

## Contents

### RUSSIA INFRASTRUCTURE TOP STORY

1. Turkey plans a Black Sea canal, bigger than Suez canal
2. Prosecutor's Office wants to ban non-Russian operators from Domodedovo airport
3. Siemens launches \$850m production of Desiro trains for Sochi Olympics
4. Sitronics to build intelligent transport system for Moscow
5. The Istanbul canal
6. Three foreign banks shortlisted to advise on Sovcomflot privatization
7. Turkish PM unveils plans for another water channel through Istanbul

### RUSSIA INFRASTRUCTURE NEWS

8. Aeroflot: Passenger growth will demand additional terminal capacity
9. LSR acquires concrete plant
10. Moscow government to consult public on 5-year transport development program
11. Nature activists condemn police crackdown on Khimki forest protest
12. Sheremetyevo airport CEO Mikhail Vasilenko expects Terminal D to be acquired in 2-3 months
13. Transport Ministry insists on selling 50% of TransContainer in 2012
14. Transportation, construction and infrastructure - Trends in January-February 2011
15. Vostochny Cosmodrome infrastructure to get \$1.7bn RF finance by 2015
16. Will Sheremetyevo get a management company soon?

### RUSSIA INFRASTRUCTURE FINANCE & STATISTICS

17. Aeroflot's Board of Directors recommends dividends of US\$3.95/share
18. FESCO's board again recommends no annual dividend
19. IskitimCement restructures debt to Sberbank
20. NCSP's BoD recommends dividends of US\$ 6.22/GDR

### RUSSIA ROADS

21. Moscow to create 380,000 parking spaces by residential buildings
22. Russia sets up expert commission to justify cost of road-building

### RUSSIA TRAINS

23. Mostotrest subsidiary Transstroyemkhanizatsiya wins USD272mn contract to overhaul Vnukovo runway
24. Railway Cargo Turnover: Taking a Breath, not a Blow
25. Russian Railways to spend RUB11bn on rolling stock in 2011
26. Siemens starts work on electric trains for Russian Railways

27. Transcontainer FY10 results review (2010, Full Year)

### RUSSIA PLANES

28. Aeroflot will not increase fuel surcharges on June 1
29. Russian regulator withdraws permission for some Avianova flights
30. Irkut sees orders for new plane stacking up
31. Novosibirsk airport reports 24% y-o-y rise in passenger traffic in Jan-Apr
32. Kazakh investors to sell 50% stake in Russia's Novoport
33. Russian airlines' passenger traffic up 10% year-on-year in January-March
34. Sheremetyevo Airport RAS net profit down 6.5% in 2010

### RUSSIA SHIPS

35. A.P. Moller-Maersk to build \$3.5bn port in Baltiysk, Kaliningrad region
36. Russian deputy PM urges Caspian Fleet upgrade
37. Vostochny Port freight traffic up 15% on year in Jan-Apr

### CIS INFRASTRUCTURE

38. UKR Donetsk railways' net profit down 20 times in Q1
39. Azovmash 4M11 output up 110% y-o-y in value terms
40. Cost of business terminal at Donetsk Airport estimated at UAH400m
41. IFC may give \$32m to HPC-Ukraine for Odesa port container terminal
42. Kyiv to finish construction of important infrastructure facilities this year
43. Luhanskteplovoz nears large state order
44. Metinvest and Interpipe to supply pipes for gas-transport modernization
45. Prydniprovskaya Railways posts 41% fall in Q1 net profit
46. Residents rate Kiev best city in Ukraine, but worse than other East European capitals
47. Simferopol airport sees net loss rise 84% y-o-y in Q1
48. Stakhaniv Wagon decreases net income by 24.7% y-o-y in 1Q11
49. Ukraine may link Kharkiv, Donetsk, Dnipropetrovsk with high-speed trains

### EURASIA INFRASTRUCTURE

50. Official says North-South route needs Russia to upgrade ports

### CE INFRASTRUCTURE

51. Hungary NIF annuls M3 motorway tender
52. Polish Rail to Call PLN8bn Tenders for Track Upgrades
53. Slovaks spent more than EUR200m on modernising railways in 2010
54. Wider road charging for Poland?

## Top story



# Turkey plans a Black Sea canal, bigger than Suez canal

### **bne**

Turkey's prime minister on Wednesday announced what he called a "crazy and magnificent" plan to build a new waterway to the Black Sea, promising that the tanker-clogged Bosphorus through Istanbul would soon be used for sports and boat trips, the Moscow Times reports.

The waterway, to be named "Canal Istanbul," would link the Black Sea to the Sea of Marmara, which leads to the Aegean Sea. It would be 40 to 45 kilometers long, some 25 meters deep and about 150 meters wide, Recep Tayyip Erdogan said during campaigning ahead of elections on June 12. ●

# Prosecutor's Office wants to ban non-Russian operators from Domodedovo airport

**Ria Novosti**

The current situation when non-Russian companies operate the Moscow's Domodedovo International Airport is unacceptable, the Russian Prosecutor General's Office said on Saturday following an inspection instructed by President Dmitry Medvedev.

"It was exposed that foreign companies, registered in off-shore zones, operate Domodedovo airport," a statement by the Prosecutor General's Office said. In line with this scheme, the real owners and those who take management decisions are unaccountable, they are not under the Russian jurisdiction and do not comply with the federal legislation.

The work of the airport has many times given rise to unfavorable criticism. In December, Domodedovo was hit by lengthy delays



after an ice storm. A deadly bomb attack which claimed the lives of 37 people occurred in Domodedovo in January.

"Taking into account the strategic role of Domodedovo airport in providing national security, this situation is absolutely unacceptable," the statement said.

The General Prosecutor's Office has proposed the Transport Ministry to work out a draft to ban non-Russians from managing vital transport facilities and urge airports to disclose information about their owners.

On Saturday the press service of the Federal Tax Service announced the beginning of an own inspection on Domodedovo.

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# Siemens launches \$850m production of Desiro trains for Sochi Olympics

**Marchmont**

Siemens plant in Germany has launched production of Desiro trains, to be used in Olympics-2014 in Sochi, under an \$850 contract with the national rail operator Russian Railways, news agency RIA Novosti reports.

