tariff Service, said FGC UES tariffs were expected to grow 20% in July–December 2012. In recent days, FGC UES told analysts it expected tariff growth at 14%–20% in 2012.

The Russian government recently made a decision to move the period of annual tariff indexation to July 1 through June 30 from January 1 through December 31.

The company's tariffs are expected to grow 14% in 2013 and 10% in 2014, the source at the Economic Development Ministry said. At a recent meeting with analysts, FGC UES top executives said tariffs were expected to grow 14% from July 2013 and 15% from July 2014.

FGC UES plans to keep its 2012 investment program almost flat on the year at 190 billion–196 billion rubles, the company's CEO Oleg Budargin said on Tuesday. The company's investment program for 2011 amounts to 189.6 billion rubles.

Government officials said earlier that FGC UES' investment program could be reduced by 20%–30% in 2012, but the cut is likely to be avoided due to a program aimed at reducing expenditures, the daily said.

### ► RAO ES Vostoka to finish building unit at Sakhalin plant in 2012

Russian power utility RAO ES Vostoka plans to finish building a fifth power unit at the Yuzhno-Sakhalinskaya TETs-1 thermal power plant on Russia's Sakhalin Island sometime in January–June 2012, a spokesperson for power utility Sakhalinenergo said, RIA Novosti reported on Wednesday. The power unit is expected to consist of two gas turbines with a combined capacity of 91.2 megawatts (MW), which were supplied by U.S. engineering company General Electric (GE).

The project to build the unit is worth 2.7 billion rubles and is part of an investment program of RAO ES Vostoka, Sakhalinenergo's parent company.

The project is aimed at eliminating the absence of required reserve capacity on Sakhalin Island.

### ► Inter RAO UES board approves cutting stake in Turkish plant to 3.5%

The board of directors of Russian electric power holding Inter RAO UES has approved reducing its stake in Turkey's yet-to-be-built Akkuyu nuclear power plant to 3.47% from 33.33%, according to documents released by Inter RAO UES Wednesday, RIA Novosti reported.

The reduction is the result of an increase in the power plant's charter capital following contributions made by its other shareholder, Russian nuclear power producer Rosenergoatom Concern. Rosenergoatom's stake in the plant increased to 92.85% from 31.34% previously.

The Akkuyu nuclear power plant is expected to have four power units with a combined capacity of 4.8 gigawatts (GW). Russia and Turkey signed an intergovernmental agreement on the plant's construction in May. The cost of the project amounts to U.S. \$20 billion.

**Power and Coal****► RusHydro to build small 456 million ruble hydro plant in Stavropol Region**

Russian hydropower company RusHydro plans to spend 455.5 million rubles to build the small hydropower plant Barsuchkovskaya in the Stavropol Region, the company said in a statement Wednesday, as cited by RIA Novosti.

On Wednesday, the company held a groundbreaking ceremony for the construction of the power plant, which is expected to have an installed power capacity of 4.8 megawatts (MW) and is slated for launch in 2014.

**► Lukoil completes building coking facility at Volgograd Oil Refinery**

Russian oil major Lukoil has completed the construction of a delayed coking facility with a projected capacity of 1 million tonnes of raw materials at the Volgograd Oil Refinery, Lukoil said in a statement Wednesday.

The value of the project was not provided.

The launch of the facility is expected to increase the production of oil coke by 100,000 tonnes annually, while replacing two aging out of commission facilities. In 2010, the production of oil coke amounted to about 180,000 tonnes.

The newly commissioned facility is seen to raise the production of motor fuel components by 150,000 tonnes annually, which would result in augmenting the depth and efficiency of oil processing at the refinery.

Moreover, Lukoil's President Vagit Alekperov said on Wednesday that a diesel fuel hydrofining facility is planned to be put into operation at the refinery in 2012. The Volgograd Oil Refinery is seen to become the most advanced plant in the south of Russia by 2017, Alekperov added.

**► MOESK RAS net profit up 15% on year in January–September**

The net profit of Russia's United Moscow Power Grid Company, or MOESK, rose 15.2% on the year to 13.14 billion rubles in January–September, as calculated under Russian Accounting Standards (RAS), the company said in a report Wednesday, as cited by RIA Novosti.

Revenue rose 15.5% on the year to 90.79 billion rubles in the period, the company said, attributing the growth to increased power supplies via grids and higher power transmission tariffs.

MOESK focuses on transmitting electric power in Moscow and the Moscow Region.

**► Rosvodokanal inks deal to borrow 1.5 billion rubles from EBRD**

Russian water supply company Rosvodokanal has signed an agreement to take out the second, 1.5 billion ruble loan from the European Bank for Reconstruction and Development (EBRD) for 13 years, the company's press office said in a statement Wednesday.

Rosvodokanal plans to use the funds to finance the modernization of the water supply and water discharge facilities in seven Russian regions. No information on an annual interest rate was available. The EBRD provided the first, 1.5 billion ruble 13-year loan to Rosvodokanal in April 2008. Rosvodokanal, which is a part of Russia's Alfa Group, operates water supply systems and provides water supply services in several Russian regions.

**► TGC-5 swings to RAS net profit in January–September**

Russian power producer Territorial Generating Company-5 (TGC-5) posted a net profit of 385 million rubles in January–September from a net loss of 257 million rubles in the same period in 2010, as calculated under Russian Accounting Standards (RAS), the company said Wednesday, RIA Novosti reported.

## Power and Coal

The company attributed the net profit in January–September to increased sales profit and decreased expenses.

Revenue rose 23.9% on the year to 18 billion rubles in January–September.

TGC-5, also known as TGK-5, controls 11 thermal power plants in the Kirov Region, the constituent republics of Udmurtia and Mari El, and the Chuvash Republic.

Integrated Energy Systems (IES) holds 46.1% in TGC-5, while the government owns 25.1% through the Federal State Property Management Agency.

### ► TGC-6 RAS net loss widens on year in January–September

The net loss of Russian power producer Territorial Generating Company-6 (TGC-6) widened to 666.7 million rubles in January–September from 39.682 million rubles in the same period of 2010, as calculated under Russian Accounting Standards (RAS), according to the company's report released Wednesday, as cited by RIA Novosti.

Revenue rose 7.3% on the year to 22.58 billion rubles in the period, the company also said.

TGC-6 owns 15 power plants in the Nizhny Novgorod, Penza, Ivanovo, and Vladimir regions, as well as in the constituent republic of Mordovia.

