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## Top story



# Medvedev inspects Moscow's Vnukovo Airport

### Ria Novosti

Russian President Dmitry Medvedev made a surprise visit to Moscow's Vnukovo International Airport on Friday and declared himself satisfied with its security system.

Transport security has dominated the government agenda since last month's deadly terrorist attack on Moscow's Domodedovo Airport, which killed 36 and injured more than 100.

Speaking the day after a visit to the capital's Kievsky railway station, Medvedev said that while there could never be sufficient number of security personnel at a transport hub, "there is order here, in contrast to the situation yesterday."

Medvedev criticized the management of Kievsky Station for failing to provide proper security. He ordered rail monopoly Russian

Railways (RZD) to take steps to ensure security on the rail network and report back to him within three days.

The president also said local governors should join the federal authorities in monitoring the situation with transport security.

"It is not only the president and ministers who should be doing this, but governors too. Local officials must tour transport facilities to inspect security," Medvedev said.

Medvedev then went on to the airport's VIP terminal to fly to the Russian Volga republic of Bashkiria for a State Council Presidium meeting. ●

# Audit Chamber uncovers \$7 bln waste in Moscow transport spending

## RIA Novosti

The Moscow city government has misspent up to 215 billion rubles (\$7.3 billion) in the transportation sector, the Audit Chamber said on Friday.

Auditor Sergei Ryabukhin said the amount was 17 billion rubles down on the original estimate of 232 billion rubles announced in December following a preliminary probe into the effectiveness of government spending in 2008-10.

The probe was ordered by Moscow's new mayor, Sergei Sobyenin, in October.

Ryabukhin said 10.8 billion rubles were diverted over a period of three years to subsidize the operations of the Moscow city

government airline Atlant-Soyuz (later renamed Moskva) and make fictitious purchases of airplanes.

This is 3.8 billion rubles up on the original estimate of 7 billion, he added.

About 59 billion rubles was misspent in unauthorized budget investment on projects that were not part of Moscow's official investment program.

"These funds were not stolen, but were spent in violation of existing regulations," Ryabukhin said. ●

# Highway construction through Khimki Forest to begin in March

## RIA Novosti

Construction to build a much debated highway through the Khimki Forest near Moscow will begin in March, a building company said on Thursday.

The project was given the go-ahead in December, three months after President Dmitry Medvedev put it on hold amid protests demanding to reroute the new Moscow-St. Petersburg highway.

"Builders will start working by mid-March," Avtodor deputy chair Sergei Kelbakh told RIA Novosti.

Several journalists who reported on the Khimki controversy have been attacked and badly hurt in the past.



Oleg Kashin, a journalist with Kommersant daily, was beaten with an iron rod by two unknown assailants outside his home in Moscow on November 6.

Ecologist Konstantin Fetisov was set upon by men with a baseball bat two days earlier.

In 2008, Mikhail Beketov, the former editor of a local weekly, was left brain-damaged and unable to speak in a similar attack. ●

# Russia Forum Buzz – Increasing Quality of Public Governance: Experience and Perspectives

## Troika Dialog - press release

Moscow Mayor Sergey Sobyenin spoke very openly and frankly. He admitted several problems that Moscow is facing. The absence of a general plan for the city's development seems to be the most pressing one. The city does not have weighted infrastructural plans and will reduce borrowing. The mayor is going to build partnerships with business. He noted three levels at which the city government comes into contact with business. First is the formation of city orders (more than R10 bln annually). The city is going to fully switch to a scheme of electronic auctions, which should minimize corruption. The second level is investment contracts. The city has contracts for building 40 mln m2, which is considerable, as only 5 mln m2 is built in the city annually. The government will have to take on the difficult task of solving which contracts should be prolonged and which should be cancelled. The third level is new construction, which is the largest problem. As there are no plans for city development, it is very hard to initiate projects.

Sobyenin noted that the Moscow government's priorities are changing. Transport and social infrastructure will be the key directions of development.

The mayor believes that the invisible hand of the market is already deciding what Moscow will look like in the future. He

mentioned that new housing is more active in Moscow Region than in the city itself. Industrial activity is also moving to the regions from the capital. Moscow's aim is to help this process continue.

The topic of improving the quality of government employees was also discussed. Sobyenin does not believe that the government will be able to pay salaries comparable to business, but talented people will be motivated to go into state service if they see the potential to capitalize on their experience in the future in the private sector. He also proposes increasing the use of electronic services to reduce corruption at lower levels. Sobyenin avoided the question about creating a financial center in Moscow. In his view, Moscow should first be a comfortable place to live, and the government will focus on developing social infrastructure.

Tatar President Rustam Minnikhanov talked about Tatarstan's policy. The expansion of electronic state services seems to be very important for the government. The government is the people who work for this. That is why education of the staff is also a priority. Minnikhanov admitted to problems in its relations with investors: they simply do not know anything about the republic. Improvement in this sphere will also be a priority. ●

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## Russian Railways costs link to Mongolian coal field at \$2bn

### bne

Construction of a railroad link to the Tavan-Tolgoi coal deposit in Mongolia is estimated at \$2bn, says Vadim Morozov, first vice president of state-owned railroad monopoly Russian Railways, reports Prime-Tass.

The news agency says that Mongolia recently started the pre-qualification selection of bids for the development of the field. ●

# Russian Transport Ministry lays blame for December air traffic chaos

**Ria Novosti**

The Russian Transport Ministry's final report has blamed the pre-New Year traffic chaos at Russian airports on the heads of Russia's largest airline Aeroflot, airports' management, Federal Air Transport Agency officials, and flawed laws, Russian daily Kommersant said on Friday.

A total of 801 flights were delayed, 408 cancelled and 20,000 people were stranded at airports as a result of transport officials and airport employees' uncoordinated work following an ice storm that hit the entire territory of Central Russia in late December, the paper said.

Quoting a report by a special commission created to study the aviation officials' response to the ice storm, Kommersant said the Domodedovo staff had failed to repair electricity lines broken

by falling trees during three days since the storm broke over Moscow.

"In foreign countries, electricity lines at such facilities are laid underground, which helps avoid such failures," Transport Minister Igor Levitin was quoted as saying.

The Domodedovo heads did not announce an emergency situation at the airport and did not close the terminal, which led to the dismissal of the airport's head, Vyacheslav Nekrasov, he said.

Managers of Sheremetyevo Airport to the north of Moscow have been blamed for "improperly performing their duties" and the Federal Air Transport Agency's Moscow department for failing to assure "preventive measures" to avoid the traffic collapse. ●



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# Businessman Timchenko to buy Russia's Murmansk Port

**bne**

Businessman Gennady Timchenko has agreed to buy Murmansk Commercial Sea Port for \$250 million, The Moscow Times reports, citing industry sources.

"The deal is expected to be closed in the first quarter," one of the sources was quoted as saying.

Murmansk is Russia's leading coal export terminal with a monthly capacity of about 1 million tons and is controlled by a group of private investors. ●



# Russia infrastructure news

## GLONASS operator expects satellite tracking of all Moscow public transport by yearend

**bne**

All above-ground public transport in Moscow is expected to be equipped with navigation terminals supporting Russia's Global Navigation Satellite System (GLONASS) by the end of 2011, says Alexander Gurko, the CEO of Russia's Navigation and Information Systems (NIS), which is the federal operator of GLONASS, reports Prime-Tass.

The news agency says no figures were given regarding the cost of the project, which would allow Muscovites to find out when a bus is due via their mobile phones or information screens at bus stops.

## Globaltrans and Transcontainer - Apples and oranges

**Renaissance Capital**

Driven by different parts of the economy. Globaltrans is mostly driven by growth in domestic industrial production and consumption, and global demand for raw materials, through its exposure to basic materials, semi-finished industrial goods and construction. Transcontainer, on the other hand, is mostly driven by domestic private consumption and imports, and global demand for raw materials, through its exposure to high-value export goods, and consumer durables and non-durables. Transcontainer's operations are more cyclical and its stock has a higher beta, it is also currently in a quicker growth cycle than Globaltrans.

At different stages of life.

Globaltrans operates a young fleet in the fragmented open-top gondola market, with about a 10% market share. As major players, such as Russian Railways' (RZhD) subsidiaries, are struggling and as there is strong demand for railcars, we believe there are ample growth opportunities for Globaltrans. Transcontainer operates a mature fleet that is in need of replacement and has more than a 50% market share in flatcars. Its growth is mostly driven by strong imports and market

containerisation. Transcontainer's business model is a more complete door-to-door model, involving freight forwarding, terminal services, warehousing and trucks.

We prefer Globaltrans.

We expect Transcontainer to post 58% EBITDA growth in 2011 vs 24% for Globaltrans, largely due to the former's high operating leverage. Also, due to its more complete business model, which allows for greater pricing flexibility, and given the current high point of the cycle, we believe Transcontainer warrants a premium to Globaltrans. However, we feel its higher risk profile compared with Globaltrans, limits that premium to just 10%. Using DCF and multiple valuations, we arrive at the following TPs: \$21/GDR for Globaltrans and \$11.7/GDR for Transcontainer. Therefore, we maintain our BUY rating for Globaltrans and initiate Transcontainer with a HOLD rating.

## IskitimCement faces bankruptcy lawsuit

**VTB Capital**

News: According to Vedomosti, a Moscow company Novy Algoritm has filed a bankruptcy lawsuit against IskitimCement in an effort to recover lease payments for a Moscow office rented by the company. According to the paper, the total amount of claims, including penalties, could reach USD 2.5mn.