As Marchmont wrote earlier, in the end of 2009 Russian Railways and Siemens signed the \$850m contract for production of 54 Desiro shuttle trains (see news of January 12, 2010).

Under the contract, the first 38 trains are to be manufactured at the Siemens plant in Germany, while the other 16 trains are to be partly assembled in Russia - at the JV plant of Siemens, Aeroexpress and Sinara group.

According to the project, all trains are to be dual-system and to be able to operate at lines with direct and alternate current. Each train for 850 passengers is to have five cars. Maximum speed of Desiro train is 160 kilometers per hour.

Under plans, by 2018 Desiro trains are to be almost fully produced in Russia. By 2017 the production localization level is expected to reach 80%. ●

# Sitronics to build intelligent transport system for Moscow

## Aton

Sitronics confirmed yesterday (26 Apr) that it will participate in creating an intelligent transport system for Moscow. The project should be implemented by the end of 2011 and we expect it to be prolonged thereafter. The Moscow city government plans to spend RUB6.2bn in 2011 on the programme. The news is positive

for Sitronics as the project's value equals about 20% of its FY10 revenues. However, the terms of Sitronics' potential consolidation with Sistema's RTI Systems remains the key determinant for the stock price, in our view. ●

## The Istanbul Canal project

Turkish authorities intend to lay a canal outside Istanbul to relieve congestion on the Bosphorus Strait, the region's main waterway



### Congestion in the Bosphorus Strait

**45<sup>000</sup>**  
vessels  
pass through  
the strait each year

**15<sup>000</sup>**  
ferries  
cross  
the straight daily

**1.5<sup>mln</sup>**  
people  
transported  
by ferries each day

**140<sup>mln</sup>**  
tons of oil  
transported through  
the strait each year

**4<sup>mln</sup>**  
tons of liquefied gas  
transported through  
the strait each year

# Three foreign banks shortlisted to advise on Sovcomflot privatization

## RIA Novosti

The Russian government has shortlisted Morgan Stanley, Deutsche Bank and J.P. Morgan as potential investment advisers for the sale of 50% minus one share in Russia's largest shipping company Sovcomflot, an Economic Development Ministry official said on Wednesday.

"In relation to Sovcomflot, we have made big advances and have already selected three banks: Morgan Stanley, J.P. Morgan and Deutsche Bank," said the ministry's property department head Alexei Uvarov.

The Russian government has approved a privatization plan for 2011-2013, including ten top companies, which could bring an extra 1 trillion rubles (\$33 billion) to the state's coffers, although there are no firm dates for the sales and the sizes of the stakes have not yet been defined.

The privatization began earlier this year with the sale of a 10%

stake in the country's second largest bank VTB, for about 96 billion rubles (\$3.3 billion).

The sell-off list includes oil major Rosneft, of which 25% minus one share is to go under the hammer, hydropower generator RusHydro, of which about 8% will be sold, and about 28% of the Federal Grid Company of Unified Energy System.

The government also plans to sell 7.58% in Russia's top bank Sberbank and a further 25.5% in the country's second largest lender VTB bank.

The Economic Development Ministry will also choose investment consultants for all the other large firms in the privatization plan by the end of June 2011, Uvarov said.

"We plan to make clear choices of investment consultants for all assets by the end of June," he said. ●

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# Turkish PM unveils plans for another water channel through Istanbul

## bne/RIA Novosti

bne: The choked capacity through the Bosphorus is a major constraint on Russian oil export strategy, with the Black Sea hosting much of its tanker infrastructure. A serious expansion of the route would open new opportunities to add new export contracts, and would cast doubt on expensive infrastructure projects such as the Burgas-Alexandroupoli pipeline (although that particular project was already looking less likely in recent months due to a lack of agreement with Bulgaria anyway) which was set to carry Russian crude from the Black Sea to the Aegean.

A new water artery, the Istanbul Channel, will be dug through the European part of the Turkish capital to link the Black and Marmara seas, Prime Minister Recep Tayyip Erdogan announced on Wednesday.

Speaking in Istanbul ahead of parliamentary elections scheduled for June 12, Erdogan said the construction of the 150-meter-wide water channel will become one of the largest projects of the 21st century, which will help solve the problem of the overloaded Bosphorus Strait.

"Istanbul will become a city with two seas passing through it," the prime minister said. "This is an energy, transport, city-planning and scientific project at the same time, as well as a project for employment and environmental protection. It will help protect the nature of Istanbul, the environment, sea, water resources, flora and fauna," he said. The largest ships will be able to pass through the 25-meter deep channel, he added.

The cost of the project, which is expected to be completed within two years, is being kept secret, Erdogan said, adding that a new airport to become the largest in Turkey will also be built close to the channel. Turkish media have reported that the estimated construction cost may reach \$20 billion.

Erdogan's announcement caused a controversial reaction in Turkish society, raising questions whether the construction of the channel may result in the violation by Turkey of a 1936 international convention regulating ship navigation through the Black Sea straits. ●

# Russia infrastructure news

## Aeroflot: Passenger growth will demand additional terminal capacity

### UralSib

Terminal D capacity at Sheremetievo might not be sufficient to satisfy aggressive passenger traffic targets. Today Vedomosti reported that Aeroflot (AFLT RX - Buy) expects passenger traffic at Terminal D at Sheremetievo airport (which is owned by the airline) to reach maximum capacity of 14 mln passengers already in 2011. Therefore, further expansion of the company's business is possible only through utilization of other terminals. Earlier the company announced it expects its overall traffic to be up 23% YoY to 17.3 mln passengers in 2011, and we estimate it to increase 30% between 2010 and 2015.