### ► Uzbekenergo to build \$250 million solar power plant over 2012–2015

Uzbekistan's state power utility Uzbekenergo plans to build a U.S. \$250 million solar power plant over 2012–2015, Muzaffar Mukhiddinov, a spokesperson for the company, told PRIME on Wednesday. The power plant is expected to have a capacity of 50 megawatts (MW) and annually produce 110 million kilowatt-hours (kWh) of electric power.

Construction of the power plant is expected to be financed collectively through a loan from the Asian Development Bank and from Uzbek government funds.

In December, the bank plans to provide the Uzbek company with a U.S. \$1.5 million grant to develop a feasibility study of the venture to develop solar power in Uzbekistan

**Mining and Metals****► Gold output in Russia's Yakutia up 0.7% in January–October**

Gold output in Russia's constituent republic of Sakha (Yakutia) increased 0.7% on the year to 16.862 tonnes in January–October, a representative of the republic's industry ministry told PRIME Wednesday. Of the total, lode gold output increased 4.9% to 8.653 tonnes, while placer gold output fell 3.4% to 8.209 tonnes. In 2011, gold output in the republic is forecast at 19.1 tonnes, up from 18.6 tonnes in 2010.

**► Gold output in Zabaikalsky Region up 9.4% in January–October**

Gold output in Russia's Zabaikalsky Region increased 9.4% on the year to 7.257 tonnes in January–October, a representative of the region's industry and energy ministry told PRIME on Wednesday. Lode gold output increased 8.1% on the year to 2.453 tonnes, while placer gold output rose 10% to 4.804 tonnes, he said. In 2011, gold output in the region is expected to amount to about 7.5–7.6 tonnes, up from 7.3 tonnes produced last year.

**► Gold output in Amur Region seen up 35% on year in 2011**

Gold output in Russia's Amur Region is expected to increase over 35% on the year to 27 tonnes of gold in 2011, an official from the region's government said Wednesday.

For 2012 and beyond, gold output is expected to be no lower than 26 tonnes. Major gold producers in the region are U.K.-registered Petropavlovsk Plc and Berezitovy Rudnik, controlled by Russian steel and mining company Severstal. In 2010, gold output in the region decreased 9.3% on the year to 19.89 tonnes.

**► Steel production in Russia up 2.7% on year in January–October**

Russia's steel output increased 2.7% on the year to 56.8 million tonnes in January–October, according to the Federal State Statistics Service's report seen by PRIME Wednesday. Ferrous rolled stock in the period increased 3.7% on the year to 49.4 million tonnes, steel pipe output rose 15.5% to 8.6 million tonnes, while cast iron output rose just 0.5% to 40.1 million tonnes. In 2010, steel production rose 12.0% on year to 66.3 million tonnes, the service said earlier.

**► High River Gold output in Russia up 16.7% in January–September**

The gold output of Canada's High River Gold Ltd (HRG) in Russia increased 16.7% on the year to 177,305 ounces in January–September, the company said in a report Wednesday.

Russian steelmaker Severstal holds 73.62% in the company. The company's total gold output amounted to 278,907 ounces in this period, up 15.3% on the year.

HRG's net profit rose 35% on the year to 136.9 million Canadian dollars in January–September. The company's revenue from gold sales increased 18.5% to 370.112 million Canadian dollars, while revenue from silver sales grew to 7.194 million Canadian dollars from 3.279 million Canadian dollars.

In 2010, High River Gold produced 202,300 ounces of gold in Russia, down 14.6% on the year.

In Russia, High River Gold Ltd operates the Zun Kholba and Irokinda gold mines in the constituent republic of Buryatia, and the Berezitovy mine in the Amur Region. The company also has several exploration projects in Burkina Faso.

**► NLMK US GAAP net profit up 9% in January–September**

The net profit of Russian steelmaker Novolipetsk Steel, or NLMK, increased 9% on the year to U.S. \$1.204 billion in January–September, as calculated under U.S. GAAP, the company said in a statement Wednesday.

The company's revenue increased 43% on the year to \$8.675 billion as a result of larger sales, as well as higher average sales prices, while earnings before interest, taxes, depreciation and amortization (EBITDA) rose 2% to \$1.900 billion as a result of increased sales.

## Mining and Metals

The operating profit in the period fell 3% on the year to \$1.423 billion due to higher prices for raw materials and the cost of recently acquired rolling assets.

As of September 30, the company's net debt rose to \$2.9 billion from \$1.5 billion as of June 30.

NLMK is Russia's largest producer of electric steel.

### ► **Mechel resumes operations at Olzherasskaya-Novaya coal mine**

Russia's Mechel said Wednesday that it had resumed coal mining operations at the Olzherasskaya-Novaya underground mine.

By the end of this year, Mechel plans to mine about 352,000 tonnes of coal at one of the sections at the Olzherasskaya-Novaya. Industrial reserves of the currently operated face amount to 3 million tonnes of coal.

Operations at the mine were suspended following the self-heating of coal in August 2010.

Mechel is a Russian metals and mining company composed of producers of steel, rolled products, hardware, coal, iron ore concentrate, and nickel.

### ► **ChelPipe to open 1 billion ruble credit line with Sviaz-Bank**

Russian pipe maker Chelyabinsk Tube-Rolling Plant (ChelPipe) plans to open 1 billion ruble revolving credit line at Sviaz-Bank, the bank said Wednesday.

The interest rate was not provided. The funds are to be used to replenish the company's working assets. ChelPipe is one of Russia's largest industrial groups in the metallurgy sector

## Engineering and Construction

### ► Russian fund approves Moscow Region to get 319 million rubles to deal housing issues

The management of Russia's Federal Fund for Promoting Housing and Utilities Reform has approved an application of the Moscow Region requesting 318.97 million rubles to relocate people from dilapidated housing, according to a statement published on the Moscow Region's government Web site and seen by RIA Novosti Wednesday.

The funds allocated are to be directed to relocating residents of 43 dilapidated houses located in 14 municipalities. As the program is completed, 1,316 people are to move in low-rise houses.

Established in 2007, the housing fund focuses on housing repairs and the relocation of people living in dilapidated buildings.

### ► Natixis executive to invest \$1 billion in North Caucasus tourism cluster

Suprema Associates, controlled by Ravi Viswanathan, a managing partner of Natixis Corporate Solutions (Asia), has signed an agreement with Russia's Northern Caucasus Resorts to invest U.S. \$1 billion in the construction of hotels and retail areas in the North Caucasus Federal District, Kommersant business daily reported on Wednesday.

Viswanathan said he was interested in the project to build a resort cluster in the North Caucasus, because infrastructure is being built with government funds and the Russian government guarantees the return of funds if political risks arise.

