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Top story



Russian Transport police needs 'shake-up'

bne

Russian president Dmitry Medvedev ordered the interior ministry to "shake up" the transport police following the terrorist attack at Domodedovo Airport on January 23.

"Shake up the entire transport police service. If some do not understand how to work, we will find other people," Medvedev told a security meeting on January 30 reports Interfax.

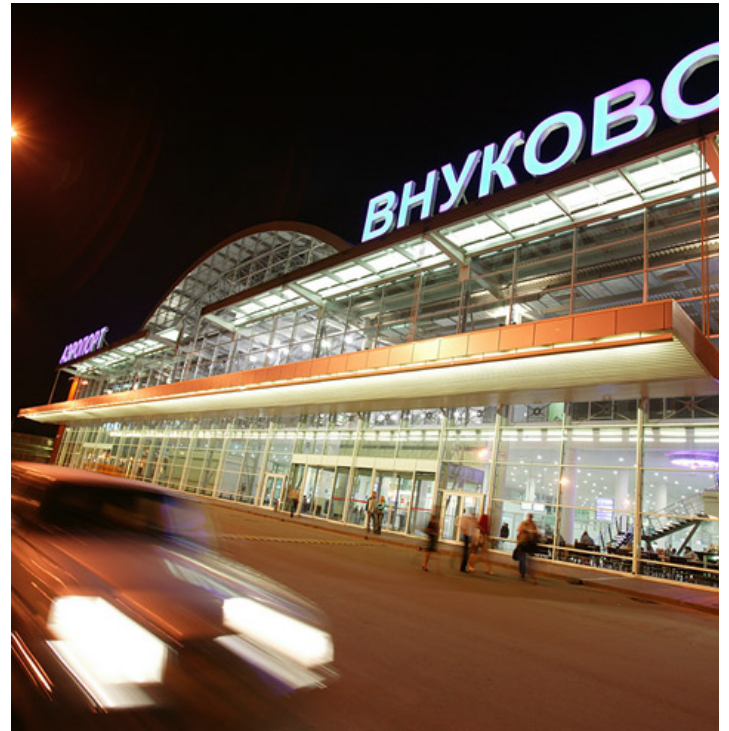
"Police attached to major transportation hubs – airports and train stations – are absolutely passive. They shake migrants at best to check their registration and to use their powers accordingly," he said. ●

AFK Sistema may be interested in buying airport assets from Moscow government

UralSib

Sistema reported a possible buyer. AFK Sistema (SSA - Buy) may be interested in buying shares in companies owning assets in Moscow's Vnukovo airport, Reuters reported yesterday. Sistema reportedly could be the first candidate to buy the assets from the Moscow government, and a preliminary agreement between core Sistema shareholder Vladimir Yevtushenkov and Moscow's mayor already exists. However, Sistema denied having such plans. Moscow's new city government is currently seeking to dispose of its noncore assets, including stakes in companies operating Vnukovo airport. Sistema may be interested in buying other assets from the Moscow government as well.

Price could be attractive. The Moscow government owns 74.7% of Vnukovo Airport, 25% plus 1 share in Vnukovo International Airport, and 26% in Avia Business Terminal. Kommersant



www.vnukovo.ru

recently reported that 74.7% in Vnukovo Airport had been valued by the Moscow government at RUB27 bln (\$0.9 bln), versus the roughly RUB60 bln (\$2 bln) investment made by the city. Vnukovo is the third-largest airport in Moscow and Russia, serving 9.4 mln passengers in 2010.

Investing in airports may reinforce concerns over strategy. Should Sistema acquire airport assets from the Moscow government, it would add exposure to a completely new industry and may deepen concerns over the integrity of Sistema's strategy. That said, the deal may also confirm company's ability to arrange value-accretive M&As, and may be viewed positively. Sistema's stock is undervalued, providing 26% upside to our \$33/GDR target price, lagging the market, having underperformed the RTS Index by 18% in the last three months. We reiterate our Buy recommendation. ●

Chaos overshadowed security at Domodedovo – Medvedev

RIA Novosti

Russian President Dmitry Medvedev blamed major security violations for the deadly blast at Moscow's Domodedovo Airport that killed at least 35 and injured up to 180.

"Information from the crime scene indicates that there was just chaos; people could enter [the airport] from anywhere. Control

was limited and was practically not directed at those who were meeting passengers," Medvedev said.

The president said the airport had "system failures in ensuring people's security and managing the transport hub" and called for effective methods of screening passengers and luggage to be

provided to improve airport security.