Our View: The lawsuit adds to IskitimCement's debt problems, although we do not think that it will lead to the company's bankruptcy. At the end of 3Q10, IskitimCement's total net debt stood at USD 75mn (we forecast EBITDA of USD 11mn for 2010). In addition, the company has guaranteed the debt of almost USD 70mn of its subsidiary, which is building a new cement plant. The major creditor is Sberbank and we believe that much will depend on its stance towards the debt restructuring. Earlier this year, the Russian media reported that Sberbank might take control over IskitimCement from RATM Holding, but no final decision has been made. We are reiterating our Hold recommendation on the stock.

Vladimir Bespalov

## LSR acquires crushed granite plant for \$32mn

### Renaissance Capital

**Event:** Yesterday (7 February), LSR announced that it had signed a preliminary contract to acquire OOO 436 KNI, a crushed granite plant, for \$32mn (RUB961mn). The plant has an annual production capacity of 1.1mn m<sup>3</sup> and is located in the Leningrad region, close to LSR's Petrovsky quarry.

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

**Rationale:** Having raised \$400mn last spring, LSR is now strengthening its position in the building materials market. The building materials division suffered significantly during the crisis and is lagging in the recovery. However, sales volumes are improving: in 2010, LSR's crushed granite sales added 12%, ready-mixed concrete added 36%, and reinforced concrete added 19%. We believe volumes will improve further, as the number of infrastructure projects is increasing. LSR trades at 12.3x and 9.6x 2011E and 2012E EV/EBITDA, respectively, at a slight premium to PIK, which trades at 11.7x and 9.5x 2011E and 2012E EV/EBITDA, respectively.

David Ferguson

## Medvedev inspects Moscow's Vnukovo Airport

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The president also said local governors should join the federal authorities in monitoring the situation with transport security.

"It is not only the president and ministers who should be doing this, but governors too. Local officials must tour transport facilities to inspect security," Medvedev said.

Medvedev then went on to the airport's VIP terminal to fly to the Russian Volga republic of Bashkiria for a State Council Presidium meeting.

## Medvedev orders nationwide anti-terrorism drills on transport

### RIA Novosti

Russian President Dmitry Medvedev has ordered the country's key ministers to launch anti-terrorism drills across Russia to ensure public security on transport, the Kremlin press service said on Friday.

Medvedev has charged the interior, emergencies, defense and transport ministers as well as the chief of Russia's Federal Security Service with developing plans to hold the drills on a regular basis.

Transport security has dominated the government agenda since last month's deadly terrorist attack on Moscow's Domodedovo Airport, which killed 36 and injured more than 100.

Medvedev made a surprise visit to Moscow's Kievsky railway station on Thursday and criticized the authorities for failing to ensure proper security. He ordered rail monopoly Russian Railways (RZD) to take steps to ensure security on the rail network and report back to him within three days.

On Sunday, all nine Moscow railway stations received hoax bomb threats.

RZD head Vladimir Yakunin vowed on Thursday to install the necessary security equipment across the network, but the company said the government would have to pass new legislation to establish who will use the equipment, and conduct searches of passengers.

## Auditors say Moscow government wasted RUB215bn on transport

### bne

The Moscow city government misspent RUB215bn on the city's transportation system in 2008-2010, or 37% of the city's spend on



transport during the period, auditors say, reports Prime-Tass.

The Moscow Times reports that the probe was ordered by new Moscow Mayor Sergei Sobyenin and covered the finances of five Moscow government departments as well as the Moscow metro, Mosgortrans and builder Mosmetrostroj.

The newspaper says the revelations may signal that the authorities are gearing up to level corruption charges against Yuri Luzhkov, who was fired last September. A city financial official was quoted as saying, however, that it was too early to say if the violations were criminal.

## Moscow may invite foreign firms to join subway, road construction

### RIA Novosti

Foreign companies may receive contracts on contracts on construction of subway and road infrastructure in Moscow in line with plans to increase the volume of construction in the Russian capital, a deputy mayor said.

"The volume of construction [in Moscow] has already doubled, and we will have to use additional sources. It is highly possible that we will invite foreigners to join some of the construction projects," Marat Khusnullin said in an interview with the Vedomosti daily published on Wednesday.

Khusnullin mentioned subway and road construction among these projects.

The official said Moscow authorities planned to build 75 kilometers of subway lines in five years.

Moscow Mayor Sergei Sobyenin earlier pledged to allocate 50 billion rubles annually on the subway construction until 2015. He also urged building subway stations under standard design rather than as individual projects.

## Moscow subway chief resigns amid fraud scandal

### RIA Novosti

Moscow subway head Dmitry Gayev resigned on Monday amid

allegations of the unlawful diversion of funds, spokesperson for the Moscow mayor Gulnara Penkova said.

Ivan Besedin, former head of Kaliningrad Railway, a branch of the Russian Railways, was appointed the new chief of the Moscow subway, Penkova added.

In December, Russia's Prosecutor General's Office advised Moscow Mayor Sergei Sobyenin to fire Gayev. Citing an investigation, prosecutors said that over the last ten years, Gayev had illegally made 112 million rubles (\$3.64 million) by concluding contracts which negatively affected the rates for transportation of passengers.

After coming to office in October 2010, Sobyenin pledged to resolve the capital's transport situation, including its massive traffic jams. Plans to build 75 kilometers of subway lines in five years have been announced.

Sobyenin promised to allocate 50 billion rubles annually for subway construction until 2015.

## Mostotrest may acquire Volgomost

### Metropol

According to market sources, Mostotrest is planning to acquire Volgomost, a bridge builder active in the Volga region. Mostotrest may initially buy 25-30% of the company and conduct an internal audit, the results of which should allow a more precise valuation of the remaining stake.

We believe the news should have a positive impact on Mostotrest stock. Mostotrest, which currently has little capacity in the Volga region, could gain market share and an entry point to the Ural region. As part of its strategy to expand geographically, last year Mostotrest acquired a 25% stake in Mostostroy-11, which is active in the Siberian Federal District. Mostotrest is active in the Central and Southern Federal Districts. Although the Volga Federal District is fiscally weaker than these regions, we estimate that the acquisition could add 30% to bridge construction revenues.

We believe that Volgomost stock may also feel some positive impetus from the deal. Currently, Volgomost trades at a 35% discount to Mostotrest on 2010E EV/EBITDA and a 45% discount on 2010E EV/S. Any official announcement regarding the deal could potentially narrow the discount.

Andrey Rozhkov

## Raiffeisen Capital to invest in 2018 World Cup

**bne**

Raiffeisen Capital Management Company will on February 4 start raising an open-end mutual fund focused on investing in Russian infrastructure projects, reports local media.

The company says the World Cup in South Africa shows how major projects can be effective and cites plans for a high-speed rail network, the 2012 APEC summit in the Far East, the 2014 Winter Olympics in Sochi and the 2018 World Cup (in all estimated at \$125 billion) as examples of opportunities for investment in Russian infrastructure projects.

## Regulator clears 3 companies to buy 100% in Mosmetrostroy

**bne**

Russia's Federal Antimonopoly Service has cleared each of these three companies, Omsk-based company Mostovik and Moscow-based companies Seltekhstroy and Tsentrstroy, to separately buy 100% in metro construction company Mosmetrostroy, reports Prime-Tass.

The news agency says that according to earlier reports, in late December 2010, the Federal Property Management Agency sold Mosmetrostroy to Tsentrstroy for RUB7.559bn.

## Russia Forum Buzz - Oil & Gas Exports to Asia: Deciphering the Message in a Fortune Cookie

**Troika Dialog**

The general background to the discussion of supplying Russian energy to China was dominated by the basic human inability to project its own behavior and consumption patterns years, much less decades, from now. The debate, which focused almost solely on gas, was punctuated by some lively disagreements between the broadly cautious panel and representatives from Gazprom and

NOVATEK, who hold a more optimistic view on China's market potential.

Government policy, even more so than Chinese economic growth, is the key to deciphering the fortune cookie, the panelists agreed. For instance, how much will the environment be taken into account by governments around the world when deciding on their targeted energy mix? How important is energy security? Fatih Birol said that governments are important, but one government is more important than almost all the others combined - China's.

Christof Ruehl of BP noted that China's leadership will do whatever it can to limit oil imports, in order to reduce the risk of supply. This would leave more space for natural gas: the head of Gazprom Export's LNG directorate, Marina Surzhenko, noted that the Chinese government's own projections see 400 bcm of consumption as early as 2020. However, China will try to fill most of this from its own resources, noted Michael Stoppard of IHS CERA. He believes that we may be underestimating China's ability to supply itself. Tim Lambert cited Wood Mackenzie estimates that China could produce some 270 bcm by 2030, or 60% of the most optimistic demand scenario, but even that may not be taking into account the huge potential growth in proven reserves in the country, which have already quadrupled over the past decade, Stoppard said.

So how will we know who is right and who is not? The number that will capture the varying disagreements into one neat consensus will be the price of deliveries, said Ruehl. He mentioned, for instance, that markets that are not liberalized, such as China, will continue paying under the oil-linked formula because there will be no competitive pressure on the local monopolist to push for lower prices. Indeed, Gazprom's Surzhenko said that it is the volume that Gazprom and China are busy negotiating before their self-imposed July deadline. "Maybe we should not be relaxed and should hurry up" capturing a share of the Chinese demand, she underscored. However, Tatiana Mitrova of the Russian Academy of Sciences countered that while the size of the market remains hard to gage, Gazprom has time to wait and see. The gas heading to China will be more expensive for Russia to produce and transport than gas to the European markets, Mitrova said. Indeed, the pipeline from Turkmenistan to China, which many view as having dashed Gazprom's expansionist hopes in Asia, has actually served to preserve the more lucrative European market share for Gazprom, she noted.