Viswanathan and the management of Northern Caucasus Resorts are expected to hold a meeting to discuss all the terms of cooperation in November in Moscow, the Russian company's CEO Alexei Nevsky said.

Northern Caucasus Resorts was established in December 2010 as a management company for the creation of tourist resorts in the North Caucasus Federal District. The Russian government owns a 98% stake in the company, while Vnesheconombank (VEB) and Sberbank own the remaining 2%.

The project envisages the construction of five ski resorts with a total of over 800 kilometers of ski slopes in 2011–2020. The Lagonaki resort is to be created in the Krasnodar Region and the constituent republic of Adygeya, the Arkhyz resort - in the constituent republic of Karachayev-Cherkessia, the Elbrus-Bezengi resort - in the constituent republic of Kabardino-Balkaria, the Mamison resort - in the constituent republic of North Ossetia-Alania, and the Matlas resort - in the constituent republic of Dagestan. Total investments in the project are estimated at around \$14.7 billion.

Northern Caucasus Resorts already agreed with France-Caucase, a unit of Caisse des Depots et Consignations, and South Korean power companies Korea Western Power and CHT Korea on cooperating in building the tourism cluster in the district.

### ► Irkut order portfolio for MS-21 planes at 235 units

Russian aircraft corporation Irkut's order portfolio for MS-21 passenger aircraft has reached 235 units, Kirill Budayev, the company's vice president for civil aircraft marketing and sales, said Wednesday at the Dubai Airshow 2011, RIA Novosti reported.

Of the total, varying contracts with different degrees of readiness amount to 128 units with the remaining as either agreements of intent or options, Budayev said.

The development of the MS-21 is part of a federal target program known as the Development of Russian Civil Aviation. The MS-21 is intended to replace the Tu-154, as well as other older aircraft models. The plane's passenger capacity amounts to 150–212 people.

## Engineering and Construction

Budayev also said that the use of the MS-21 has a number of advantages, including a 12–15% reduction in operating costs and reduced environmental impact, among others.

In 2010, Irkut's order portfolio for the MS-21 amounted to 190 units, including 39 options.

Furthermore, Malaysia may acquire the Yak-130 operational trainers from Irkut, Malaysian Defense Minister Ahmad Zahid Hamidi told reporters on Wednesday. The number of aircraft to be purchased is under consideration, Zahid Hamidi also said.

Earlier, Malaysia purchased 18 Su-30MKMs from Irkut.

Irkut Corporation is a unit of Russia's United Aircraft Corporation (UAC), which comprises major Russian aircraft manufacturers, as well as design bureaus and aircraft leasing companies.

The Dubai Airshow 2011 is being held in the United Arab Emirates (UAE) from November 13 through Thursday.

### ► Rail car plant in Krasnoyarsk Region seen starting production 2013

Russian machine building and industrial consortium Tractor Plants is expected to launch the production of rail cars at the plant, which is under construction in the Krasnoyarsk Region town of Nazarovo, in 2013, a spokesperson for the regional ministry for investments and innovations told RIA Novosti Wednesday.

Tractor Plants is expected to invest 1 billion rubles into the plant. The plant is envisaged to produce flat and hopper cars, with an annual production capacity projected at 2,000 rail cars. The facility is expected to employ about 450 people

**Transport and Automobile****► Ministry orders airports to have 10-day chemicals reserve for ice**

Russia's Transportation Ministry has ordered the country's airports to have 10-day reserves of de-icing chemicals for the autumn-winter period, according to the ministry's ruling published in Russian newspaper Rossiyskaya Gazeta on Wednesday.

The airports are also prescribed to be furnished with machines and equipment to treat and remove ice from artificial coatings.

Also under the ruling, the airports are to register the quantity and quality of their de-icing fluids, as well as inform the Federal Air Transport Agency about any decrease in the de-icing reserves.

In late December 2010, a severe sleet storm in Moscow caused a collapse in the operations Moscow's Domodedovo and Sheremetyevo airports, as both were forced to delay hundreds of flights due to ice on the planes and runway.

**► Russia's car output up 49% on year in January-October**

Russia's car output increased 49% on the year to 1.4 million units in January-October, the Federal State Statistics Service said in a report Wednesday.

Russia's bus output rose 1.1% on the year to 32,400 units in this period, while truck production was up 41.7% on the year to 171,000 units.

In October, Russia's car output increased 25.4% on the year; and truck production rose 21.8% on the year. Meanwhile, bus output fell 0.8% on the year in October.

**► Foreign road companies consider road making in Russia unattractive**

Foreign companies do not construct and design roads in Russia due to unappealingly low payments for their performed services, said Anatoly Chabunin, head of the Federal Road Agency, on Tuesday.

Chabunin insisted that the federal budget fulfills its obligations on signed contracts in their entirety and assured foreign companies that they need not worry about financial risks, as contrasted with the reality five to six years earlier. "Nevertheless," he concluded, "we see neither lines of subcontractors nor of project organizations. Evidently, our compensation is not extremely attractive for Western Europe and even for Belarus," Chabunin added.

Chabunin also said that the agency would like to attract foreign designers for projects in Russia.

**► Transmashholding to develop network for modern St Pete tramway**

Russian railway equipment maker Transmashholding has signed a memorandum of cooperation with French engineering company Alstom on the development of a modern tramway network in the city of St. Petersburg, RIA Novosti reported Wednesday.

Under the agreement, Transmashholding and Alstom plan to jointly develop a model of an express tram, fitted with a low floor adapted to the climatic conditions of the area. The model is planned to be presented in February 2012, while the first tram is to be produced within six months. The value of investments into the project was not provided.

Tramways are planned to be produced by St. Petersburg-based Oktyabrsky Railway Electric Car Repair Works, owned by Transmashholding. The production capacity is to amount to 120 trams per year. State-owned railroad company Russian Railways and Alstom each hold 25% stakes in Transmashholding.

**► Moscow Domodedovo Airport passenger traffic up 16% on year in January-October**

Passenger traffic through Moscow Domodedovo Airport rose 16.3% on the year to 22.0 million people in January-October, the airport said in a statement late Tuesday.

**Transport and Automobile**

In October, the airport's passenger traffic amounted to 2.2 million people, up 10.9% on the year. Of the total, international passenger traffic increased 16.5% on the year to 13.5 million people in January–October; while in October, the airport's international passenger traffic amounted to 1.3 million people, up 7.4% on the year.

Domestic passenger traffic increased 16.0% on the year to 8.6 million people in January–October; while in October domestic passenger traffic rose 16.5% on the year to 896,300 people.