Sheremetievo airport's capacity is sufficient to meet Aeroflot's medium-term needs. Sheremetievo airport has six terminals: A (construction to be completed in August 2011), B, C, D (owned by Aeroflot), E and F, with the total annual passenger traffic capacity of 35 mln passengers. Therefore, we do not see any potential shortage of terminal capacity for Aeroflot in the medium term, as it has access to all Sheremetievo terminals. We also think a bigger problem for the company might be the limited runway capacity of Sheremetievo airport, which stands at 25 mln passengers only (versus total airport carrying passenger capacity of 35 mln passengers). But that is to be resolved through the construction of a third runway and modernization of dispatch control equipment, to improve coordination of the two existing runways and increase the number of landings/take-offs per hour - a decision recently approved by Prime Minister Vladimir Putin. Finally, recently a decision was made to consolidate terminals at Sheremetievo and Vnukovo airports to make a single airport with a single servicing company under state control; which we assume should ease Aeroflot's access to both airports' terminal capacity.

News neutral for the stock. We view the news as of minor importance for Aeroflot's stock, as the company has access to other Sheremetievo terminals and, hence, is unlikely to meet any shortage of terminal capacity. Also, the forthcoming consolidation of Sheremetievo and Vnukovo terminals under a single umbrella should ease access to the terminal capacity for the airline carrier. We maintain our Buy recommendation in the name.

Anna Kupriyanova

## LSR acquires concrete plant

### Renaissance Capital

**Event:** Yesterday (28 April), LSR announced that it had acquired an 85.9% stake in the Obukhov building materials plant. The purchase price was not specified. The plant has annual production capacity of 35k m<sup>3</sup> of reinforced concrete and 90k m<sup>3</sup> of ready-mix concrete.

**Action:** We reiterate our BUY rating and \$12.98/GDR target price on LSR.

**Rationale:** In February, LSR was reported to be interested in buying the plant, which was valued by experts at \$13mn. This is relatively small in the context of the \$400mn of financing raised during an SPO last year. We think the acquisition of this plant will help LSR to improve its market share in reinforced and ready-mix concrete. Although the building materials division is lagging, and prices have been broadly flat since the beginning of last year, sales volumes have started to increase. LSR trades at 11.8x and 8.7x 2011E and 2012E EV/EBITDA, respectively, while PIK is trading at 13.5x and 9.2x 2011E and 2012E EV/EBITDA, respectively.

David Ferguson

## Moscow government to consult public on 5-year transport development program

### bne

Moscow traffic centre development program 2012-2016 will be proposed for public discussion, Moscow mayor Sergey Sobyenin says, SKRIN reports.

"I consider it necessary to take the program as a starting point and after this conduct a public program discussion, complete it and approve it for realization," Sobyenin is quoted as saying. He adds that "the problems are known" and the program should be ready to be presented to the government within six weeks.

## Nature activists condemn police crackdown on Khimki forest protest

### RIA Novosti

Environmental activists have criticized Russian police for using heavy-handed tactics after they detained at least 25 people at a rally against the demolition of mature woodland near Moscow to make way for a new highway to St. Petersburg.

Yevgeniya Chirikova, a leading campaigner to save the more than 500-year-old forest, and Sergei Mitrokhin, leader of the liberal opposition party Yabloko, were among those detained on Sunday for staging an unauthorized rally in Khimki, a town just outside of the Russian capital.

Writing on her Twitter account, Chirikova said the actions of the police were appalling.

She said activist Oleg Prudnikov needed hospital treatment after being severely beaten up by riot police as they dispersed the demonstration.

"Doctors want to take Prudnikov to hospital but police will not let them do that," Chirikova said.

The planned multi-lane motorway has sparked protests and several journalists who reported on the Khimki forest campaign have been attacked and badly hurt.

The project was given the go-ahead in December, just three months after President Dmitry Medvedev put it on hold. Ecologists say the new highway could easily be rerouted.

Sergei Udaltsov, the leader of the communist Left Front organization, has had a rib broken in the Sunday crackdown, and activist Sergei Ageyev suffered concussion of the brain, according to the Grani.ru website.

Last year, ecologist Konstantin Fetisov was badly beaten after being released from a police station where he had been questioned about a rally.

Mikhail Beketov, the former editor of a local weekly, who criticized the motorway project, was left brain-damaged and unable to speak after another attack in 2008.

## Sheremetyevo airport CEO Mikhail Vasilenko expects Terminal D to be acquired in 2-3 months

### Metropol

Sheremetyevo airport CEO Mikhail Vasilenko declared that the airport will complete the acquisition of Terminal D in two-three months. Vasilenko also said that the shareholders of Terminal D - Aeroflot, VEB and VTB - agreed with the Terminal D valuation, which presumes that Aeroflot will own 9% common equity in united Sheremetyevo, while VEB and VTB will own 4% common equity each. The government would then hold 83% common equity in united Sheremetyevo.

We note that deal would decrease Aeroflot's net debt, since the company does not plan consolidate its debt after its stake in Sheremetyevo airport decreases from 52% to 9%.

We expect net debt to decrease by USD 900mn to USD 850mn by the end 2011E. As a result Net Debt to EBITDA ratio should decrease to 1.4x for 2011E, compared to the 2.8x previously expected. We anticipate that the net debt decrease will result in 2011E EV/S multiple decrease to 0.8x from 0.9x, while 2011E EV/EBITDA multiple should decrease to 5.6x from 6.7x earlier.

We therefore believe that the news is positive for Aeroflot, however, as the deal was expected it should have no impact on the share price.

Andrey Rozhkov

## Transport Ministry insists on selling 50% of TransContainer in 2012

### Troika Dialog

The Transport Ministry insists that Russian Railways must sell a 50% stake in TransContainer in 2012, as it will maximize its value, taking into account the premium for control, and will provide the rail monopoly with cash inflow to finance its investment program. Russian Railways' BoD earlier approved selling a 25% stake in TransContainer this year.

Troika's view: It is hard to judge whose position is more constructive and who will win in this dispute, but we believe that the Transport Ministry is being more reasonable, as its plan

could increase the stake's value and make competition at the auction tougher, since the winner would basically take control over TransContainer. On the negative side, the auction would be delayed to 2012, leaving uncertainty about the controlling shareholder in place for a year. The initial scenario to sell a 25% stake in 2011 might be considered a short-term trigger for the stock, with FESCO being the most likely winner.