NOVATEK's Mark Gyetvay brought up the same point he made in last year's panel on Russian gas exports: companies cannot afford to base their investment decisions on the forecasts of think tanks that so often prove to be wide of the mark. This does not mean taking a pure leap of faith. Gyetvay pointed out that NOVATEK delivered a test shipment of gas condensate to China last autumn, "which shows that if you exercise some ingenuity, the market will open up to you." Russia's advantages as a lower-cost gas producer outweigh the higher transport costs it faces vis-a-vis competitors such as Qatar or Australia. However, Stoppard pointed out that in the two years since the crisis, final investment decisions to proceed with some 40 bcm of extra capacity have been made in Australia alone, which, added to indigenous ramp-up in China's reserves, presents a clear challenge for Russian producers.

Peter O'Brien, Rosneft's vice president, gave an optimistic note at the end. When Rosneft negotiated the export of some 300 kbpd to China over 20 years, both the producer and the pipeline export monopolist Transneft received purchase commitments and cheap credit. Were Gazprom to meet with similar success in its talks, it could trigger a paradigm shift in how investors value Gazprom's reserves, O'Brien said.

## Russia must be ready to host Mistral ships in Pacific – expert

### RIA Novosti

Russia must start building infrastructure near the port of Vladivostok as soon as possible to accommodate two Mistral class amphibious assault ships built in France for the Russian Navy, a military analyst said Thursday.

The ships are expected to join Russia's Pacific Fleet and be deployed to protect the disputed South Kuril Islands. Russian President Dmitry Medvedev on Wednesday ordered naval and ground-based units deployed on four Kuril Islands to be equipped with advanced weaponry.

"This [the early construction of infrastructure] will ensure their immediate use of these ships in the Vladivostok area upon entering service with the Pacific Fleet in 2014," said Igor Korotchenko, a member of the Russia's Defense Ministry's Public Council.

Korotchenko cited an example of a Pacific Fleet's naval base in Vilyuchinsk on the Kamchatka Peninsula, which has been fully prepared to host Russia's new Borey class strategic nuclear-powered submarines, although the vessels have not entered service with the Navy yet.

Moscow and Paris signed an intergovernmental agreement to jointly build four Mistral class ships on January 25.

Under the Russian-French agreement the first Mistral-class ship, with a price tag of 720 million euros, is expected to be built in late 2013-early 2014 and the second in late 2014-early 2015.

The remaining two Mistral ships will be built in Russia.

A Mistral-class ship is capable of carrying 16 helicopters, four landing vessels, 70 armored vehicles, and 450 personnel.

The South Kuril Islands were seized from Japan by Soviet troops at the end of World War Two and remain a source of tension between Moscow and Tokyo. Russia claims that the islands are "unalienable Russian territory."

## Russian president creates new post to ensure transport security

### bne

Russian President Dmitry Medvedev has appointed police Colonel General Viktor Kiryanov to the newly created post of deputy interior minister in charge of transport safety, reports Prime-Tass.

The move comes a week after the deadly terrorist attack at Moscow's Domodedovo Airport that killed 36 people.

The Moscow Times reports that Kiryanov has been ordered to draft a detailed plan for reforms in the transport security sector within the next few weeks.

## Russian Railways inks memo to build Iran-Azerbaijan rail link

### bne

Russian Railways has signed a memorandum of understanding to take part in the construction of a railroad link from Iran to Azerbaijan, Prime-Tass reports, citing a statement from the state-owned railroad monopoly.

The agency says Russian Railways, Azerbaijan Railways, and Iranian Railways plan to set up a joint venture to build the Resht-Astara rail link, which Russian Railways President Vladimir Yakunin says is significant for the development of the North-South international transport corridor to move rail freight from South Asia to Europe through Central Asia, the Caucasus, and Russia.

## Sibirsky Cement continues to seek EUR 50mn from Italcementi

### VTB Capital

News: According to Vedomosti, Sibirsky Cement's controlling shareholder continues to seek the return of a EUR 50mn from Italcementi's subsidiary Ciments Francais through the courts. The amount represents the advance payment made by Sibirsky Cement within a deal to acquire Turkish assets in 2008, but the money was lost following the Russian company's decision to

withdraw from the deal in late 2008.

**Our View:** The parties have been in the Russian and international courts over this issue since Sibirsky Cement's decision to terminate the deal. We note that this advance payment was written off to expenses in the company's 2008 accounts. Therefore, even if Sibirsky Cement were to fail in its attempt to get the amount back, that would be neutral for the stock, in our view. However, were the company to be able to recover this amount, it could become a source of additional upside.

## Sibirsky Cement says RATM's claims of over USD 40mn are groundless

### VTB Capital

**News:** Sibirsky Cement has issued a statement saying that RATM Holding's recent claims of RUB 1.25bn (USD 42.5mn) are

groundless and the company is ready to challenge them in the courts. In late January, Kommersant reported that RATM was seeking this amount in fines and compensation related to the long-running dispute between the two parties over Angarsk cement.

**Our View:** Sibirsky Cement's statement just reinforces our neutral view on this new round of the stand-off between RATM and Sibirsky Cement. Were the parties to go to the courts, it might take months of litigation before a final decision was reached. Moreover, the outcome of such litigation remains extremely unclear at this stage. Meanwhile, we believe that Sibirsky Cement still presents the best opportunity in the cement universe to play on the revival in construction activity and we are reiterating our Buy recommendation on the stock.

# Russia infrastructure finance & statistics

## FESCO reports solid preliminary 2010 financials

### Troika Dialog

FESCO yesterday reported solid preliminary 2010 financials, revenues growing 38% to \$900 mln, well above our forecast of \$771 mln. The company expects to report EBITDA of \$157-160 mln, which is slightly above our estimate (\$150 mln). The stock is currently trading at a 2011E EV/EBITDA of around 9.0, implying a premium to EM peers.

The company's BoD chairman, Kirill Rubinsky, confirmed FESCO's interest in acquiring a controlling stake in TransContainer. If this happens, an IPO of the combined company is possible. FESCO sees attractive synergies between its port and shipping assets

in the Far East, logistics know-how and TransContainer's flatcar fleet and nationwide container terminal network. This may lead to tremendous opportunities to further develop door-to-door container services in Russia, improve efficiency of the flatcar and container fleet and lower transportation costs for end customers. FESCO believes that Russian Railways will sell its stake in TransContainer over the next few years as part of Russia's railroad reform.

Mikhail Ganelin

## IskitimCement's 2010 output up 2% YoY

### VTB Capital

News: IskitimCement's 2010 cement output was up 2% YoY to 1.4mn tonnes, the company reported.

Our View: The result came exactly in line with our forecast of 1.4mn tonnes and so we see it as neutral. We note that, according to our estimates, IskitimCement lagged behind the recovery in volumes both in Russia and in Siberia in 2010, although his might be partially attributable to the company's relatively more stable performance during the crisis.

In our view, the key near-term challenge for the company is its significant debt: as of the end of 3Q10, net debt stood at USD 75mn and, in addition, its subsidiary, which is building a new plant, has attracted about USD 70mn of debt. We are reiterating our Hold recommendation on IskitimCement.

## LSR Group publishes strong 2010 operating results

### Troika Dialog

LSR Group has posted strong operating results for 2010. In the development segment, housing completions surged 244%, while the area delivered to customers nearly doubled. New contract apartment sales to retail clients also increased 65-68% across sub-segments in terms of area sold, but the total value of contracts increased only 47% to R14.9 bln (\$490 mln), reflecting a decline in selling prices.

The building materials and aggregates segments also performed well, posting y-o-y sales volume growth. The most impressive result was achieved in ready-mix concrete production (up 36%). Sand was the only product to show negative dynamics last year, and this was due to the suspension of the Sea Front land reclamation project, which accounted for 13% of total sand sales in 2009.

Overall, the published operating results are slightly better than our forecasts. We reiterate our BUY recommendation on LSR Group GDRs and local shares.

Igor Vasilyev

## Novorossiisk Commercial Seaport operations strong in December

### Troika Dialog

Novorossiisk Commercial Seaport has released 2010 operating results that we consider to be neutral. Total volumes declined 5.7% y-o-y to 81.6 mln tonnes, affected by falling volumes of liquid cargoes (down 5.3%) and grain (down 37.0%) after the government banned grain exports. This was 3% below our forecast. In contrast, the company reported strong growth in lucrative container volumes, which doubled to 471,000 TEU, while we modeled just 60% growth. It also had a good showing in sugar (volumes up 31%), mineral fertilizers (up 23%) and non-ferrous metals (up 29%).

Volumes were very strong in December, surging 28% m-o-m, led by crude and petroleum products, which climbed 13% and 45%, respectively. Container volumes rose a remarkable 27%.

This year should be more active, as Novorossiisk Commercial Seaport is set to launch 1 mln tpy in new grain handling capacity and a new 4 mln tpy fuel oil terminal, which should be completed by year end. We also see room for new tariff hikes, as rates have not been increased for some cargoes, including petroleum products and containers, since 2008.

## Steppe Cement: neutral 2010 operating results; better sales at low price

### Troika Dialog

Steppe Cement has released headline operating results for 2010 that were in line with our expectations. The numbers point to an improving cement market amid disruption to supply discipline, which took place last year.