The airport's cargo traffic amounted to 152,960 tonnes in January–October and 17,500 tonnes in October, up 21.1% and 7.5% on the year respectively. Domodedovo Airport is one of three major airports servicing the Russian capital and its surrounding region. In 2010, passenger traffic through the airport amounted to 22.253 million people.

**► Vnukovo Airport exempt from paying property taxes starting January 1**

The Moscow Duma, the city parliament, has approved a law effective January 1, 2012 exempting Moscow's Vnukovo Airport from paying property taxes, RIA Novosti reported Wednesday.

The law provides that the property taxes for airfields and several other infrastructural facilities used to organize air traffic are to be abolished, said Marina Ogloblina, head of the city government's economic policy and development department. She clarified, however, that the law applies only to Vnukovo Airport.

Vnukovo Airport is one of three airports serving the Russian capital and its surrounding region. In 2010, passenger traffic through the airport amounted to 9.5 million people.

**► Transaero to launch flights to Vilnius from December 1**

Russian airline Transaero plans to launch flights to the Lithuanian capital of Vilnius from December 1, the company said in a statement Wednesday, RIA Novosti reported.

The flights are to be operated from Moscow Domodedovo Airport four times a week, using Boeing 737 aircraft.

In January–September, the passenger traffic of Transaero rose 29.5% on the year to 6.56 million people, the company said in late October.

Transaero's fleet includes 73 airplanes. The company's routes include over 150 destinations in Russia and other countries of the CIS, as well as in Asia, Africa, Europe, North and South America.

**► Sukhoi Civil Aircraft swings to RAS net loss in January–September**

The net loss of Russian aircraft maker Sukhoi Civil Aircraft amounted to 3.922 billion rubles in January–September against a net profit of 1.724 billion rubles in the same period of last year, as calculated under Russian Accounting Standards (RAS), according to the company's report released late Tuesday.

In January–September, the company's revenue increased 91.4% on the year to 1.709 billion rubles in this period, the company said, attributing the growth in revenue to an increase in revenue from government orders and services provided to U.S. aircraft maker Boeing, as well as to the revenue generated from the first orders under the Sukhoi Superjet 100 project.

In 2010, Sukhoi Civil Aircraft posted a net profit of 540.0 million rubles against a net loss of 841.2 million rubles in 2009, the company said in late March.

Sukhoi is part of the United Aircraft Corporation (UAC).

## Transport and Automobile

### ► St Petersburg's Pulkovo Airport passenger traffic up 13.3% on year in January–October

Passenger traffic at St. Petersburg's Pulkovo Airport increased 13.3% on the year to about 8.23 million people in January–October, according to a statement of the airport's press office seen by RIA Novosti Wednesday.

In October, passenger traffic at the airport rose 14.0% on the year to 806,000 people.

Of the total, international passenger traffic outside the Commonwealth of Independent States (CIS) rose 15.4% on the year to 338,500 people in October, while CIS passenger traffic increased 38.5% on the year to nearly 90,400 people, and domestic passenger traffic increased 8.3% on the year to over 377,000 people.

In 2010, passenger traffic through Pulkovo Airport rose 24.9% on the year to 8.44 million people, the airport said in January.

Pulkovo Airport is St. Petersburg's largest air hub, servicing both the city and the surrounding Leningrad Region. It is Russia's busiest airport outside of the Moscow Region.

### ► Donavia sees passenger traffic sliding 34% on year in 2011

Russian airline Donavia expects its passenger traffic to decrease 34% on the year to 900,000 people in 2011, the company's General Director Vitaly Golovin told reporters Wednesday, RIA Novosti reported.

"The reason for the slide in passenger traffic is that we withdrew all Russian airplanes from our fleet in December 2010–January, including four Tu-154s and three Il-86s," Golovin said.

The airplanes were grounded by the company due to high fuel expenses. The airline's fleet currently comprises 10 Boeing 737 aircraft.

In May, Golovin said that Donavia plans to fully re-equip its fleet with Airbus 320s by mid 2014.

Furthermore, Donavia expects to receive a net loss in 2011 against a net profit of 100 million rubles in 2010, Golovin also said without specifying the accounting standards used.

Golovin attributed the projected net loss to multiple expenses incurred in 2011, including the launch of a new route and overhaul of six engines.

Donavia, previously known as Aeroflot-Don, is based in the city of Rostov-on-Don. It is the largest airline in southern Russia.

### ► RailTransAuto swings to RAS net profit in January–September

Railway carrier RailTransAuto, a joint venture of state-owned railroad company Russian Railways and Russian railway operator TransGroup AS, posted a net profit of 198.96 million rubles in January–September against a net loss of 287 million rubles a year earlier, the company said in a report Wednesday.

The financial results were calculated under Russian Accounting Standards (RAS).

Revenue rose 81% on the year to 2.987 billion rubles in January–September due to the growth of cargo traffic.

The company posted a gross profit of 510.8 million rubles in this period against a gross loss of 115.5 million rubles a year earlier, with a sales profit of 371.8 million rubles against a sales loss of 195.5 million rubles.

Russian Railways holds 51% in RailTransAuto, while TransGroup AS holds 49%.

**Transport and Automobile****► FESCO RAS net profit down 70% in January–September**

Russia's Far East Shipping Company (FESCO) posted a 221.622 million ruble net profit in January–September, down 70.1% on the year, as calculated under Russian Accounting Standards (RAS), the company said in a statement Friday.

FESCO's revenue decreased 8.4% on the year to 2.139 billion rubles in January–September, the company said.

The company attributed the decrease in revenue to a decrease in the number of vessels.

FESCO's shipping operations are based in Russia's Far East. In 2010, the company's net profit fell 29.7% on the year to 952.7 million rubles, the company said earlier.

**► Prokhorov denies reports on selling stake in Yo-Auto**

Russian businessman Mikhail Prokhorov, an owner of Onexim Group, has denied information reported earlier about his intention to sell a stake in hybrid car producer Yo-Auto, Russian radio station Ekho Moskvyy said Wednesday, RIA Novosti reported.

"It is a lie," Prokhorov told Ekho Moskvyy.

Earlier, media reports suggested that Yo-Auto had offered unspecified banks to buy a stake in the joint venture. Investment bankers attributed the move to Yo-Auto's need for funds to create production capacities.

At present, Onexim Group owns a 49% stake in Yo-Auto, while the remaining 51% is held by truck producer Yarovit-Motors.

On November 10, Yarovit-Motors and Onexim Group said that they have no plans to withdraw from the company, but are considering attracting external financing or a strategic investor.

Earlier, Onexim Group's General Director Dmitry Razumov said that Yo-Auto might sell a part of its shares to a strategic investor, possibly a foreign company.