In December, the Domodedovo Airport, Moscow's busiest, was the site of a transport collapse following serious power outages in the Moscow Region caused by severe freezing rain.

The airport's director Vyacheslav Nekrasov, who was criticized for failing to deal with passengers during mass flight delays, was dismissed and succeeded by Igor Borisov, the former head of the Domodedovo Passenger Service.

In August 2004, two planes which took off from the airport were blown up by female Chechen suicide bombers, who bribed their

way through security checks to get onboard. A total of 90 people were killed in the simultaneous mid-air explosions.

"The series of events at one site makes one think about the critical lapses in the airport's work," Medvedev said.

Earlier on Tuesday, Medvedev said Domodedovo Airport security officials will be held accountable for "clear security breaches," as the terrorists entered the airport unchecked.

Medvedev instructed the government to implement thorough checks of passengers at major transportation facilities in the wake of the deadly Domodedovo bomb attack. ●

Medvedev sacks transport security chief over Moscow blast

RIA Novosti

Russian President Dmitry Medvedev on Wednesday sacked a federal transportation security chief in the wake of a terrorist attack on Moscow's Domodedovo airport.

"I have signed a decree relieving [Maj. Gen. Andrei] Alekseyev of his duties as head of the Interior Ministry transport security directorate," Medvedev said. More dismissals will follow, he warned.

He ordered Interior Minister Rashid Nurgaliyev to "shake up" the entire transport police to ensure daily transport security. "If people don't understand how to work, we'll find other people," Medvedev said.

He earlier criticized airport security and said those responsible would be "punished." Russia needs a modern color-coded security system in the transport sector similar to the systems in use in the West, Medvedev said.

Moscow is observing a day of mourning on Wednesday for the victims of the January 24 terrorist attack.

Monday's blast at the airport arrivals zone claimed the lives of 35 people and left scores injured. No group has yet taken responsibility for the attack, which comes less than 12 months after two female suicide bombers from the volatile North Caucasus struck the Moscow metro, killing dozens.

The identity of the terrorist or terrorists who carried out the blast has not yet been officially confirmed, with conflicting reports suggesting the attack was carried out by a female Black Widow suicide bomber accompanied by a man, or a man on his own. ●

Novorossiysk Commercial Sea Port finalizes acquisition of Primorsk Trade Port

Metropol

Novorossiysk Commercial Sea Port (NCSP) reported that it has completed the acquisition of 100% of Primorsk Trade Port (PTP). NCSP took out a seven year, USD 1.95 bn loan from Sberbank to finance the deal. At the same time, the port reported that Omirico Limited, jointly controlled by Transneft and Ziyavudin Magomedov (the sellers of PTP), acquired 100% of Novoport Holding on January 21, 2011, which in turn holds 50.1% of NCSP.

We believe that the news is neutral for NCSP, since the deal's impact has already been priced in. Nevertheless, we believe that the stock price could increase if Omirico Limited or affiliated companies acquire the 20% stake in NCSP that the Russian government plans to sell in 1Q 11. ●

Rosneft to set up vessel filling terminal in Singapore

RIA Novosti

Rosneft, Russia's biggest oil company, will set up a vessel filling terminal in Singapore, the world's top bunkering port, to enter the \$20 billion Asian-Pacific market, Kommersant business daily said on Tuesday, quoting sources close to the company.

Rosneft, which last week teamed up with BP to develop future shelf projects, plans to set up Rosneft Marine Singapore Limited, which will act as a trader in the Asian-Pacific region, in the near future, one of the sources was quoted as saying.

A Rosneft official confirmed that Rosneft planned to expand its filling station business, including to Singapore, but declined to give a timescale for setting up the company.

Rosneft launched its own bunkering business in 2007 and now owns 14 filling terminals with the largest of them located in the ports of Nakhodka, Murmansk and Arkhangelsk. It supplies ship fuel on the Lena and Amur rivers and for the Sakhalin-1 and Sakhalin-2 energy projects off Sakhalin island. ●

Russia considers total screening on transport network

RIA Novosti

Russian President Dmitry Medvedev has ordered ministers to prepare changes to the transport security system that may include total screening of passengers and their baggage, the Kremlin press service said on Thursday.

In the wake of Monday's terrorist attack at Moscow's Domodedovo Airport, which killed 35 people, Medvedev ordered the government "to examine the acting [transport security] legislation...and to prepare the proposals on...toughening responsibility," the statement said.