Revenues climbed to \$73 mln (up 23%) on the back of strong sales volumes, which hit a record 1.15 mln tonnes (up 24%, but 4 pp below our forecast), albeit with flat cement prices (\$63/tonne). Importantly, the company's dry line reliability continued to improve, contributing 554 kt, or 48% of total cement production, up from around 300 kt in 2009. However, this still corresponds to utilization of 54% of dry line capacity; we expect this to increase to 80% in 2011, favorably affecting production costs.

We think these solid results are likely to be taken positively by the market, though cement price dynamics for 2011 are anyone's guess at this stage.

The results confirm our view that Steppe Cement opted to boost volumes at the expense of prices last year, and it is unclear whether this policy will be extended into 2011. Our HOLD recommendation on the stock stems mainly from our fear of greater competition on the Kazakh market in light of a new producer (Jambyl Cement) entering the fray this spring. This will keep the lid on the cement price, while we think the current level of \$60-65/tonne is too low for most wet-line producers to break even, considering the cost of debt servicing, and expect producers to come to consensus this year and support pricing.

## UAC announces preliminary results for FY10

### Renaissance Capital

Event: Yesterday (2 February) United Aircraft Corporation (UAC) released preliminary results for FY10. The company's revenue reached RUB165bn (\$5.4bn), up 44.7% YoY. All of UAC's major

divisions demonstrated revenue growth: 36% YoY in the defence segment, to RUB117bn (\$3.85bn); 60% YoY in the civil segment, to RUB20bn (\$0.66bn); and 80.6% YoY in research and development, to RUB28bn (\$0.92bn). Exports accounted for 57% of total revenue. The company announced that its debt had decreased to RUB147.6bn (\$4.8bn) at YE10 from RUB157bn (\$5.2bn) at YE09.

In 2010 UAC manufactured and delivered more than 75 aircraft, seven of which were civil aircraft. The order book was more than RUB1.1trn (\$36bn) at YE10, with civil aircraft orders accounting for 50% of the total. The company's portfolio of civil orders and commitments included 155 SSJ-100, 96 An-148, 51 Tu-204/Tu-204SM/Tu-214, 190 MC-21 and 3 Il-96 as of YE10.

At YE10, UAC's charter capital totalled RUB188,632,912,598. The shareholder structure was Russian Federation - 81.75%, VEB - 10.6% and free float - 7.64%.

Action: In our view, the news is positive for the company, which has shown significant revenue growth and has a strong order book.

Mikhail Safin

## Russia roads

### \$34m to be spent on three bridges in Yakutia in 2011

#### Marchmont

A total of \$34m is to be spent on construction of bridge passes along Vilyuy federal highway in the Republic of Yakutia in 2011, regional officials report.

Under plans, the funds are to be spent on construction of bridges over the rivers of Tangary, Chybyda and Vilyuchan.

Construction of these bridge passes is scheduled to start in 2011 and finish in 2013.

### Dorogi Chernozemya signs \$23.4m road contract with Voronezh region

#### Marchmont

Road building company Dorogi Chernozemya has been announced the winner of an open tender for a \$23.4m contract to maintain roads in Voronezh region in 2011, regional officials report.

Under the contract, the company is to carry out maintenance works on 8,600-kilometer-long roads in the region's 33 municipalities, including Voronezh city.



## Gefest's \$137m Yakutia highway insurance aired

### Marchmont

Insurance firm Gefest has insured an upgrade of the M-56 Lena federal highway in Yakutia for \$137m, Gefest said.

Specifically, the 849th through 880th km section of the highway has been insured, the firm added.

The 1,235km long M-56 Lena federal highway runs through part of the Amur region but predominantly through Yakutia on permafrost.

Gefest has been in the insurance business since 1993

## Kabardino-Balkaria eyes \$720m multimodal transport center

### Marchmont

A \$720m multimodal transport center is to be built in the Republic of Kabardino-Balkaria, regional officials report.

The project investors have yet to be disclosed.

The center, to be located on a 120-hectare land site in Chegemsky and partially Irvansky municipal districts, 25 kilometers outside the city of Nalchik, is reportedly to create 2,500 local jobs.

The center is to be based next to the new airport, scheduled to be built in 2012.

The Nalchik Multimodal Transport Center is a branch of the International Multimodal Transport Center in Lipetsk, to be built by the US investor MarketingSystem.

Timeframes for the project have yet to be disclosed.

## Khabarovsk region extends road network

### Marchmont

The Khabarovsk region has officially announced plans for 48.31km of new highways to be built this year.

It is a reported 3.5% year-on-year increase in construction.

How much the region is allocating for that has yet to be specified; it has been unveiled, though, that an extension of the Lidoga-Vanino highway alone will cost an estimated \$18m.

## Russia's lower house gives initial approval to creating road fund

### bne

The State Duma, the Russian parliament's lower house, has approved on first reading a bill on the creation of federal and regional funds for road construction, Prime-Tass reports.

The road fund in the federal budget would comprise basic government spending of RUB254.1bn as well as other federal budget revenue, including income from increased oil product excises.

## Ryazan region's part of Caspian Highway eyes \$17m repairs

### Marchmont

A total of \$17m is to be spent on reconstruction of the Caspian Highway track on the territory of Ryazan region, news agency RIA Novosti reports.

The funds are reportedly to be allocated from the federal budget.

## St Pete to tender for RUB136bn part of highway project

### bne

The government of St. Petersburg plans to announce a tender to build the RUB135.5bn central portion of the city's Western High-Speed Diameter highway on February 8, say Alexei Chichkanov, chairman of the city government's investments and strategic projects committee, reports Prime-Tass.

The news agency quoted Chichkanov as saying that of the total funds, a future investor is expected to provide more than RUB80bn.

## Russian Highways to tender for operator of Don highway toll section

### bne

The supervisory board of state-owned highway operator Russian Highways, or Avtodor, has approved announcing an open international tender to operate, maintain, repair, and collect tolls for a 400-km segment of the Don highway in the Lipetsk and Voronezh regions, Prime-Tass reports.

Citing a company statement, the news agency says the tender is to be held within 10 months and the future contract is to be valid for 10 years.

## Tula region to spend \$39m on public transport development

### Marchmont

Authorities in Tula region have announced plans to allocate \$39m on development of urban and commuting public transport in 2011.

Of the total funding, \$29.2m is reportedly to be allocated from the regional budget, \$6.5m is to be assigned from the municipal budgets, and \$4.3m is to be invested by transport companies.

Under plans, as a result of the finance transportation by cars and commuting trains is to increase by 6% - to 155.8 million passengers, transport services quality is to increase with traffic regularity to reach 95%.

## Who will build road to Semiluki for up to \$15m?

### Marchmont

Authorities in Voronezh region have announced an open tender for a contract to build an access road to the mono-town of Semiluki.

The starting maximum price for the contract is reportedly set at \$15m.

The 2.8-kilometer auto road is reportedly to link the mono-town of Semiluki with A-144 Kursk - Voronezh - Borisoglebsk highway, the officials said.

The auction is scheduled to take place on March 4, 2011.

# Russia trains

## Bridge over Angara in Ust-Ilimsk eyes \$7.7m overhaul

### Marchmont

Irkutsk region Road Service has been announced the winner of an open tender for a \$7.68m contract to overhaul a bridge over the Angara river in the town of Ust-Ilimsk, regional officials report.

Of the total funding, \$3.7m is to be allocated from the federal budget, another \$3.7m is to be assigned from the regional budget, and \$280,000 is to be put up by the town authorities.

Reconstruction of the bridge is scheduled to start in March 2011, further timeframes for the project have yet to be disclosed.