Mikhail Ganelin

## Transportation, construction and infrastructure - Trends in January-February 2011

### Renaissance Capital

The economy and domestic industrial consumption remain robust. Electricity demand stayed strong going into 2011, growing 4-5% YoY over the past two-to-three months. The January-March data showed a pick-up in domestic consumption of steel, and production of flat steel exceeded pre-crisis levels in January-February 2011. January-March also saw significant increases in the prices of long and flat steel products and basic steelmaking raw materials. We expect the recovery in the construction market that started in summer 2010 to carry over into 2011; increasing prices of construction materials in January-February is an encouraging sign - it is the first time prices have increased for basic materials since the crisis. Taking into account the fall in cargo turnover at Russian ports (dry cargo turnover fell more than liquid cargo) and soft exports in January-February, we believe the above price trends were due to a considerable pick-up in domestic industrial consumption. Note that the completion of residential dwellings remained low in January-February 2011.

Domestic private consumption is on the rise. A strong rouble and high oil prices are two good reasons to expect a pick-up in domestic private consumption. Container throughput via Russian ports showed seasonal softness in January-February but was strong YoY, suggesting to us an increased appetite for imports that we believe will only intensify in the coming months. Auto sales have been strong YTD and demand has shifted to mid-range cars, suggesting to us that the population's spending power is strengthening. On the other hand, airlines saw soft demand in January-February as the situation in the Middle East/North Africa led to a flat YoY change in passengers travelling to international destinations. With the lifting of travel bans in April, we believe the passenger statistics will improve in the coming months. Aeroflot, which does not operate charter flights, fared better than its peers in this period.

Rail showed the best dynamics...certainly better than ports. There was some seasonal weakness in rail transportation in January-February, but notably good basic material (including

cement) transportation volumes. Ports saw just the opposite (again due to the underlying strength of domestic demand) with Novorossiysk Commercial Sea Port (NCSP) continuing to display negative dynamics going into 2011. The only positive for ports was the strength of container throughput, which was equally strong for both ports and rail transportation. While stevedoring prices are largely unchanged in 2011, rail transportation tariffs have grown from November 2010 to January-February 2011. New rail car prices continued to rise in January-February, and the total 2011 demand for railcars remains well above 2010 production. Interestingly, the leasing prices for railcars declined somewhat in January-February, probably as a result of seasonality, in our view.

Strong performance of rail stocks to continue. Rail stocks were the best performers over the past three months, and we believe strong underlying cargo dynamics (both for base materials and containers), a supportive pricing environment, and the privatisation of First Freight Company and sale of a stake in Transcontainer should be enough catalysts to sustain this positive performance. We expect investor interest in Globaltrans and Transcontainer to spill over to FESCO, as a potential buyer of a blocking stake in Transcontainer and a beneficiary of strong container throughput. Aeroflot stock is likely to continue to suffer from high oil prices and the Russian state's indecisiveness concerning the fate of Terminal D and the timing of the acquisition of Rostekhnologii airlines. We prefer to play the auto sector via Sollers, which has quickly secured funding for its joint venture with Ford and has seen a strong pick-up in sales YTD.

## Vostochny Cosmodrome infrastructure to get \$1.7bn RF finance by 2015

### Marchmont

A total of \$870m is to be allocated from the federal budget on construction of infrastructure facilities in Vostochny Cosmodrome in Amur region till 2013, news agency FederalPress reports.

Under plans, in 2014 the federal budget is to allocate not less than the previous amount.

The new national spaceport is reportedly to have two start fields.

Construction is scheduled to start in summer 2011. In 2015 the automatic launch of the space shuttle is scheduled to take place.

Piloted spacecrafts are to start flying from the cosmodrome in 2018.



## Will Sheremetyevo get a management company soon?

### Renaissance Capital

**Event:** Today (28 April), Kommersant reported that Credit Suisse and Troika Dialog have prepared future development scenarios for Sheremetyevo airport. They reportedly suggest choosing from two possible plans: 1) to first find a foreign management company for the merged Sheremetyevo terminals (including Terminal D), and then merge Sheremetyevo with Vnukovo; or 2) first merge Sheremetyevo with Vnukovo, then appoint a foreign company to operate the airport. The investment banks suggest three alternative compensation plans for the management company: 1) a contract with compensation equal to the EBITDA share; 2) a contract with a call option for a share in a 2013-2014 IPO; and 3) making the management company a minority shareholder.

**Action:** We think the best option for the airports and Aeroflot would be to appoint a management team for Sheremetyevo before the merger with Vnukovo, and give the management company a stake in Sheremetyevo.

**Rationale:** We think finding a professional management team for Sheremetyevo as soon as possible should be Aeroflot's first priority, in order to improve airport operations, boost the customer experience, and attract additional traffic, in our view. The alternative would be more time-consuming and would delay these benefits. Credit Suisse and Troika suggest providing the airport management company with a minority stake through a \$200mn additional share issue. On Ernst & Young's estimates for Sheremetyevo, this would give the management company an 8.7% stake in the airport, while Aeroflot would get 8.1%, taking into account its 52.82% stake in Terminal D.

Ivan Kim

# Russia infrastructure finance & statistics

## Aeroflot's Board of Directors recommends dividends of US\$3.95/share

### VTB Capital

**News:** Aeroflot's Board of Directors has recommended that the AGM, now scheduled for 29 June, approve dividends of RUB 1.0851/share (US\$ 3.95). The cut-off date is 11 May.

**Our View:** The implied dividend yield is 1.6% of current quotes, while the implied payout of USD 39mn (excluding the payment for shares owned by Aeroflot's subsidiary, Aeroflot-Finance) equates to 13.6% of our forecasted net profit for 2010, slightly lower than the 14.2% paid last year. We note that, according to Interfax sources, Aeroflot's net profit reached RUB 10.5bn (USD 382mn), some 33% above our forecast.

Still, we have argued that the dividend payout might not follow the net profit dynamics, as air companies have suffered pressure from higher fuel costs. This point of view is supported by the

figures as the dividend per share is 1% above our forecast of US\$ 3.90. Considering that Aeroflot is not a play on dividends, this news is neutral for the stock.