The president also demanded that the Federal Security Service



(FSB) officials who failed to ensure proper security at Moscow's busiest airport face justice in court.

Earlier on Wednesday, leading politicians said Russia should adopt Israeli methods of fighting against terrorism and preventing terrorist attacks.

Israel's main Ben Gurion Airport is internationally renowned for its total screening of passengers and their baggage along with the thorough questioning of those arriving in the country. ●

Sistema to buy Vnukovo airport?

Renaissance Capital, Russia

Event: Reuters reported yesterday (20 January) that Sistema is interested in buying Vnukovo airport, in Moscow, from the City of Moscow. Kommersant reported yesterday that the city's 75% stake in Vnukovo was valued at RUB27bn (\$900mn).

Vnukovo had a 9.4mn passenger throughput in 2010 and around \$100mn of net debt under RAS as of 3Q10.

Action: Politically, we think the potential deal is likely related to the departure of former mayor Yury Luzhkov, and may be one way for Sistema to pay the government back for allowing it to purchase Bashneft and win the auction for the Trebs and Titov oilfields. Valuation-wise, the price is in line with foreign airport terminals, and less than the city's historical investment (about \$2bn). Vnukovo would represent 5% of the holding's value - still much less than its exposure to MTS and Bashneft. We think the

major catalysts for Sistema remain in the oil and gas space. With regard to investor sentiment, investors might fear more potential clean-up deals for Sistema in the pipeline if the deal is confirmed.

Rationale: Sistema raised a significant amount of cash towards the end of last year (sold Intourist, Sistema-Hals, received dividends from MTS and Bashneft), so it can use a combination of debt and its own funds to finance the potential purchase. As for the valuation, Aeroflot spent \$1bn to build Terminal D at Sheremetyevo, with throughput capacity of 12mn passengers per year, while Moscow invested around RUB60bn (\$2bn) in Vnukovo, including the build-out of the new terminal. The price suggested by Kommersant - \$1.3bn EV - is less than the City of Moscow's investment. Foreign airports trade at \$137 EV/passenger (average for Fraport, Flughafen Wien, Grupo Aeroportuario Del Pacifico, Airports of Thailand), vs about \$140 for Vnukovo. ●

Tax holidays at North Caucasus resorts

RIA Novosti

Investors in projects in the North Caucasus may be granted a ten-year tax holiday; yet few will have the courage to do business in this unstable region until there is at least some guarantee of security.

Today in Davos, Russia will present its project to build a ski resort cluster in this volatile region. The North Caucasus Resorts SPV, 98% government controlled, will be in charge of building the resorts.

As Vedomosti has learned, the company is proposing to exempt businesses investing in local projects from all taxes except VAT for ten years. It is asking for the green light to be given to the construction of tourist facilities and infrastructure such as roads in local nature reserves. This will require a simplified re-zoning procedure and the faster processing of planning applications. The North Caucasus Resorts press office confirmed that these proposals have been submitted to the government.

Investors are currently entitled to privileges in the North Caucasus as special economic zone residents; however, at present they are only exempt from land, property and transport tax and are entitled to a reduced profit tax of 13.5%.

President Dmitry Medvedev asked the government to consider granting privileges to investors in the North Caucasus similar to those planned for the Skolkovo high-tech hub, a government

source said. The North Caucasus Resorts company is only drafting proposals; the Economic Development Ministry will finalize this policy and negotiate with other agencies concerned.

A ministry source said the initial proposal of extending special economic zone privileges for a decade was blocked by the Finance Ministry. The problem is, this policy would have led to regional and municipal budgets being hit with a tax shortfall, meaning that it had to be agreed with local governments, a Finance Ministry official explained. Cancelling profit tax is out of the question because it accounts for the bulk of regional revenues, he added.

Taxes aren't the main problem; the most important issue is security, said Valentin Vinogradov, Director General of Midland Development. It will be difficult to attract investors to the region until this problem is resolved, because it significantly limits consumer demand for their products.

Privileges reduce the cost of investment, but it is hard to tell if they will be enough to compensate for the growing instability across the North Caucasus, said Christopher Granville, managing director of Trusted Sources, an emerging markets research company. In any case, this is probably the only way to make the region attractive to investors, he added. ●

Russia infrastructure news

Alexander Lebedev may sell 15 percent in Aeroflot

bne

Alexander Lebedev, who owns 15 percent in Aeroflot, may sell his stake to finance the purchase of 44 Tu-204SM jets for his Red Wings airline. (Interfax)

Concern Tractor Plants (CTP) considering sale of assets to VEB

Metropol

Kommersant reported that Mikhail Bolotin, who pledged Concern Tractor Plants (CTP) as collateral to VEB, could sell the company's railcar and military machinery assets to VEB while maintaining control of the farm machinery, road construction and timber machinery assets. The newspaper also reported that VEB has already received offers for the railcar and military machinery assets from Russian Technologies, KAMAZ and GAZ Group.