## Foreign investors sought for \$68bn high-speed rail

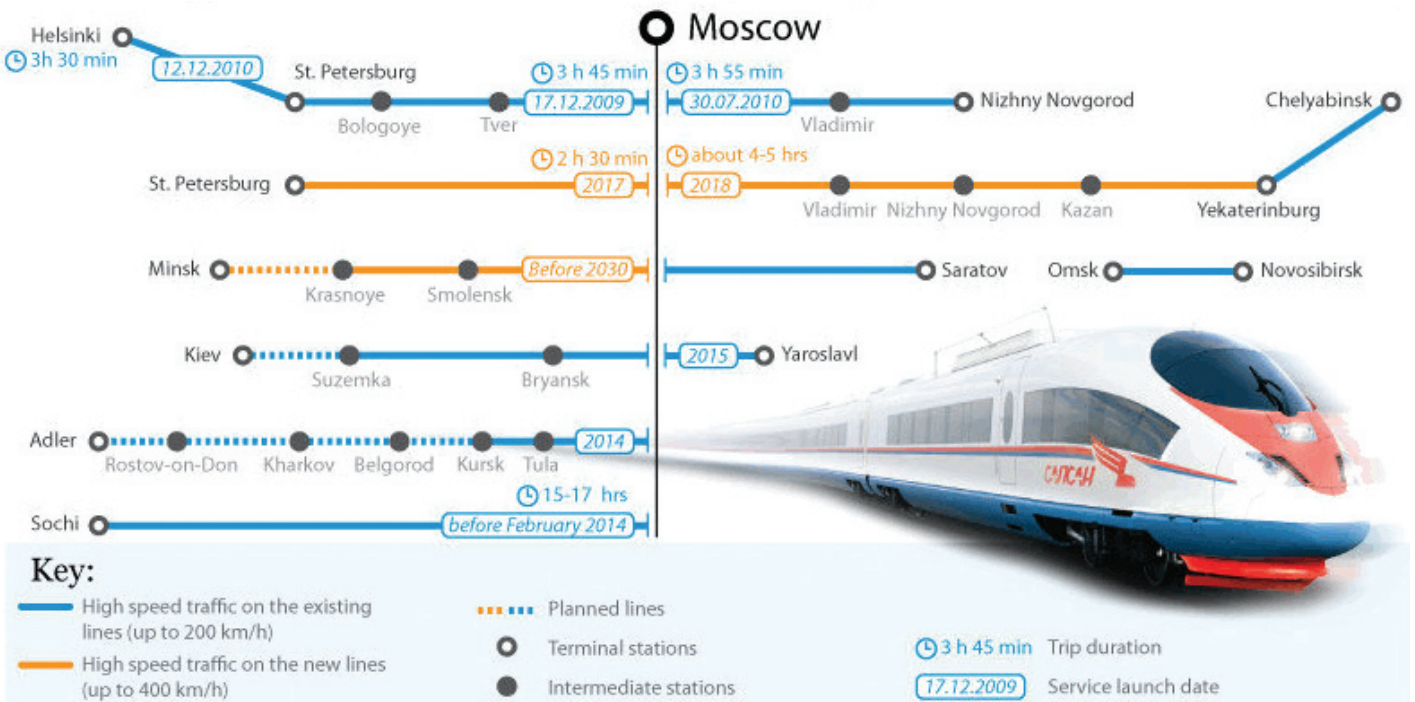
### bne

Russian Railways announced that foreign investors will be invited to bid for 30-year contracts to design, build, finance and maintain new high-speed links as early as December, reports The Moscow Times.

The newspaper report says that extensive high-speed lines stretching from Samara to St. Petersburg for the 2018 World Cup will cost 50 billion euros (\$68 billion) and will be built under a concession system that will run over the next three decades.

## Development of Russia's high-speed rail network

### RIA Novosti



## Globaltrans: Valuable Stability

### Aton

In this note we revise our target price for Globaltrans to incorporate recent developments in the railway transportation market as well as adjusted forecasts for the company's capex.

Globaltrans is one of Russia's leading private railcar operators with a modern fleet. It is a leading private owner of gondola railcars in Russia and with its acquisition of Balttransservice (BTS) it became one of the largest private owners of a rail tank fleet in the country. Despite competitors increasing their fleets by participating in RZD's 2010 auctions for old railcars, Globaltrans has continued its policy of buying new railcars which, in our view, allows it to be one of the most efficient railway companies in Russia.

We believe that strong access to key clients and efficient route management secure stable revenue growth. Globaltrans successfully combines its large-scale fleet with efficient route management and strong relationships with its core clients who are principally from the metals and oil and gas sectors. This provides a stable base for revenue growth and ensures its solid profitability.

A comparison of Globaltrans' key 2010E-12E valuation metrics with international sector peers indicates that it trades at around a 5% discount on EV/EBITDA and 10-20% discounts on P/E. At the same time, Globaltrans offers an above-average revenue growth outlook. We therefore argue that Globaltrans' valuation discounts to its sector peers are unjustified and hence support our BUY rating.

An upside risk to our valuation comes from the potential liberalisation of the locomotive traction market, which we expect to take place in late 2012 or 2013. Though Globaltrans' current EBITDA margin is in line with the international market average (Figure 17) we believe that liberalisation of the locomotive traction engine market may boost Globaltrans' margins and revenues: the company already has expertise in this area, as it owns the largest private fleet of locomotives. If Globaltrans doubles its fleet of locomotives, on our estimates, it may increase its revenue and EBITDA by at least 5%. Taking into account its solid cash position and its ability to invest in an expanded locomotive fleet, Globaltrans could be the main beneficiary of liberalisation. We have not incorporated the locomotive traction market's liberalisation into our model given the lack of certainty surrounding its timing.

Possible M&A activity may further increase the company's revenues as it has a solid cash position and is modestly leveraged. Management has reiterated its intention to continue reviewing M&A opportunities.

As a result of forecast revisions to our DCF model and adjustments to our WACC, we have revised our target price to \$20.15 per share, up 6.6% from \$18.90 previously. Our new target price implies 18% upside potential and fully supports our BUY rating on the shares.

## Kazan asks RF for \$560m to build metro

### Marchmont

Authorities in the city of Kazan, Republic of Tatarstan, expect to raise \$560m from the federal budget to finish construction of the first metro line, city officials report.

Under plans, the funds are to be used to build three metro stations - Dekabristov, Moskovskaya, Zavodskaya.

The stations are scheduled to be put into commission by 2013.

The metro construction is carried out under Universiada-2013 preparation program.

Universiada-2013 is an international youth sports event, to be held in Kazan in summer 2013.

## Light-track St. Pete-Pulkovo rail planned, investors sought

### Marchmont

St. Petersburg may announce a tender in April for construction and maintenance of a light-track rail between Pulkovo Airport and Moskovsky Train Station, city officials said.

An investment amount has yet to be specified.

The project reportedly calls for construction of Line 1 between Pulkovo and the train station in downtown St. Pete. The line will traverse the Pulkovo-3 business neighborhood where there's no other means of public transportation.

The officials expect Line 1 to kick off in 2013 when a new state-of-the-art Pulkovo passenger terminal is to be up and running.

## Medvedev criticizes Moscow railway station security

### RIA Novosti

Russian President Dmitry Medvedev criticized security at Moscow's Kievsky railway station during a surprise visit on Thursday.

"Where are the police? How do you monitor the station? There is nobody in the hall, they [policemen] ought to be around," Medvedev told the head of the station.

Transport security has been high on the president's agenda after last month's deadly terrorist attack on Moscow's Domodedovo Airport, which killed 36 and injured more than 100.

On Sunday, all nine Moscow railway stations received hoax bomb threats.

The president was accompanied on his visit by the heads of Federal Security Service (FSB), the Interior Ministry and Prosecutor General Yury Chaika.

On January 27 the president visited Moscow's Okhotny Ryad metro station to have a look at new state-of-the-art security systems. At the first stage of the pilot project, 50 stations will be equipped with such devices.

## Police say no bombs found at Moscow train stations

**RIA Novosti**

Police have found no bombs at the Leningradsky and Yaroslavsky train stations in Moscow which were evacuated earlier on Sunday following a bomb threat, a police spokesperson said.

The precautionary evacuation of passengers was ordered at the stations after an anonymous call at around 9 a.m. local time (0600 GMT) claimed that a bomb had been placed there.

The checks at the stations have found no explosive devices, the spokesperson said.

Police are continuing checks at the other train stations in the city, she added.

The train traffic has been unharmed by the incident. A search for the anonymous caller is ongoing. He could face up to three years in jail.

Moscow police have been put on high alert following the deadly terrorist blast at the capital's Domodedovo airport on January 24 which killed 36 people and injured dozens.

Last weekend, police in Moscow evacuated several shopping malls after receiving bomb threats.

## St. Pete airport light rail link to cost RUB16bln

**bne**

Construction of a light rail link from the Moscow Railway Station in St. Petersburg to Pulkovo Airport will cost an estimated RUB16bln, Prime-Tass reports.

The news agency quotes Alexei Chichkanov, chairman of the city government's investments and strategic projects committee, as saying a construction tender is being prepared and could be announced in March-May.

The agency says St. Petersburg Deputy Governor Yury Molchanov previously said the rail link should be ready by the end of 2013, when a new terminal is to open at the airport.

## Russian rail freight rises 10.6%

**bne**

Russian rail freight volume increased 10.6 percent year-on-year in January, reports The Moscow Times.

Citing an unnamed source familiar with Russian Railways operations, the newspaper reports that average daily volume was 3.14 million tons, or a total of 96.95 million tons for the entire month.

## Russian Railways to invest RUB6bn Zabaikalsky rail link this year

**bne**

State-owned railroad monopoly Russian Railways plans to invest RUB5.6bn in the reconstruction of a segment of the Karymskaya-Zabaikalsk railway in the Zabaikalsky Region in 2011, reports Prime-Tass.

The news agency says that in 2010, Russian Railways invested more than RUB5.7bn in the reconstruction of the stretch.

## Russian Railways and Aeroexpress to launch \$443m speed train in St. Pete

### Marchmont

National rail operator Russian Railways and speed trains operator Aeroexpress intend to invest \$443m launching a speed train in St. Petersburg, city officials report.

Of the total funding, \$273m is reportedly to be invested by Russian Railways, and \$170m is to be put up by Aeroexpress.

The new speed rail line is reportedly to link the new terminal in the Pulkovo airport with the Baltic train station.

The project is scheduled to be carried out within 2.5 years.

Under plans, the funds are to be spent to overhaul railroad sections between stations Trubnaya - Baskunchak - Aksarayaskaya.

Privolzhsky Railways is a part of national rail operator Russian Railways

## Russian Railways to invest \$348m in Sakhalin railroad

### Marchmont

National rail operator Russian Railways has announced plans to invest \$348m in modernization of railroad infrastructure on the Sakhalin island in 2011, up 15% on 2010 investment.

Under plans, specifically, the funds are to be used to finish reconstruction of three bridges and modernize six bridges.

## Russian Railways to up investment in Leningrad Region upgrades

### bne

Russian Railways plans to increase funding for upgrading railroads in the Leningrad Region to 14.1 billion rubles in 2011, a 54% rise on last year, Prime-Tass reports, citing a statement from the state-owned railroad monopoly.