Yo-Auto is expected to launch the first production line for Yo-Mobile hybrid cars in St. Petersburg by September 1, 2012, the press office of St. Petersburg's governor said in mid-April.

**► GAZ Group to launch joint venture with Chinese truck maker 2012**

Russian automaker GAZ Group plans to launch a joint venture with Chinese truck maker First Automobile Works (FAW) in 2012, Kommersant business daily reported on Wednesday citing GAZ Group President Bo Andersson.

The joint venture is expected to be set up on a parity basis. Heavy trucks under the FAW brand are expected to be produced at GAZ Group's facility Ural in the Chelyabinsk Region city of Miass, Andersson said. Annual production of these trucks is projected at up to 10,000 vehicles.

One of Ural plant's production lines is expected to be modernized to launch production of the trucks under the FAW brand.

GAZ Group did not disclose the total investments in the project. The project could be worth U.S. \$50 million–\$60 million, as estimated by Vladimir Beshpalov, an analyst at VTB Capital.

In 2012, GAZ Group also plans to start assembling three models for Volkswagen at its facility in Nizhny Novgorod, with annual production planned at over 100,000 vehicles and investments expected at 85 million euros, as well as assembling Chevrolet Aveo vehicles for General Motors, with investments planned at around \$10 million. Moreover, in 2013, GAZ Group plans to start mass production of GAZelle Next light commercial vehicles and assemble 25,000 Mercedes Sprinter vans for Daimler.

The group's investment program is planned at 10 billion rubles in 2012 and 6 billion–7 billion rubles in 2013, the group's Financial Director Yevgeny Belinin said

## Consumer Goods and Retail

### ► Official sees Russia's pharm market up 8% on year in 2011

Russia's pharmaceutical market is expected to increase 8% on the year to 600 billion rubles in 2011, Deputy Industry and Trade Minister Denis Manturov said Wednesday at a press briefing.

"Growth (of the domestic pharmaceutical market) is expected at between 10% and 15%, but not 30% as it was previously," Manturov added without elaborating.

Manturov also said that investments into the domestic pharmaceutical sector are to amount to about 6 billion rubles in 2011 under a federal target program aimed at the development of the sector through 2020. He reiterated that the total investments under the program for a period through 2020 are planned at 188 billion rubles, while 123 billion rubles are to be provided from the federal budget.

Manturov added that Russia's upcoming accession to the World Trade Organization (WTO) would not have a negative impact on the country's pharmaceutical industry.

In addition, Manturov said that the ministry planned to submit to the government a draft decree regulating the switch by Russian pharmaceutical companies to Good Manufacturing Practice (GMP) standards in late 2011–early 2012.

Russian pharmaceutical producers should switch to GMP standards starting from January 1, 2014, Healthcare and Social Development Minister Tatyana Golikova said earlier

**Telecoms****► Government to keep navigation equipment duty after joining WTO**

Russia's import duty for equipment with satellite navigation modules is expected to remain at 5% after the country joins the World Trade Organization (WTO), Russian business daily Kommersant reported Wednesday citing a representative of the Economic Development Ministry.

After the country joins WTO, the Russian government is expected to cancel import duties on cell phones, as well as for fixed-line phones with wireless receivers, the representative of the Economic Development Ministry said.

In late October, business daily Kommersant reported that Russia's Federal Customs Service had started to classify tablet computers with satellite navigation modules as navigational equipment, which implements imposing 5% import duty on the units.

On November 10, a working panel approved a protocol that recommended to ministers of WTO member states clear Russia's accession to the organization.

**► Court rejects Malofeyev complaint in case against Yurchenko**

Russia's Supreme Arbitration Court has rejected a complaint filed by state-run telecommunications holding Svyazinvest's former board member Konstantin Malofeyev and two units of construction group I.N.F.R.A. Engineering in their lawsuit against Svyazinvest's former CEO Yevgeny Yurchenko, an investors' fund led by Yurchenko said in a statement Wednesday.

The Supreme Arbitration Court upheld the rulings issued by the Moscow Arbitration Court, the Ninth Arbitration Court of Appeals, and the Federal Arbitration Court of the Moscow District issued earlier in 2011 by refusing to transfer the lawsuit to the presidium to reconsider the lower courts' rulings, according to the Supreme Arbitration Court's documents.

Yurchenko is satisfied with the Supreme Arbitration Court's decision, the investors' fund said.

Malofeyev and I.N.F.R.A. Engineering's units, which are the third parties in the case, filed an appeal after the Moscow Arbitration Court sided with Malofeyev only partly in March, but higher courts upheld this ruling.

The Moscow Arbitration Court ruled that Yurchenko must pay 25,000 rubles reparations to Malofeyev and 50,000 rubles to investment company Marshall Capital Partners, where Malofeyev holds the position of managing partner. Malofeyev, as well as Marshall Capital Partners, sought to recover a total of 2.4 million rubles from Yurchenko for damaging their reputation by saying in an interview with business daily Vedomosti, published in September 2010, that the current and former managers of Marshall Capital Partners had virtually taken control of Svyazinvest. The court also obliged Vedomosti's publishing house Business News Media to publish a refutation of the claims within 10 days.

In the interview, Yurchenko said Marshall Capital Partners was providing its affiliate, I.N.F.R.A. Engineering, with the majority of Svyazinvest's construction contracts. Marshall Capital's Managing Partner Konstantin Malofeyev was a member of the board of directors of Svyazinvest and its affiliated telecommunications operator Rostelecom at the time.

**► Court rejects ex-MTS unit shareholder's suit against MTS again**

The Moscow Arbitration Court has again rejected a lawsuit filed by businessman Yevgeny Grafeyev claiming his right to a 12.5% preferred stake and a 2.5% common stake in a subsidiary of major Russian mobile operator MTS and seeking to recover 10 million euros in moral damages from MTS, RIA Novosti's agency for legal and court information RAPSI reported late Tuesday.

The court previously rejected Grafeyev's claims in November 2010, but the Federal Arbitration Court for the Moscow District cancelled the ruling and ordered the Moscow Arbitration Court to reconsider the lawsuit. In the lawsuit, Grafeyev claims that in August 2001 he signed a deal to sell the preferred and common stakes in MTS' Omsk-based subsidiary to MTS at an unreasonably low price of 4.668 million rubles due to pressure from MTS. Grafeyev estimated the damages from the deal at 21 million euros.

## Telecoms

### ► MTS board to consider over \$100 million deal on November 22

The board of directors of major Russian mobile operator MTS plans to consider a deal worth more than U.S. \$100 million on November 22, the company said in documents released Wednesday. The details of the deal were not disclosed.