We believe that news suggests that VEB would take ownership of Kurganmashzavod and CTP's railcar assets. Given that Kurganmashzavod has provided guarantees for CTP affiliated companies, we believe that Kurganmashzavod could be acquired for these guarantees, to the detriment of minority shareholders.

We believe that Bolotin is likely to maintain control of farm machinery assets, including SAREX, which produces tractors. In our opinion, the lower debt resulting from the sale of railcar and military machinery assets would have a positive impact on the financials of agricultural machinery assets such as SAREX.

LSR wins rights to two quarries with 1mn m3 of sand reserves

Renaissance Capital

Event: Yesterday (26 January), LSR announced that it had obtained the rights for two sand quarries in St Petersburg and the Leningrad region through auctions held by the Mineral Resources Department. By the department's estimates, the aggregate reserves of the quarries are 1mn m3 of sand. The price paid to obtain the rights was not disclosed.

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

Rationale: The new quarries will better enable LSR to reduce costs, due to the short distance between the sand quarries and construction sites. In 2011 we believe the pace of recovery in LSR's building materials division could be relatively slow, as its capacity utilisation is still below 100% and price inflation is muted, although sales volumes have improved. LSR trades at 12.2x and 9.6x 2011E and 2012E EV/EBITDA, respectively, at a slight premium to PIK, which trades at 11.9x and 9.6x 2011E and 2012E EV/EBITDA, respectively. Having raised \$400mn last year, LSR continues to look better positioned to us on a relative basis. That said, with consensus earnings forecasts for both companies already assuming a recovery, short-term outperformance is unlikely to be material, in our view.

David Ferguson

Medvedev demands prosecution of officials responsible for security at Domodedovo

RIA Novosti

Russian President Dmitry Medvedev on Tuesday demanded Interior Ministry and Federal Security Service (FSB) officials responsible for security at Domodedovo International Airport be punished.

Medvedev said he instructed the FSB to determine who was responsible for security at the airport within the service itself and ordered the Interior Ministry to introduce proposals on how to prosecute those who failed to ensure proper security.

"The FSB management must deal with issues of responsibility of officials in the service itself," Medvedev said. "I entrust the FSB director to submit proposals." "I entrust the Interior Ministry to submit proposals for the dismissal or other prosecution of the ministry's officials responsible for transportation security," Medvedev said. "I instruct the Russian government to consider the issues of liability of the persons responsible for security on transportation," he continued. "I instruct prosecutors and the Investigation Committee to consider the criminal liability of these persons." At least 35 people were killed and 180 injured in the suicide attack at Domodedovo Airport's arrivals gate on Monday. Unconfirmed reports said a female suicide bomber was accompanied by a man whose head was ripped off by the blast.

Medvedev blamed security violations for the deadly blast at the airport.

Police officers and security staff on duty at the Moscow airport hit by the deadly suicide bombing will be investigated for possible negligence, a law enforcement source said on Tuesday.

The law enforcement source said security and police in the arrival zone were not alert enough to possible dangers, adding that the airport security officials "turned a blind eye to the presence of unauthorized persons." The source said the security system in the area was poor despite earlier demands by officials to improve it. He also said all the airport staff, many of whom come from Russian regions, must be checked.

A police source earlier told RIA Novosti that the security services were aware that terrorists were planning an attack on a Moscow airport, but were unable to locate and detain the three suspects they had been searching for.

Mostotrest elects new BoD: Five representatives of Arkady Rotenberg among 11 members

Renaissance Capital

Event: Yesterday (19 January) Mostotrest (MSTT) published the list of members of its new board of directors (BoD), which was elected at an EGM on 18 January. The new members are CEO Vladimir Vlasov; Deputy CEO Leonid Dobrovskiy; independent member Mikhail Noskov (deputy CEO of Severstal); and three representatives of NPV Engineering, a company controlled by Arkady Rotenberg: Dmitry Afanasenko, Irina Egorova and Irina Makarova. Counting Maria Zhurba and Georgy Koryashkin, who were re-elected to the BoD, NPV Engineering is now represented

by five board members. Elena Sukhorukova (Blagosostoyanie), Oleg Toni (Russian Railways) and Sergey Shevshuk (Infina Investment Company) also kept their seats on the BoD. Andrey Sharonov, who was formerly an independent member of the BoD, was not re-elected because he has been appointed deputy mayor of Moscow.