The agency says the company is to invest in the complex upgrade of a segment linking a locality called Mga near Lake Ladoga with ports on the Gulf of Finland. The project is targeted for completion by late 2020.

## Russian Railways to invest \$123m in Perm region in 2011

### Marchmont

National rail operator Russian Railways has announced plans to invest \$123m in modernization of railroad facilities in Perm region in 2011.

Under plans, the funds are to be spent on reconstruction of railways, modernization of sorting stations, renewal of electricity grid and overhaul of train stations.

## Russian Railways to invest \$31m in rail track in Astrakhan region

### Marchmont

Interregional rail operator Privolzhsky Railways has announced plans to invest over \$30.7m on reconstruction of a railroad section in Astrakhan region in 2011.

## Russian Rail's \$18m Sakhalin infrastructure upgrades aired

### Marchmont

Russian Railways has announced \$18m worth of plans for 2011 modernization of Sakhalin's railroad infrastructure.

Under plans, nine bridges have to be upgraded.

Last year the firm invested in modernization a reported \$15.6m.



# Russia planes

## Mikhail Pog\_syan replaces Aleksey Fedorov as president of UAC

### Renaissance Capital

**Event:** Yesterday (31 January) presidential aide Arkady Dvorkovich said that Mikhail Pogosyan will take over from Aleksey Fedorov as president of United Aircraft Corporation (UAC). The decision was announced after a government meeting to discuss modernisation, at which President Dmitry Medvedev promised to change the leadership of state companies that are not sufficiently innovative.

Pog\_syan has been CEO of Sukhoi since 1999 and CEO of MiG since 2008 (both companies are controlled by UAC), and is the first vice-president of UAC. As a designer and technical director, he participated in the construction of aircraft for military and civil purposes, including the Su-27, Su-30, Su-33 and Su-37. The civil engineering department of Sukhoi developed the SSJ-100, which is to receive certification on 3 February; first deliveries are expected to start in March 2011.

**Action:** We believe Pogosyan has very extensive experience in the aircraft construction business and see good prospects for the development of UAC under his leadership.

Mikhail Safin

## Nizhny Novgorod airport to get RUB3bln upgrade

### bne

Yekaterinburg's Koltsovo International Airport says it plans to invest 2.7 billion rubles in the reconstruction of Nizhny Novgorod International Airport, Prime-Tass reports

Citing the Koltsovo Airport press office, the news agency says the Yekaterinburg airport was chosen at a tender to find an investor for the 10-year development of the airport, also known as Strigino Airport.

Under the deal, Koltsovo Airport will get a 73.621% share in Nizhny Novgorod International Airport through an offering of additional shares that will leave the regional government with 25.001% in the airport.

## Nordavia-Regional Airlines passenger traffic up 28% on year in 2010

### bne

Passenger traffic at Nordavia-Regional Airlines, previously known as Aeroflot Nord, increased 27.5% year-on-year to 1.4 million people in 2010, reports Prime-Tass.

Citing the company's press office, the news agency says Russian national carrier Aeroflot, which currently holds 100% in Nordavia-Regional Airlines, said it had planned to sell 51% in the company to mining conglomerate Norilsk Nickel in December 2010.

## Ryanair claims talks with Russian and Chinese aircraft manufacturers

### Metropol

Ryanair Deputy CEO Michael Cawley said that the airline is in talks with Russian and Chinese aircraft manufacturers after having failed to agree on a deal for 200 new planes from either Boeing or Airbus.

Asked if Ryanair would seriously place a major order with an untested supplier from China or Russia, Cawley said that the airline would seriously consider any action that would save the airline money.

We believe that the airline is not in talks with Russian or Chinese producers regarding new aircraft deliveries. Rather, Ryanair is simply using the statement as a negotiating point to get better pricing and delivery conditions for the Boeing 737-800, which it flies on its medium-haul routes.

Russian United Aircraft Corporation (UAC) does not produce medium-haul aircraft that can compete on fuel efficiency with the Boeing 737-800 or Airbus 320 aircraft. We anticipate no impact on UAC's stock price.

## **S7 Group passenger traffic up 5.2% on year in 2010**

**bne**

The passenger traffic of Russian airline S7 Group increased 5.2% on the year to 5.928 million people in 2010, reports Prime-Tass.

Citing the company, the news agency says that of the total, domestic passenger traffic amounted to 4.475 million people, up 8% on the year.

# Russia ships

## **FESCO plans to take controlling stake in TransContainer**

**bne**

Russia's Far East Shipping Company (FESCO) plans to increase its stake in Russian container shipping company TransContainer to 50% plus one share from the current 12.5%, says Kirill Rubinsky, chairman of FESCO's board of directors, reports Prime-Tass.

The news agency says that at present, Russian Railways holds 50% plus one share in TransContainer, the European Bank for Reconstruction and Development (EBRD) holds 9.25%, pension fund Blagosostoyaniye, an affiliate of Russian Railways, and TransCreditBank jointly hold 11.63%, and the free float accounts for 16.6%.

## **Novosibirsk airport inks deal to service Air Cargo Germany planes**

**bne**

Russia's Tolmachevo Airport, located in the Siberian city of Novosibirsk, has concluded an agreement with Air Cargo Germany to provide ground maintenance and refueling to the airline's planes, reports Prime-Tass.

The news agency says the financial details of the deal were not provided.

## **St. Pete container terminal ups cargo handling 10.8% in January**

**bne**

Cargo handling at St. Petersburg's First Container Terminal, part of the National Container Company (NCC), rose 10.8% on the year to 84,641 20-foot equivalent units (TEUs) in January, reports Prime-Tass.

Citing the press office of the NCC, the news agency says the company handled 39,184 TEUs for export and 45,457 TEUs for import in January.

## Highlights from interview with FESCO's BoD chairman Kirill Rubinsky

### Alfa Bank

Yesterday, the chairman of FESCO's board of directors, Kirill Rubinsky, commented on the company's financial performance in 2010 and medium-term plans in an interview, according to Interfax. We provide the main points below:

Preliminary financials for FY10: Revenue came in at \$900m, up 38% y/y, EBITDA was in the range of \$157-160m, up 62-65% y/y. No further information was disclosed. The results are slightly above our expectations: we forecast gross revenue of \$854m and EBITDA of \$156m. We view this as NEUTRAL to POSITIVE for the company.

Dividend policy - POSITIVE: No dividends will be paid for 2010; however, in 2011, the company plans to pay around 25% of its net income, sharing gains from the sale of a 50% stake in NCC in 2010. We need more clarification on this, as the company has already received the money from the sale of NCC in 2010. Therefore, dividends are likely to be paid in 2011 based on 2010 net income.

M&A plans: The company intends to buy a 25% stake in TransContainer from Russian Railways. This confirms the rumors that were circulating after TransContainer's IPO in November that FESCO planned to increase its stake in TransContainer to a controlling one. The timing of the deal is not clear yet. According to Mr. Rubinsky, this will be done over the next two years. FESCO currently owns 12.5% in TransContainer, while 25% will be acquired from Russian Railways with the remaining bought from the market. However, there is a possibility that FESCO already controls more than 12.5%. During TransContainer's IPO, 5.2% was bought by the Blagosostoyanie pension fund and 8.75% was bought by VTB Capital. This 8.75% stake was rumored to be acquired on behalf of FESCO, but this has not been confirmed. We view this announcement as POSITIVE for TransContainer.

IPO plans: FESCO also plans to hold an IPO on one of the international exchanges over the next few years. The terms and conditions of the deal are currently unknown. According to Rubinsky, the decision depends on the status of the acquisition of TransContainer. We believe the IPO as an important step towards improving FESCO's stock liquidity and we view it as a POSITIVE development for the company.

Georgy Ivanin

## NCSP's FY10 Operating Numbers: Why Cry?

### VTB Capital

NCSP's full-year operating results feature an expected decline in volumes, which were down 5.7% to 81.6mn tonnes driven by poor dynamics in grain as well as oil and oil products over the past few months. However, December brought some relief: it was the strongest month since July and saw cargo handling picking up 4.9% YoY (adjusted for grain), which might point to the company's operating performance stabilising somewhat.

In 2010, the strongest driver of the decline was grain (the most profitable cargo, down 36.5% YoY to 5.8mn tonnes), as there has been a ban on its export since 15 August. Crude oil, a low margin cargo representing over half of the port's turnover, saw volumes handled decline 5.5% to 42.1mn tonnes. This came from export flows being partially redirected to the Russian Far East. The amount of (high margin) oil products handled decreased 3.5% to 12.7mn tonnes and was, to a certain extent, also affected by flows being redirected to other ports (in particular, to the North West). Container traffic recovery was the main compensating effect in 2010. Handling of this high margin cargo doubled to 471,400 TEUs. Several other high margin cargoes showed double-digit YoY growth, although they have a smaller share in NCSP's cargo turnover: mineral fertilizers (+23.0%), sugar (+30.9%), timber (+14.3%), non-ferrous metals (+28.8%) and perishable cargoes (+32.1%) which, together, accounted for 6.1mn tonnes (7% of the total).

We see limited potential for NCSP's cargo turnover to grow in 2011. Indeed, NCSP only had about 160,000 TEUs of unutilised capacity in containers this year, while we do not expect any massive breakthrough in crude oil or oil products in 2011. The grain export ban will continue to have a negative effect on overall cargo throughput in 1H11 and the prospects for the export ban being lifted in 2H11 remain unclear (although this might become a positive surprise). Coupled with the rouble strengthening, these trends in NCSP's operating performance could erode profitability in 2010-11 compared with the record-high EBITDA margin of 66% achieved in 2009 (although we expect the effect to be limited to several percentage points). Meanwhile, after a stable 2011 at NCSP and PTP, we forecast the company delivering growth on the back of capacity expansions in high margin oil products, containers and grain. These underpin our long-term positive view on the company.