Elena Sakhnova

## FESCO's board again recommends no annual dividend

### Renaissance Capital

**Event:** Yesterday (27 April), Interfax reported that FESCO's board of directors had recommended no dividend for 2010. The AGM is scheduled for 8 June.

**Action:** Neutral for FESCO's stock price, in our view.

**Rationale:** Currently, FESCO's investment case is not a dividend

story; the company has chosen not to pay dividends for several years. In 2010 the company reportedly made a net profit (FY10 results have not been released yet) and plans to reinvest the entire amount. Management's decision to invest cash flows instead of paying them out to shareholders seems logical to us, in view of its plans to participate in a forthcoming auction for a 25% stake in Transcontainer, with the minimum price set at RUB10.7bn, and the need to finance development projects.

Ivan Kim

## IskitimCement restructures debt to Sberbank

### VTB Capital

**News:** According to Kommersant, IskitimCement has reached an agreement with Sberbank on restructuring its RUB 4bn (USD 140mn) debt to the bank. The debt is to be restructured for two years with the interest rate lowered from 16% to 7.75%. The deal also envisages completing the construction of a new 1.3mn-tonne plant.

**Our View:** The high debt burden was the key obstacle which could potentially have prevented IskitimCement from reaping the benefits of the ongoing recovery on the cement market. For this reason, we see the debt restructuring agreement as positive. Still, we believe that the risks associated with investment in IskitimCement remain high, especially given that the future ownership structure and the strategy of its owners remain

unclear. In particular, Kommersant reported that Vladimir Palikhata, who recently bought 25.5% of IskitimCement from the state, might increase his stake to 49%. RATM currently controls 68% in IskitimCement, while some 7% are in free float. We are reiterating our Hold recommendation for the stock.

Vladimir Bespalov

## NCSP's BoD recommends dividends of USc 6.22/GDR

### VTB Capital

**News:** NCSP's Board of Directors has recommended dividends of RUB 0.023/local share. They are to be approved at the AGM scheduled for 30 June 2011, with the record date set at 11 May 2011. The dividends are due to be paid on 29 August 2011.

**Our View:** The dividend equates to USc 6.22/GDR, implying a 0.7% yield to current quotes. At USD 16mn, the payout is close to historical levels of USD 11- 16mn, but far below the USD 77mn paid for 2009. While this decrease of 80% YoY can be explained by the current market environment (specifically, the grain export ban), we highlight that Marat Shaydaev, a manager representing Summa Capital, was quoted a couple of weeks ago as saying that the dividend payout would be superior to last year's. At the recent conference call dedicated to the FY10 results, management indicated that it would consider a higher level of indebtedness while determining the size of the dividend payout. We view such misguidance negatively.

# Russia roads

## Moscow to create 380,000 parking spaces by residential buildings

### bne

As part of efforts to relieve Moscow's traffic congestion, the city will create an additional 380,000 parking spaces by the end of this year as the city renovates the courtyards of residential buildings, head of the city finance department Vera Chistova said, RIA-Novosti reports.

## Russia sets up expert commission to justify cost of road-building

### bne

A panel of Russian government officials and experts has met for the first time in an attempt to dispel the idea that road building is so corrupt that Russia's notoriously bad roads are much more

expensive than in Europe and the United States, The Moscow Times reports.

"When roads are badly built, people blame corruption. You have to separate the flies from the meat patties; it's not so simple," government road technology expert Mikhail Pozdnyakov is quoted as saying.

But the paper says the perception that road building goes hand-in-hand with graft has some basis, citing recent analysis by the

National Anti-Corruption Committee that named road building as one of the most corrupt sectors

The Moscow times quotes committee chairman Kirill Kabanov as saying that while the budget for roads has significantly increased and the price of materials has gone down, new roads continue to be of poor quality and old roads are not being repaired.

## Russia trains

### Mostotrest subsidiary Transstroyekhanizatsiya wins USD272mn contract to overhaul Vnukovo runway

#### VTB Capital

**News:** Transstroyekhanizatsiya (TSM, a subsidiary of Mostotrest) has won the contract to overhaul and extend Vnukovo airport's runway #1 for RUB 7.6bn (USD 272mn). Construction works are due to be completed in 2012.

**Our View:** TSM has already started construction works to overhaul the intersection of Vnukovo's two runways, for RUB 900mn (USD 32mn), due 1 July 2011. The latest contract, however, is much more significant: as at 31 December 2010, TSM's entire pipeline was RUB 15.9bn (USD 568mn) while Mostotrest's consolidated pipeline was USD 7.7bn. With TSM's production forces already on the spot, this contract is all the more profitable.

We are therefore reiterating our positive view on Mostotrest as well-positioned to benefit from Russia's urgent need to upgrade and develop its transport infrastructure, along with the state promoting the swift implementation of its projects.

Elena Sakhnova

### Railway Cargo Turnover: Taking a Breath, not a Blow

#### VTB Capital

Russian Railways published its April statistics that show a slowdown in rail transportation. Railway cargo turnover increased just 3% YoY and volumes increased 2% YoY in April vs. 9% and 6%, respectively, in 1Q (though that was from a low base). This downturn in the dynamics is partly explained by a return to normal seasonality (April is usually weak), which was not so pronounced in 2010. Still, YTD figures of 8% for turnover and 5% for volumes fit comfortably into our full-year forecasts of 7% and 6%, respectively.

The largest cargo, coal (23% of April 2011 volumes), showed a 2% decrease YoY. The next largest, oil and oil products, showed a logical 3% decrease as the Skovorodino-Daqing pipeline - a branch of the ESPO pipeline - opened on 1 January 2011, replacing railway volumes. Important negative contributors to the April stats also include lumber (-13% YoY) and grain (-18%). Lumber was affected by depressed exports to the MENA region, though recent comments by NCSP's management indicate that they believe exports might pick up soon. Grain was hit by the export ban that we believe is likely to be partially lifted closer to autumn. Most metallurgical cargoes were down in April; in particular, ferrous metals (-2% YoY), coking coal (-3%), base metal ore (-5%) and scrap (-1%), while iron ore was up 11%. We highlight Globaltrans' exposure to ferrous metals, but according to our metals and mining team, world demand was subdued in April and should even out in the coming months. The strongest positive contribution by far came from building materials (18%), while cement rose 8%, adding to the various indicators of a nascent recovery on those markets. Containers also demonstrated resilient 14% growth that was fuelled by the growth of internal demand, which is to the benefit of Transcontainer and Fesco.