The board of directors is also expected to consider MTS' acquisition of stakes in other companies, the company said. MTS is Russia's largest mobile operator, with more than 70 million subscribers as of late September, according to the company's data.

### ► MGTS RAS net profit up 12% on year in January–September

The net profit of Russian wireline operator Moscow City Telephone Company (MGTS) rose 11.6% on the year to 6.039 billion rubles in January–September, as calculated under Russian Accounting Standards (RAS), the company said Wednesday.

The company's revenue increased 4.6% on the year to 23.817 billion rubles in this period.

MGTS, a subsidiary of major mobile operator MTS, is a major fixed-line operator in Moscow providing services to more than 4.3 million subscribers.

### ► Sky Link valued at 7–11 billion rubles for sale to Rostelecom

Auditor Ernst & Young has assessed the value of Russian CDMA operator Sky Link at 7 billion to 11 billion rubles for the sale of the company to major telecommunications company Rostelecom from state-run telecommunications holding Svyazinvest, Russian business daily Vedomosti reported Wednesday citing a source close to Svyazinvest and a source from Rostelecom.

The source close to Svyazinvest also said that the holding would not sell Sky Link at a price less than Sky Link's value set for its full acquisition by Svyazinvest in late 2010, or 9.4 billion rubles, the daily reported. Rostelecom's President Alexander Provotorov said in mid-October that the company planned to close a deal to buy Sky Link from Svyazinvest in early 2012. He also said that the price of Sky Link would be close to that set for Svyazinvest's acquisition of the CDMA operator, Vedomosti reported.

In early April, Provotorov said Rostelecom planned to integrate key cellular subsidiaries in the medium term, but did not provide the names of the key cellular subsidiaries to be integrated.

Sky Link operates CDMA networks in more than 30 regions and GSM networks in 45 regions.

Svyazinvest currently holds a 43% common stake in Rostelecom, which in turn owns a 25% plus one share in Svyazinvest.

### ► Rostelecom to up investments in Volga area 33% in 2012

Major Russian telecommunications operator Rostelecom plans to increase its investments in the Volga Federal District by 33% on the year to 8 billion rubles in 2012, Marat Dolgoarshinnykh, commercial director of the company's interregional branch in the federal district, told reporters Wednesday, RIA Novosti reported.

Rostelecom plans to allocate the funds to introducing fiber-to-the-home (FTTH) broadband technology and further developing the broadband and third generation (3G) mobile networks in the federal district, Dolgoarshinnykh said.

Rostelecom expects its broadband user base in the Volga Federal District to increase more than 15% in 2012 to about 1.5 million users as of the end of the year, according to Dolgoarshinnykh. The company plans to start providing broadband Internet access services in Russia's constituent republics of Tatarstan and Bashkortostan in 2012, Dolgoarshinnykh said.

Rostelecom is Russia's largest main communications line operator. The total length of its main communications lines currently amounts to about 500,000 kilometers, according to the company's data.

**Telecoms****► Rostelecom sees broadband user base in Siberia up 35% in 2012**

Major Russian telecommunications company Rostelecom's wireline broadband subscriber base in the Siberian Federal District is expected to increase 30%–35% in 2012 to between 1.30 million and 1.35 million users as of the end of the year, Valery Belenky, deputy director and commercial director of Rostelecom's interregional branch in the district, said Wednesday.

The figures include both residential and corporate broadband subscribers, Belenky said.

At present, Rostelecom's broadband user base in the district amounts to 978,000 subscribers, Belenky said, adding that the number of broadband users is expected to reach 1 million in late December.

Rostelecom's monthly payments for broadband services in the district may be reduced 20% by the end of 2012 because of strong competition and over saturation of the market, Belenky also said, adding that the current average monthly payment for broadband services in the federal district amounts to 500 rubles.

Rostelecom's total wireline broadband subscriber base in Russia amounted to 7.7 million users as of late June, the company said in October.

**► MegaFon to cut payment agents' fees February 2012 - source**

Major Russian mobile operator MegaFon plans to decrease the amount of commission it pays to cash payment agents starting from February 1, 2012, Russia's RBC Daily reported Wednesday, citing a source in the company.

MegaFon currently pays 1.7% commission to cash payment agents, a source said, adding that the company plans to reduce it to less than 1.0%.

MegaFon's press office declined to comment.

Major Russian mobile operators MTS and VimpelCom have already decreased the commission they pay to cash payment agents, Boris Kim, the chairman of the National Association of E-Commerce's (NAUET) committee for payment systems and bank instruments, said. Cash payment agents may try to compensate for the decrease in commission by increasing user fees, Kim said, adding that mobile subscribers may switch to commission-free ways of paying for mobile services as a result.

Meanwhile, mobile operators and cash payment agents are considering setting a fixed maximum commission paid by subscribers to cash payment agents. Experts are considering the issue, Kim said, adding that he does not believe the implementation of a fixed maximum commission to be rational. "From my point of view, we need to tackle hidden charges, when users do not see that they are overpaying by 20%–30%. If a terminal shows commission charges clearly, then it is up to the user to decide," Kim said.

At present, revenues from payments for mobile services are expected to amount to 65% of the total revenue of electronic payment processing companies in 2011, NAUET said.

**► MTS does not bid for Belarusian government's 51% stake in MTS Belarus**

Major Russian mobile operator MTS has not filed a bid to participate in an auction for the Belarusian government's 51% stake in mobile operator MTS Belarus, MTS' spokeswoman Valeria Kuzmenko said, Russian business daily Vedomosti reported Wednesday.

The deadline to file bids for the auction, which is scheduled for December 1, expired on Monday. The Belarusian state property committee, which is to hold the auction, has not provided the results of bid acceptance, Vedomosti reported.

As of November 11, no bids were filed for the government's stake in MTS Belarus, sources close to two Belarusian telecommunications operators said.

## Telecoms

MTS, which currently holds a 49% stake in MTS Belarus and was previously seeking to gain control over the Belarusian operator and offered U.S. \$400 million to \$500 million for the Belarusian government's stake in MTS Belarus, but when the government requested \$1 billion for the stake, MTS rejected the government's offer, the state property committee's Chairman Georgy Kuznetsov said in July. Meanwhile, some analysts estimated the value of a 51% stake in MTS Belarus at about \$700 million 

## Agro Commodities

### ► Government to start buying grain for intervention fund on November 28

The Russian government plans to start making purchasing interventions on the grain market beginning on November 28, the Agriculture Ministry said in a statement Wednesday.