Elena Sakhnova

## **Novorossiisk Commercial Seaport operations strong in December** **Russia's Global Ports cargo handling up 81% on year in 2010**

### **Troika, Russia**

Novorossiisk Commercial Seaport has released 2010 operating results that we consider to be neutral. Total volumes declined 5.7% y o y to 81.6m tonnes, affected by falling volumes of liquid cargoes (down 5.3%) and grain (down 37.0%) after the government banned grain exports. This was 3% below our forecast. In contrast, the company reported strong growth in lucrative container volumes, which doubled to 471,000 TEU, while we modeled just 60% growth. It also had a good showing in sugar (volumes up 31%), mineral fertilizers (up 23%) and non ferrous metals (up 29%).

Volumes were very strong in December, surging 28% m o m, led by crude and petroleum products, which climbed 13% and 45%, respectively. Container volumes rose a remarkable 27%.

This year should be more active, as Novorossiisk Commercial Seaport is set to launch 1m tpy in new grain handling capacity and a new 4m tpy fuel oil terminal, which should be completed by year end. We also see room for new tariff hikes, as rates have not been increased for some cargoes, including petroleum products and containers, since 2008.

## **NSCP buys Primorsky Commercial Port for \$2.153bn**

### **Marchmont**

Krasnodar region-based Novorossiysk Sea Commercial Port (NSCP) has finalized a deal to purchase Leningrad region-based Primorsky Commercial Port for \$2.153bn, NMTP reports.

The deal has reportedly been partly financed with a \$1.95bn loan from Sberbank.

Primorsky Commercial Port is the largest stevedore company in the North-West Federal District. In 2009 the port transhipped a total of 74.9 million tons of oil.

### **bne**

The cargo handling of Russian container terminal operator Global Ports increased 81% on the year to 1.096 million 20-foot equivalent units (TEUs) in 2010, reports Prime-Tass.

Citing the company's press office, the news agency says half the cargo passed through Petrosport, the company's St. Petersburg-based container terminal, which almost tripled cargo volumes to 541,120 TEUs in 2010.

## **Vladivostok port freight traffic down 15% on year in January**

### **bne**

The consolidated freight traffic of Russia's Commercial Port of Vladivostok decreased 15% year-on-year in January to 498,900 tonnes, Prime-Tass reports, citing a company statement.

# CIS infrastructure

## Third time lucky: Odesa airport upgrade to get off the ground this time?

**bne**

Odesa is hoping to attract a multinational consortium to take part in a \$180m project to upgrade its international airport and boost capacity by as much as 400% reports Interfax.

Odesa Mayor Oleksiy Kostusev told the news agency in an interview: "The presentation of a project for Odesa Airport's reconstruction was conducted last week. At present, the documents are being revised, as we have a range of questions. If we select the option we were offered, then a consortium will be created, which will include the Vienna Airport Austrian Company, the Ineco Spanish Company, Ukraeroproekt, Macquarie International Infrastructure Fund, the EBRD and the Odesa Airport Development Planning Company."

He said that the project would be divided into two stages of 18 months each. Following the first stage, capacity at Ukraine's second busiest airport will grow from 800,000 passengers per year to 1.5m. The second stage would then boost that to 3.5 - 4m. The project includes investment of \$100 - 120m in building a new runway, and \$50 - 60m into a new terminal and other infrastructure.

"All this will be done only at the expense of investors - not a kopeck of funds [will be allocated] from the national budget. But the city is a part of the consortium as an owner, and also will receive a share. At present we are close to the adoption of this project by the executive committee and session, and then it will start to be realized," Kostusev said.

This is the third recent attempt to get an upgrade of the airport off the ground. In 2008, Gepard Plus Ltd. announced its intention to invest \$265m to modernize it. However, the city cancelled the tender contract a year later after the company revised its plans and offered a guarantee to spend no less than \$100m on the project. Last summer, Odesa's urban development council examined another plan, but returned it for revision.

## Odessa region port posts 22% fall in net profit in 2010

**bne**

Illichivsk maritime merchant port in Ukraine's Odessa region in 2010 saw its net profit fall by 22.4% year-on-year, to UAH222.104mn, reports Interfax.

Citing the data from Ukraine's State Service of Sea and River Transport (Ukrmorrichflot), the news agency says the port's income grew by 5.2%, to UAH1.744bn.

## Ukraine's Mariupol port sees net profit grow by 14% in 2010

**bne**

Mariupol maritime merchant port in Ukraine's Donetsk region saw its net profit rise by 14.3% year-on-year in 2010, to UAH393mn, reports Interfax.

Citing the data from Ukraine's State Service of Sea and River Transport (Ukrmorrichflot), the news agency says the port's income grew by 22.3%, to UAH1.837bn.

## Ukraine's Mariupol Shipyard doubles production in 2010

**bne**

Mariupol Shipyard in Ukraine's Donetsk region, which cooperates with Azovmash Group, in 2010 increased production by 2.2 times compared to 2009, to UAH180.4mn, reports Interfax.

Citing a posting on the Azovmash's Web site, the news agency says that machine building made up the largest share of output.

## EBRD loan to help put Kiev metro plans back on track

**bne**

Dnipropetrovsk municipal council claims it is close to securing financing from the EBRD to get its subway construction plans back on track, reports ISI.

The local authority says that it hopes to borrow EUR230m, with Dnipropetrovsk Mayor Ivan Kulychenko suggesting that the development bank has shown strong interest in the project. "They used their own money to hire experts and drafted feasibility studies. Therefore, the signing of an agreement can be expected in late May-early June," he said.

According to information from subway construction company Dniprometrobud, progress on a new 2.4km stretch of underground track linking the Vokzalna station to Tsentralna in Kiev is currently suspended due to lack of funds.

## Kiev to boost new housing by 40%

**bne**

The City of Kiev plans to boost housing construction by 40% this year, with a large social housing component also to be launched, reports Interfax.

Oleksandr Popov, head of Kiev City State Administration claimed that the capital will see a large rise in new housing in 2011 in a meeting with President Viktor Yanukovich on Tuesday.

He added that the City will also push a social housing programme, under which city and federal funds will contribute half of construction costs for new apartments. "There will be 1,550 such apartments. This is a very interesting program, which Kyiv has not had before," said Popov.

The bureaucrat also spoke of plans to develop infrastructure, mentioning reforms in the housing, utilities and health sectors, a new subway station, and new road construction, in particular, a bridge in Podil district which is set for completion this year.

## Luganskteplovoy should benefit from massive Russian Railways renovation program

**Foyil Securities**

According to the president of Russian Railways, Vladimir Yakunin, in 2011 RUB 349bn (USD 11.9bn) will be spent on railway infrastructure and railcar fleet renovation in Russia, including the purchase of 375 locomotives.

Our view: The news is extremely positive for the Ukrainian locomotive builder Luganskteplovoy (LTPL, Buy), which now belongs to Transmashholding of Russia, as the company certainly will be involved in filling orders placed with Transmashholding by Russian Railways. Our current target share price for LTPL of UAH 5.53 is based on output of 96 locomotive sections in 2011, including already 26 sections for Russia and 70 for Mongolia. Should LTPL receive a bigger chunk of the Russian Railways order, it would be able to meet the demand with its 205-section capacity. We reiterate our BUY recommendation for the stock.

Yuliya Stelmakh

## Murky Dealings Surround Ukraine's Preparations for EURO 2012

**BYuT**

Ukraine has been making big strides in staying on track with the schedule of the mammoth construction works needed for it to co-host the UEFA EURO 2012 Soccer tournament in 2012 with Poland. These advances however should not come at the expense of rampant nepotism and abuse of state funds.

Ukraine no longer finds itself on the brink of losing the status of a EURO 2012 host country. However, many Ukrainians are indignant that many government construction contracts to build roads, stadia and airport runways were handed over to a handful of companies with close links to the ruling Donetsk business clan.

The Donetsk-based and offshore-registered Altkom construction company secured a cluster of juicy contracts amounting to billions of hryvnas. Already a big player in the construction sector in the Donetsk region before Viktor Yanukovich became president, Altkom has since marched victoriously across western Ukraine, where it secured contracts to build the airport runway in Lviv worth UAH 1 billion (\$126 million), the Lviv stadium worth UAH 1.6 billion (\$200 million) and the stretch of road between Lviv and the



town of Krakovets close to the Polish border, again worth UAH 1.5 billion (\$189 million). In all instances, no other participants were admitted into the tender process.

"The company won the tender as a sole participant on projects requiring immediate work. Once we got into very tight deadlines on EURO 2012, we decided we would be choosing the subcontractors ourselves," Ukraine's Vice Prime Minister Borys Kolesnikov stated. The company said in its press-statement that it was chosen because "it has the best specialised equipment in Eastern Europe and constantly upgrades the skills of its employees." Ukrainska Pravda tried to investigate the ownership structure of Altkom, whose main beneficiaries are marked as Eurobalt Limited and Sorena Export Limited. Both are registered as British companies with links to offshore companies in Belize.

The news website went further to explore the close links between Mr Kolesnikov and another Donetsk company, AK Engineering, which secured a major contract to supply communication networks for the Kyiv National Olympic Stadium where the final of the EURO 2012 tournament will be held. So far it is unclear what share of a UAH 4 billion (\$500 million) pot of money assigned for the reconstruction of the stadium will be allocated to AK Engineering.