Elena Sakhnova

## Russian Railways to spend RUB11bn on rolling stock in 2011

**bne**

State-owned railroad company Russian Railways plans to allot RUB11bn to buy rolling stock in 2011, Russian Railways' press office said Thursday citing the company's president, Vladimir Yakunin. Prime-Tass reports that the company plans to buy 466 rail cars, 42 rail bus coaches, and four cars for electric diesel locomotives.

## Siemens starts work on electric trains for Russian Railways

**bne**

Germany's Siemens has launched the production of Lastochka, or Swallow, high-speed electric trains under a contract with Russian Railways, the state-owned railroad company's President Vladimir Yakunin says.

Prime-Tass reports that Siemens and Russian Railways signed the contract, worth EUR585.9m, for the production of 54 high-speed trains in December 2009. The first 38 trains are expected to be assembled at a Siemens plant in Germany, while the production of the remaining 16 trains is to be localized in Russia.

# Russia planes

## Aeroflot will not increase fuel surcharges on June 1

**Alfa Bank**

According to Aeroflot, the company will not increase fuel surcharges as of June 1, refuting news reports to the contrary. Several media outlets reported Tuesday that Russian airlines, including Aeroflot, will increase fuel surcharges on June 1 as a measure to cope with increasing jet fuel costs.

We view the news as NEUTRAL for Aeroflot and we believe the company will eventually revise its fuel surcharges upwards given the high value of jet fuel, which has risen almost 25% since the beginning of the year, putting negative pressure on company's profitability.

## Transcontainer FY10 results review (2010, Full Year)

**Renaissance Capital**

Transcontainer released FY10 IAS results yesterday (28 April), having reported RAS numbers in March. Revenues and EBITDA were in line with our expectations, while net income was a bit light vs our estimate, though 26% above the consensus expectation. The 24% YoY top-line growth was driven by better pricing and a better product mix (higher growth of the integrated logistics segment), as well as a continued recovery in container throughput. The contribution of the integrated logistics unit to net revenues rose to 27% in 2010 from 17% in 2009.

The EBITDA margin did not change in 2H10, mostly due to a significant pickup in maintenance and repair costs, which we believe will moderate in 2011, as the company will retire 1,300 old flatcars, replacing them with new 80-foot flatcars. In general, the empty-run ratio is slowly decreasing, as is container turnover. As for 2011, Transcontainer said it has increased prices roughly 10% since the start of the year. The 1Q11 operating statistics showed a seasonal decline in container throughput, but YoY the number of TEUs was up 23%, reflecting positive momentum in the container business: with a stronger rouble and a high oil price, Russian consumers are likely to accelerate spending, therefore we expect strong growth in container throughput to continue.

In our view, the results were neutral-to-positive, and we plan to review our forecasts shortly. The main driver of the stock's performance remains the sale of 25% or even 50% of Transcontainer by Russian Railways (currently scheduled for 3Q11).

## Russian regulator withdraws permission for some Avianova flights

**bne**

Russia's Federal Air Transport Agency has withdrawn permission to carry a number of charter flights by Russian low-cost airline Avianova due to flight delays and cancellations in 2010 and 2011, Prime-Tass reports.

Avianova has cancelled 1,398 flights since April 2010 and delayed at least 1,044 more, the regulator said in a statement on the results of its April 6-8 investigation, adding that around 600 of the cancellations were illegal.

The agency plans to carry out another investigation into the company's operations in two months, Prime-Tass adds.

## Irkut sees orders for new plane stacking up

**bne**

Airplane builder Irkut had signed 190 supply contracts by the end of 2010 for the MS-21 passenger plane it has in development, according to a draft of its annual report, reports Prime Tass. The aircraft maker also has 39 options to supply the new airplanes to customers.

More specifically, Irkut signed a \$3bn contract with Malaysian leasing company Crecom to supply 50 MS-21 airplanes, whilst company president Oleg Demchenko said in February that he had signed a contract to supply another 50 of the jets to Rostekhnologii - the state-owned corporation which holds a management mandate to supply flag carrier Aeroflot, and several regional airlines, with new fleet.

The mid-range MS-21, which is intended to replace the Tu-154 - which has been withdrawn by all major airlines in Russia - as well as other models, is currently in development. Its first flight is slated for 2014, and Irkut hopes to receive certification by 2016.

## Novosibirsk airport reports 24% y-o-y rise in passenger traffic in Jan-Apr

**bne**

The passenger traffic of Russia's Tolmachevo Airport near the Siberian city of Novosibirsk increased 24.3% on the year to 685,900 people in January-April after a 28.2% year-on-year rise in April to 190,700 people, Prime-Tass reports, citing an airport statement.

## Kazakh investors to sell 50% stake in Russia's Novaport

**bne**

The Kazakh investment group Meridian Capital says it will sell its 50% stake in Russian airport Novaport, Kommersant business daily reports.

Meridian has offer the stake to VTB Capital, the paper reported.

A source at Novaport confirmed that Meridian Capital was holding talks to sell shares in Novaport, but said the Kazakh company planned to sell only 25% Prime Tass reports.

The Russian paper also reported that Russian businessman Roman Trotsenko's AEON group, which currently holds the remaining 50% in Novaport, planned to keep only 25% in the company in the future.

## Russian airlines' passenger traffic up 10% year-on-year in January-March

**bne**

The total passenger traffic of all Russian airlines rose 10.1% year-on-year to 11.127m people in January-March while passenger transportation rose 12.8% to 30.552bn passenger-kilometers, the Federal Air Transport Agency said in a statement, Prime-Tass reports.

Of the total, international passenger traffic increased 9.9% on the year to 5.070m people, while domestic passenger traffic increased 10.3% on the year to 6.057m people.