The corresponding ruling on purchasing interventions was signed by Agriculture Minister Yelena Skrynnik on Wednesday. The minimum level of purchasing prices is stipulated by the ministry's ruling dated March 31. Under the ruling, the purchasing prices for grain vary from 3,900 rubles to 5,000 rubles per tonnes.

The Russian government plans to carry out grain purchases in the Siberian and Urals federal districts, the ministry also said.

On Monday, First Deputy Prime Minister Viktor Zubkov said that the volume of grain purchases for the state's intervention fund may amount to 1.4 million–1.5 million tonnes under the results of grain harvest in 2011. The Russian government also plans to sell the purchased grain back to farmers in January–May 2012.

In late September, Zubkov said that the government is unlikely to purchase grain for the intervention fund in 2011. Earlier in September, Skrynnik did not rule out that the government may buy up to 2 million tonnes of grain for the intervention fund in 2011.

Russia's grain harvest has thus far amounted to 97.0 million tonnes in bunker weight, Zubkov said on November 10.

### ► Pork producers seen losing 20 billion rubles after duty cut

Russian pork producers are expected to lose up to 20 billion rubles over the next several years due to a decrease in import duties on pork amid Russia's upcoming accession to the World Trade Organization (WTO), the National Union of Swine Breeders CEO Yury Kovalyov said at a conference late Tuesday.

Specifically, the Russian government plans to reduce import duties on pork to 5% from 40%, while the current 15% duty on imported pork is expected to be lifted, Kovalyov said, adding that the move could result in a decrease in the price of live pigs by 10 rubles–15 rubles per kilogram.

Kovalyov reiterated that the domestic prices of live pigs fell by 15 rubles–20 rubles per a kilogram in 2009, when Russia's imports of live pigs exceeded 1 million units. Russian swine breeders managed convince the government to set the import duty on live pigs at 40%, he added.

Kovalyov also said that if the government continued to encourage domestic pork producers, investments into the industry could amount to over 200 billion rubles in 2011–2015, the same level as in 2005–2010.

He added that according to the union's estimates, Russia's pork production is expected to continue to grow over the next five years.

Below is a breakdown of Russia's pork production growth in 2011–2015 and in 2020, as provided by the union:

	2011	2012	2013	2014	2015	2020
Total pork production, mln tns in carcass weight	2.430	2.620	2.820	3.005	3.185	3.923
Industrial pork production, mln tns	1.430	n/a	n/a	n/a	2.300	3.166

In 2010, Russia's total pork production amounted to 2.330 million tonnes in carcass weight, while industrial pork production was at 1.297 million tonnes, according to the union.

At the same time, Kovalyov said that the production of individual domestic farmers is expected to continue to decline over the next years.

## Agro Commodities

### ► Russia's meat output up 4.7% in January–October

Russia's meat and meat product output rose 4.7% on the year to 980,000 tonnes in January–October, the Federal State Statistics Service said in a report Wednesday.

Russia's poultry and poultry product output rose 8.4% on the year to 2.4 million tonnes in January–October, while the output of fish and fish products rose 6.4% on the year to 3.0 million tonnes. In 2010, Russia's meat and meat product output rose 11.2% on the year, the service said in January.

### ► Miratorg IFRS net profit up 35% on year in January–September

The net profit of Russian agribusiness holding Miratorg increased 35% on the year to 3.42 billion rubles in January–September, as calculated under International Financial Reporting Standards (IFRS), the company said in a statement Wednesday.

The company's consolidated revenue rose 12.4% on the year to 28.45 billion rubles in this period. EBITDA, or earnings before interest, taxes, depreciation, and amortization, amounted to 5.44 billion rubles in January–September, up 16.0% on the year.

Miratorg is a leading agricultural company in Russia. The holding includes a number of pig farms, animal feed plants, grain companies, and a logistics company.

### ► Official denies Ukraine holding talks on grain pool with Russia

Ukrainian authorities are not discussing, with their Russian counterparts the creation of a grain pool while negotiating a revised price for Russian natural gas supplies to Ukraine, Ukraine's Agriculture Minister Nikolai Prisyazhnyuk said Wednesday, as cited by RIA Novosti.

"This issue is not being discussed during the (ongoing) gas talks," Prisyazhnyuk, adding that negotiations between the two countries over a grain pool had been frozen.

Meanwhile, Prisyazhnyuk said that Ukrainian authorities were ready to discuss coordinated actions with Russia on the global grain market.

Russia, Ukraine, and Kazakhstan intended to set up a grain pool in 2009, but the project has yet to be developed

## Pulp and Paper

### ► Russia's timber output up 7.7% on year in January–October

Russia's timber output increased 7.7% on the year to 17 million cubic meters in January–October, the Federal State Statistics Service said in a report Wednesday.

Fiberboard production rose 9.5% on the year to 356 million conventional square meters in January–October; while particleboard output increased 21.5% on the year to 5.4 million conventional square meters.

Plywood production was up 12.2% on the year to 2.5 million cubic meters in this period, while pulp output rose 1.7% on the year to 6.1 million tonnes.

Russia's paper output fell 0.2% on the year to 3.9 million tonnes in January–October, while the paperboard output grew 3.4% on the year to 2.5 million tonnes.

### ► Partnyor-Tomsk unit to start building 150 million euro OSB plant in 2012

Russian company KPD, a unit of Timber Processing Complex Partnyor-Tomsk, is expected to start constructing a plant worth 150 million euros to produce oriented strand boards (OSB) in the city of Tomsk in January–March 2012, Partnyor-Tomsk's Financial Director Viktoriya Timoshina said Wednesday, RIA Novosti reported.

Of the total investments in the project, Partnyor-Tomsk is to borrow 105 million euros with the remaining 45 million euros to be allocated from the company's own funds, Timoshina said.

The plant is expected to be put into operation in October–December 2013, while reaching its projected capacity by the end of 2014.

The plant's capacity is estimated at 250,000 cubic meters of OSB annually. At present, Russia has no plants to produce OSB, which are of unique physical and mechanical properties, as well as low in price, Timoshina also said.

Partnyor-Tomsk is a large plant producing medium density fiber boards. The plant was put into operation in 2010 and is seen reaching its projected production capacity of 264,000 cubic meters in 2012

: **Focus****Gazprom eyes entering European, Asian power markets, share seen not big**

As Russian gas giant Gazprom recently expressed its intention to enter international electric power markets, namely those of Europe and Asia, analysts say the expansion will allow the company to diversify its business, expand its gas sales channels, and increase the reliability of cash flows. Gazprom is interested in taking part mostly in gas power plant projects, but could participate in the development of renewable energy sources as well, analysts also say. However, they believe the gas giant is unlikely to gain a large share on foreign power markets and is expected to implement only separate projects.