#### Inflated Costs

Opposition leader Yulia Tymoshenko, stated on several occasions that the cost of the reconstruction of the Kyiv stadium has been artificially inflated at least two-fold. Mr Kolesnikov retorted by saying that a criminal case could be launched against anybody making similar statements. Other officials argue that the growing costs include the building of a communal heating hub, roads and roundabouts around the stadium.

Observers have noted that the price tag for rebuilding the Kyiv stadium is on a par with building the Stade de France in Paris. While the latter was constructed 13 years ago, the cost of labour in Paris in 1998 was far higher than it is in Ukraine today.

## UAH10bn allocated to build new roads

### **bne**

Ukraine will spend UAH10bn (\$1.25bn) on building new roads this year, with a focus on infrastructure for the Euro 2012 football championships, which Ukraine will co-host with Poland, reports Interfax.

Prime Minister Mykola Azarov told a meeting concerning the transport sector that the cabinet has approved the spending plan for 2011. "We need UAH 10 billion for all objects," he said, according to the cabinet's press office. "The Finance Ministry jointly with Ukravtodor (the State Service of Roads) and the national agency for preparing for and holding Euro 2012, will

allocate funds and start working."

The PM noted that, roads involved in hosting the football tournament will take priority, and instructed the finance ministry to ensure that the funds reached Ukravtodor in time to allow it to start work within two weeks. "There should be no delays. All of the remaining objects will be reviewed sequentially as soon as we have resources," said Azarov.

Earlier this year, Ukravtodor head Volodymyr Demishkan forecast that 1,000 km of roads would be reconstructed this year. The national budget for 2011 forecasts UAH 13.784bn will be spent on road development, reconstruction and maintenance.

## Ukrainian railcar producers: Back on fast growth track with demand booming

### **Dragon Capital**

We upgrade our valuation of three Ukrainian railcar stocks - Stakhaniv Rail Car, Kryukiv Rail Car and Azovzahalmarsh (AZGM) - based on revised DCF and comparative valuations factoring in a bullish sector outlook. Our new price targets, set at \$2.34, \$7.71 and \$5.12 per share, respectively, warrant a Strong Buy recommendation for the Stakhaniv (66% upside) and Kryukiv (59%) stocks, now second and third on the sector analyst's ranking scale. Given AZGM's current risk profile, we assign a Buy, rather than Strong Buy, recommendation to the stock. We also move MZVM to non-rated coverage. (Dragon Capital)

We anticipate sustained demand for freight cars at least in the medium term due to an acute shortage of freight cars in the CIS, aggravated by growing transportation needs and climbing prices for coal (the latter accounts for 30% of domestic and 24% of Russian rail transportation volumes). With almost a million railcars in the region set to be replaced in the next 10 years, we estimate annual orders for domestic producers in the region of 40,000-45,000 cars annually.

We expect 2011 and 2012 to mark new highs Ukrainian railcar producers in terms of output, with 8% growth forecast for this year (to 41,300 vehicles) and next (to 44,700). We project their combined revenues to grow at a CAGR of 7% over 2012-15 and forecast the sector's EBITDA margin to increase from 7.0% on average in 2010 to 11.9% in 2012 and stabilize at 11.3% by 2015.

For more details please see our research note issued yesterday.

Taisiya Shepetko

## Ukrrihflot to start Odessa-Dnipropetrovsk container transport in 2011

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**bne**

Kyiv-based shipping company Ukrrihflot plans to launch container transportation between Odesa and Dnipropetrovsk with the start of navigation on March 15, Interfax reports.

The agency quotes Ukrrihflot Director General Valentyn Kasapchuk as saying that the shipping is hindered by Ukrainian law requiring cargo be cleared on the outer border to enter the domestic water area, which means checks have to occur in Kherson despite a border checkpoint having been opened in Dnipropetrovsk.

Kasapchuk adds that Ukrrihflot is in talks on the opening of similar line with Istanbul.

## CE infrastructure

### Poland to accept the privatisation strategy of PKP Cargo

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**bne**

Infrastructure Minister Cezary Grabarczyk has announced that he expects the government to accept the privatisation strategy of PKP Cargo within the next two weeks, Polish News Bulletin reported. On Monday, PKP group spokesperson Lukasz Kurpiewski announced that Grzegorz Medza had resigned as PKP Intercity

President, with his replacement to be appointed on 2 February. While according to the latter company Medza decided to leave it for personal reasons, it should be noted that the Infrastructure Ministry did not hide its disappointment with the difficult financial situation PKP Intercity had found itself in. Personnel changes also took place in PKP PLK, with the firm's supervisory board dismissing Pawel Dziwisz, Zbigniew Zarychta and Katarzyna Janio as management board members. In related news,

## SE infrastructure

### Slovakia earmarks additional EUR 639mn for highways

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**bne**

The Cabinet passed the proposal of Prime Minister Iveta Radicova (SDKU-DS) for reallocation of structural funds, based on which an additional sum of approximately EUR 639 million will be earmarked for construction of highways and dual carriageways.

A total of EUR 389 million will be transferred to the Operational Program Transport from operational programs Research and Development, Education, Informatization of Society, Employment and Social Inclusion. Within the Operational Program Transport, additional EUR 250 million will be used for highway construction. The Cabinet interrupted the discussion on the proposal of Prime Minister Iveta Radicova for an overall sum of EUR 350 million to be transferred for highway construction last week as individual ministries responsible for respective operational programs needed to agree on the specific sums.

Transfer of financial sources from other operational programs to the Operational Program Transport was initiated by an alternative proposal for financing of highway construction that the Ministry of Transfer, Construction and Regional Development prepared. The prime minister believes that the transfer of funds will push state's overall costs on highway projects under EUR 3.5 billion in case all highway sections are co-financed from EU funds. The Cabinet also tasked its first Deputy Prime Minister and Minister of Transport Jan Figel (KDH) with discussing the transfer of funds within the National Strategic Reference Framework for the period 2007 - 2013 with the European Commission.

"Reallocation of funds is motivated by the need of sources for financing of highways but also by seeking the most-effective use of these sources. The Slovak government also responds to inquiries of the European Commission whether the Slovak Cabinet is not considering changes in the National Strategic Reference Framework in connection with impacts of the economic crisis," reads the prime minister's proposal for reallocation of structural funds.

## The crisis of the nuclear power plant project in Romania

### OSW

On 20 January the German company RWE, the French GDF Suez and the Spanish Iberdrola announced that they were pulling out of the project of the extension of the Cernavodă nuclear power plant. Thus the companies joined the Czech company \_EZ which withdrew from the project in autumn 2010. The withdrawal of these companies will significantly complicate the continuation of the ambitious programme of the extension of the nuclear potential in Romania.

The project of the extension of the Cernavodă power plant is the largest and the most expensive energy investment in Romania. Under the project two new reactors whose power will be altogether 1440 MW are planned. This extension will enable a doubling of the power production of the Cernavodă plant that currently produces 18% of electric energy used in Romania. The cost of the construction of the new reactors is estimated at EUR 4 billion. The investment will be realised by the company Energoprojekt established in March 2009. 51% of shares in Energoprojekt are in the hands of the state-owned company Nuclearenergetica and the remaining 49% have been shared among six Western energy companies - ENEL, ArcelorMittal, \_EZ, RWE, GDF Suez and Iberdrola. The withdrawal of part of the shareholders means increasing the package of shares held by Nuclearenergetica in Energoprojekt from 51% to 84.6%.

The official reason for these companies walking away from the project is the global economic crisis and the tougher financial situation of the companies. Probably also the unfavourable regulations of the Romanian energy market, seen as among

the least transparent in the EU, played a role in the companies' decisions. This withdrawal will certainly delay if not make impossible the implementation of the investment as it has been planned that the two blocks will be operational respectively in 2016 and 2017.

## Romania Transylvania Highway Construction Work To Continue In Mirzon

### 2011 - Romanian PM

Romanian Prime Minister Emil Boc said Thursday that construction work on the Transylvania Highway will continue this year on two sectors, namely Gilau-Nadaselu and Suplacu de Barcau.

Boc said money from the state budget has been earmarked to pay off debts to American company Bechtel, the constructor of the Transylvania Highway.

The prime minister said public road authority CNADNR and Bechtel are holding talks on setting prices considering cost standards, as well as on overdue debts and payment schedule.

According to Boc, the Transylvania Highway is one of the Government's priorities.

On Monday, Bechtel started procedures to lay off over 800 Romanian employees working on the Transylvania Highway construction site. Collective layoff procedures were started at the end of 2010 and were to be applied as of January 20, but the company agreed to postpone layoffs for ten calendar days, at the request of the local labor inspectorate.

Bechtel employees union representatives told MEDIAFAX Sunday workers will be fired in stages so layoff procedures be finished by March 1.

Bechtel said in November 2010 it started to lay off its over 800 employees working on the project, arguing the construction area is not ready for further works and the Romanian state has not paid its debts for works in 2010.

On December 4, Boc said works on the Transylvania Highway would continue in 2011 and the Government was seeking ways to continue funding the project.

The construction of the Transylvania Highway, which links central Brasov to western Bors on the border with Hungary, started in 2004 based on a EUR2.2 billion contract attributed to U.S. constructor Bechtel. Works were halted mid-2005, when authorities started looking into contracts concluded under the previous government. The deadline for the completion of works was extended until 2013 from the initial 2012