## Sheremetyevo Airport RAS net profit down 6.5% in 2010

**bne**

The net profit of Moscow's Sheremetyevo International Airport fell 6.5% on the year to RUB784.9m in 2010, as calculated under Russian Accounting Standards (RAS), Prime-Tass reports.

Revenue rose 7.8% on the year to RUB8.565bn in 2010, the airport is quoted as saying in a report that attributed the decrease in net profit to increased operating expenses.

# Russia ships

## **A.P. Moller-Maersk to build \$3.5bn port in Baltiysk, Kaliningrad region**

### **Marchmont**

Logistics firm APM Terminals, which is a part of Danish group A.P. Moller-Maersk, is considering investing over \$3.5bn building a new port in the city of Baltiysk, Kaliningrad region, news portal Trans-Port reports.

Under plans, the port, with projected annual capacity of 6 million TEUs, is reportedly to become the main transport station at the Baltic Sea.

Further project parameters, including its timeframes, have yet to be disclosed.

defense minister, said at a government meeting in the Caspian port city of Astrakhan.

He said most of its 148 ships were over 30 years old.

A second Gepard class frigate designed to engage surface ships, submarines and air targets, was floated out in the Caspian Sea earlier this month. It is expected to join the Caspian Flotilla later this year.

## **Vostochny Port freight traffic up 15% on year in Jan-Apr**

bne  
May 5, 2011

Freight traffic through Russia's Far Eastern Vostochny Port increased 15% year-on-year in January-April to 5.314m tonnes, Prime-Tass reports, citing statement from the port.

## **Russian deputy PM urges Caspian Fleet upgrade**

### **RIA Novosti**

Russia's Caspian Flotilla is in urgent need of an upgrade, first deputy prime minister Sergei Ivanov said on Wednesday.

"The fleet which is currently in service in the Caspian Sea could be characterized as outdated and uncompetitive," Ivanov, a former

# CIS infrastructure

## UKR Donetsk railways' net profit down 20 times in Q1

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**bne**

State-run Donetsk railways' net profit January through March 2011 plunged by 20.3 times compared to the same period of 2010, to UAH1.356bn, Interfax reports.

The company says in an official financial report placed in the information disclosure system of the State Commission for Securities and the Stock Market that its net revenues in the first quarter grew by 14.3%, to UAH1.99bn.

## Azovmash 4M11 output up 110% y-o-y in value terms

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**Dragon Capital**

News: The Azovmash group, owner of freight car producers Azovzahalmarsh [Buy; PT \$5.12] and MZVM [Not Rated], reported a 110% y-o-y surge in output in value terms in 4M11, to \$364m, of which railcars accounted for 95%. Exports contributed 90% of total revenues. Azovmash's 4M11 production in volume terms reached 5,165 railcars over the period (+50% y-o-y). (Interfax)

Dragon view: Azovmash has so far significantly outperformed our full-year production forecast (+5% y-o-y to 13,000 railcars) but we expect its growth to decelerate in 2H11 on a higher comparison base. Although the news may be a near-term positive for the underlying Azovmash stocks, we remain skeptical about the group's continued output growth producing any noticeable impact on its financials given no visible improvement in its reporting standards.

## Cost of business terminal at Donetsk Airport estimated at UAH400m

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**bne**

The Cabinet of Ministers of Ukraine estimates the total cost of a new business terminal at Donetsk International Airport at

UAH400m, with construction and assembly work alone coming in at UAH268m, Interfax reports.

The construction is due to start this year and end in 2012.

## IFC may give \$32m to HPC-Ukraine for Odesa port container terminal

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**bne**

The International Finance Corporation (IFC) is studying the provision of \$32m from the IFC's own account to HPC-Ukraine stevedore company to finance the ongoing construction of a container terminal at Odesa maritime merchandise port, Interfax reports.

The agency cites an IFC report as saying the stevedore company could obtain a B or a parallel loan from other financial institutions of \$14m.

## Kyiv to finish construction of important infrastructure facilities this year

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**Kyiv Post**

During a visiting meeting last week Kyiv City State Administration discussed the issue of infrastructure facilities construction in Kyiv in 2011-2012.

According to the administration's press service, the issue of the modernization of the capital's transport infrastructure over the next five years was discussed. The modernization process includes the completion of the construction of the sewage mains, new subway lines, main transport junctions, and the creation of an orbital railway route.

Read more: <http://www.kyivpost.com/news/city/detail/103719/#ixzz1LXqyudZV>

## Luhanskteplovoyz nears large state order

### **BG Capital**

Ukraine's state-run railway monopoly Ukrzaliznytsya announced plans to place a 40-locomotive order with Luhanskteplovoyz (LTPL) in 2012. Ukrzaliznytsya is also considering the possibility of a 3-5 year fixed-price order for at least 20 locomotives annually from Luhanskteplovoyz.

Alexander Paraschiy: The news definitely looks encouraging for Luhanskteplovoyz's mid-term production outlook, but we note that Ukrzaliznytsya's wagon and locomotive purchase plans often fall flat owing to perennial financing problems.

## Metinvest and Interpipe to supply pipes for gas-transport modernization

### **Concorde Capital**

Metinvest and Interpipe won a tender to supply state-owned oil company Naftogaz of Ukraine with pipes for the modernization of Ukraine's gas transportation system, according to a report published yesterday by the Ministry of Economic Development and Trade. The total volume of the contracts is UAH 160 mln, which envisions 2.5 mln mt of pipes (UAH 67.8 mln) being provided by Metinvest Holding, and 4.5 mln mt (UAH 95.9 mln) being provided by Interpipe. Naftogaz plans to invest UAH 3.1 bln into the modernization of Ukraine's gas transportation system in 2011.

Concorde Capital: This announcement is in line with our expectations of Ukraine's modernization plans, and positive for Metinvest-controlled Khartsyzsk Pipe (UX: HRTR UK), as it is the only producer of large-diameter pipes in Ukraine. We also note demand for Khartsyzsk Pipe's products from Transneft, which helped the company boost its pipe output by 5x y-o-y to 155.7 ths mt in 1Q11.