Gazprom has recently been trying to develop its electric power business managed by its 100% subsidiary Gazprom Energoholding and is now striving to enter international electric power markets. The company has long been showing interest in the European electric power market, holding talks with a number of European companies, including Germany's E.ON and Italy's Enel, which, however, had no success. Shortly after explosions at Japan's Fukushima-1 nuclear plant in March, Gazprom said it was ready to invest in European power assets operating on gas, including in Germany, which announced plans to shut down its nuclear facilities by 2022.

In mid-July, Gazprom and German power utility RWE signed a memorandum of understanding for strategic partnership in power generation in Europe, under which they plan to consider setting up a joint venture consisting of existing or newly-built gas and coal power plants in Germany, the U.K., and the Benelux countries (Belgium, the Netherlands, and Luxembourg). Analysts said then the move could be considered Gazprom's first real step in entering the European electric power market and noted that the company was aiming to create a complete technological chain starting from gas exploration and ending with power production. The memorandum implied exclusive talks between the sides for three months, thus ending in mid-October, but the companies recently extended the talks until the end of this year.

In mid-October, Gazprom also held talks with French companies Electricite de France (EDF) and GDF Suez over cooperating in implementing electric power projects in France. "The idea is to establish a model (of cooperation) with RWE and then see if we can reproduce it with other partners," Gazprom Deputy CEO Alexander Medvedev said then.

Sergei Pikin, director of the Energy Development Fund, believes that Gazprom could also be interested in taking part in power projects in Italy, where the cost of power is quite high, but noted that local companies were quite strong there.

Gazprom could also expand to power projects in Eastern European countries. In early October, Gazprom discussed with the Romanian government implementing joint electric power projects in the country. The Turkish power market, where the price of power is among the highest in the world, could also be attractive to Gazprom, Pikin said. He added that Gazprom's participation in European power projects depended on the projects' efficiency.

Konstantin Reyli, a senior analyst covering power utilities at investment company Metropol, believes that European companies, which are now trying to lower their dependence on Russian gas supplies, are not much interested in Gazprom entering the European power market, and recent searches at Gazprom offices could be a justification of this fact. "Either these are forced steps, or a tribute to political relations," Reyli said commenting on European companies' talks with Gazprom. Moreover, European countries are now actively developing renewable energy sources, the analyst said.

Meanwhile, Pikin from the Energy Development Fund believes Gazprom could be involved not only in gas power generation in Europe, but in developing renewable energy sources as well. Gazprom recently filed a bid to the German antimonopoly service to buy a stake in German alternative energy supplier Envacom Service GmbH, which focuses on supplies of wind and solar power, the antitrust body said. The E.U. is currently aiming to increase the share of renewable energy sources, Pikin noted.

## Focus

Pikin also said that Europe currently required investments in its electric power industry development. However, there are political risks that the entrance of Gazprom Energoholding could be considered as Gazprom strengthening its role in Europe, the expert said.

Besides plans to participate in power projects in Europe, Gazprom has also announced its intention to expand into Asian power markets.

Denis Fyodorov, CEO of Gazprom Energoholding, said in October that the company's interest in power markets of Asian countries was connected with Gazprom starting gas supplies to these countries. "If we supply gas to China, it will be interesting for us to build a chain to consumers," said Fyodorov. The company is likely to require at least one year to choose the first projects in Asia, he added. Russia and China are now close to completing their talks over Russian gas supplies to China, Russian Prime Minister Vladimir Putin said recently.

However, the surveyed analysts doubt that Gazprom will take part in building power plants in China. Power generation in China is developed quite well, there are many facilities operating on coal and many hydropower facilities, said Reyli from Metropol.

China is itself active in electric power development, and power engineering in China is developed better than in Russia, according to Pikin from the Energy Development Fund.

Gazprom also recently said it was considering taking part in electric power projects in Japan and has discussed the issue with a number of Japanese companies, namely Mitsui, Mitsubishi, and Tokyo Electric Power Company (TEPCO).

"Gazprom's interest in Japan is caused by cataclysms that led to an accident at the Fukushima-1 nuclear plant and disruptions in operations of the country's other nuclear plants," said Reyli from Metropol. The volume of nuclear power facilities is expected to be reducing in Japan, and it will be necessary to substitute those capacities with other energy sources like renewable energy sources and partially gas power generation facilities, he said.

Pikin from the Energy Development Fund believes Gazprom's interest in the Japanese power market is quite logical. "Japan is an attractive market for Gazprom taking into account the winding down of nuclear power in the country," he said. There are not many other energy resources in Japan, for instance, coal resources are not big, so Gazprom could take part in building gas power plants in Japan, Pikin said.

Japan is believed to hold the fourth place in the world in terms of electric power consumption, but has almost no energy resources of its own. Japan imports 100% of the gas it consumes in the form of liquefied natural gas (LNG), making it the world's largest LNG importer. The supervisory board of the Sakhalin-2 oil and gas project, in which Gazprom holds 50%, recently approved an agreement on LNG supplies to TEPCO. Japan is an additional sales market for Gazprom, Reyli from Metropol said.

The surveyed analysts believe it is easier for Gazprom to buy stakes in existing foreign power facilities rather than building power plants.

"At the initial stage, buying power assets in Europe is the quickest process of entering the market," said Pikin from the Energy Development Fund. It is easier to set up some joint ventures to enter foreign markets, he said.

Reyli from Metropol agreed it was more comfortable for Gazprom to buy existing electric power assets and carry out small modernization at them rather than to build facilities.

Analysts believe Gazprom's intention to enter international electric power markets is quite logical. Gazprom has experience and resources for expanding its presence on the power market, said Pikin from the Energy Development Fund.

Gazprom buying electric power facilities abroad is connected with gas sales markets, as the company is interested mainly in selling its gas, said Reyli from Metropol. "Expanding to international power markets will also allow Gazprom to diversify its activity and increase the stability of cash flows," the analyst said.

**Focus**

However, the surveyed analysts do not expect Gazprom to gain a large share on foreign power markets and say the gas giant is likely to implement only separate projects. The European electric power market was long ago divided among participants, said Reyli from Metropol. The situation on Asian markets is developing more dynamically, and if Gazprom manages to offer some interesting conditions, it will be able to enter these markets, but is unlikely to obtain a large market share, the analyst said. Moreover, Gazprom faces serious competition in expanding into international power markets from Russian power holding Inter RAO UES and hydropower company RusHydro, Reyli said

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