## Prydniprovskaya Railways posts 41% fall in Q1 net profit

### **bne**

Ukraine's Prydniprovskaya Railways in January-March 2011 saw its net profit fall by 41.1% compared to 2010, to UAH4.105m, despite net income growing by 16.3%, to UAH1.966bn, Interfax reports.

## Residents rate Kiev best city in Ukraine, but worse than other East European capitals

### **bne**

Residents of Kiev consider living standards in the capital considerably higher than in other Ukrainian cities, but still significantly below those in other East European capitals, a poll for the Kyiv City State Administration has found, reports Interfax.

Conducted in the interests of the development of a new strategy for the capital's development to 2025, the poll asked members of the public about the state of transport and transport infrastructure, engineering infrastructure, city management, healthcare, social provision and security, ecology and the environment.

Kiev's outdated transport and engineering networks got the lowest assessments, although the poor level of local government and healthcare in the city were also noted.

However, things are brighter regarding ecology, according to the study, which claims that the level of pollution is lower than other cities in Ukraine. In addition, most respondents noted that Kiev is a relatively safe city, whilst they also consider the education infrastructure and the level of education of Kiev residents a competitive advantage.

## Simferopol airport sees net loss rise 84% y-o-y in Q1

### **bne**

OJSC Simferopol international airport in January-March 2011 saw its net loss rise by 83.9% year-over-year, to UAH6.607m, according to a company report posted at the State Commission for Securities and the Stock Market, Interfax reports.

The company reported that its net income came to UAH13.446m in the first quarter, a 4.6% rise year-over-year.



## Stakhaniv Wagon decreases net income by 24.7% y-o-y in 1Q11

### **Concorde Capital**

Stakhaniv Wagon's (UX: SVGZ UK) net income declined by 24.7% y-o-y to UAH 59.6 mln in 1Q11, while revenues grew by 66.7% y-o-y to UAH 978.2 bln, according to a company press release yesterday.

Vitaly Gorovoy: We note the company produced 1,988 freight railcars in 1Q11, up 9% y-o-y. We relate the drop in net margin (6.1% in 1Q11 vs. 13.5% in 1Q10) to expensive casting supplies from VTB Leasing. However, we see improvement in Stakhaniv Wagon's margins already in 2Q11 as likely, because company reportedly signed an agreement for new casting from Chinese and American suppliers at about a 25-30% discount from average 1Q11 levels.

## Ukraine may link Kharkiv, Donetsk, Dnipropetrovsk with high-speed trains

### **bne**

The Ukrainian Infrastructure Ministry has proposed launching trains with speeds of 160-180 kilometers per hour between Kharkiv, Donetsk and Dnipropetrovsk, Interfax reports, citing a ministry press release.

According to the report, the railway links would draw travelers from other modes of transport, alleviating congestion, and they could be launched on the basis of existing infrastructure, although cargo and passenger train routes would have to be separated and the track would need to be electrified.

Ukraine's Infrastructure Ministry has also suggested building a high-speed trunk railway between Kyiv and Moscow, Interfax says, citing a report on Russian Railways' corporate TV channel.

# Eurasia infrastructure

## Official says North-South route needs Russia to upgrade ports

### **bne**

The infrastructure of Russian sea ports should be upgraded to increase freight traffic through the North-South international transport corridor, Russian Deputy Transport Minister Victor Olersky said at a meeting of the government's Maritime Board, Prime-Tass reports.

Olersky is quoted as saying that the corridor to transport freight from South Asia to Europe via Central Asia, the Caucasus and Russia is not operational despite havign been proposed 10 years ago. He blames inefficient customs control procedures, an inflexible tariff policy, and bad transport infrastructure in the Russian section of the corridor.

# CE infrastructure

## Hungary NIF annuls M3 motorway tender

**bne**

Hungary's National Infrastructure Developer NIF has annulled an open public-procurement tender called in December 2010 to build an 11.9km section of the M3 motorway connecting road no. 49 to the village of Vasarosnameny in eastern Hungary, NIF announced on Tuesday, MTI reported.

NIF said it annulled the tender due to a change in plans calling for steel fences in the median strip between the motorway's divided roads instead of the originally stipulated concrete walls.

A new tender will be announced in May.

## Slovaks spent more than EUR200m on modernising railways in 2010

**bne**

Slovakia used 204.42 million to modernise its railway infrastructure in 2010, according to a report recently released by the Transport Ministry, TASR reported.

"Finances were used on modernisation of corridors, platforms, underpasses, as well as on the modernisation of security equipment and project documentation for construction projects financed from EU funds," reads the report.

The lion's share of the used resources - 158.94 million - was drawn from the eurofunds.

## Polish Rail to Call PLN8bn Tenders for Track Upgrades

**bne**

PKP Polskie Linie Kolejowe, which is in charge of railway track infrastructure in Poland, has already signed PLN7.9bn contracts for constructing and maintaining tracks, Polish News Bulletin reported. It should pay PLN12.5bn, as it is one of the most desired customers in the building industry. The market expects the company to call this year new tenders for more than PLN8bn contracts. The biggest tenders will be over the estimated PLN1.1bn track connection between Warsaw and Tluszcz, upgrading tracks between Poznan and Czempin for about PLN900m, as well as building the ERTMS system for the Warsaw-Gdynia connection for about PLN1.2bn. The investments are subsidised by the EU with funds allocated for the 2007-2013 period so there is not much time left. To benefit from this aid, PKP PLK should sign contracts by the end of this year. It has PLN19.3bn at its disposal.

## Wider road charging for Poland?

**bne**

Poland's Infrastructure Ministry is launching consultations on its transportation strategy until 2030, including the introduction for the first time of charges for using roads, reported the daily Puls Biznesu.

Charges are planned for all roads under the management of the national road authority GDDKiA, Infrastructure Ministry spokesman Mikolaj Karpinski said.

If only the national roads are covered, consequences for the local roads may be very serious, as Polish transport firms are usually small and have to cut costs, so their drivers will use local roads instead, mayor of the town of Pelplin, Andrzej Stanuch, told the daily.

In the shorter term - until 2020, the ministry plans to integrate tolls on highways and express roads with charges for using roads in the cities.