Action: The news is neutral for MSTT, in our view.

Rationale: As expected, Rotenberg increased his representation on the board after acquiring Mikhail Abyzov's stake in MSTT.

Mikhail Safin

RATM seeking over USD 40mn from Sibirsky Cement

VTB Capital

News: According to Kommersant, RATM Holding is seeking RUB 1.25bn (USD 42mn) from Sibirsky Cement in fines and compensation related to the long-running dispute between the two parties over Angarsk cement. Should RATM succeed, it plans to put the funds towards a partial repayment of IskitimCement's RUB 2.5bn (USD 84mn) debt to Sberbank and thus avoid the previously reported transfer of control over the asset to the bank.

Our View: The news is neutral at this stage as the outcome of this new round of the stand-off between RATM and Sibirsky Cement is unclear. Moreover, were the parties to go to the courts, it might take months of litigation before a final decision was reached. We also note that, according to earlier reports, the two sides are discussing the possibility of buying out each other's stakes in Angarsk cement (RATM controls over 50% and Sibirsky Cement has about 30%).

Earlier this year, the Russian media also reported that Sberbank planned to take over 51% in IskitimCement (RATM currently controls 68% in the company), which is pledged as collateral for IskitimCement's debt to Sberbank. We believe that this possibility remains open.

Vladimir Bespalov

Russian billionaire set to profit from Gazprom Arena project

RIA Novosti

On Tuesday, St. Petersburg authorities said the construction

deadline for a new football stadium for FC Zenit, owned by Russian energy giant Gazprom, will be extended to 2012, and increased its budget from 23.7 billion to 33 billion rubles (\$1.1 billion). This makes the stadium one of the most expensive in the world. The overall contractor, engineering company Transstroi, owned by billionaire Oleg Deripaska, stands to double its state contract to 21.4 billion rubles (\$720 million).

The extra time and money are apparently needed in order to ensure the project complies with new FIFA and UEFA international match standards. About a billion rubles (\$33.6 million) will be spent on modifying the project, and another 8.4 billion rubles (\$282 million) on additional construction work.

The revamped stadium will seat 67,000, rather than 62,000, with its internal premises increasing from 170,000 to 260,000 square meters in size.

City authorities had initially planned to complete the stadium, designed by Japanese architect Kisho Kurokawa, in 2009. But costs spiraled to 23.7 billion rubles, several times higher than the state contract with the general contractor Avant Group.

In late 2008, the city government announced an 18 billion ruble (\$600 million) tender for a new contractor. Deripaska's Transstroi won, promising to complete the stadium for 13 billion rubles (\$440 million) by late 2010. Transstroi now claims that although they have only invested a paltry 3.5 billion rubles (\$117 million) or 25% of the contract price in the project, the majority of work has been "25% - 90% completed," conceding that work has not yet started on the sliding roof. That apparently requires the involvement of the German company Foiltek, which won a special tender.

The authorities had promised that no further additional agreements to the contract would be signed. But the agreement delaying construction to 2011 has already been inked.

Maxim Mitrofanov, General Director of the Zenit Football Club, said Tuesday that these delays were an unpleasant disruption. The club had planned to start using the new stadium in 2012.

Vyacheslav Semenenko, head of the city government's construction committee, said Transstroi's contract could see an 8.4 billion ruble increase in cost, and that a bill to that effect will be passed. Deripaska's increased profit comes at a very opportune moment, since by October 2010 his Basic Element holding was \$15 billion in debt. He also needs funding for other ongoing projects, including two construction projects at the Moscow-City business center.

Deripaska's company declined to comment, saying it still had no information about the new financing arrangement. One alternative would be cancelling the contract with Transstroi and holding a new tender.

Oleg Barkov, CEO of Hansa St. Petersburg Development, noted the global trend for increasingly sophisticated projects to be state-funded, adding that contractors risked a lot by building stadiums for fixed prices. The rebuilding of London's Wembley Stadium came in 80% over budget, with the contractor losing \$140 million on the fixed price contract, Barkov noted.

Russian Railways invested \$153m into Sochi – airport railroad in 2010

Marchmont

Interregional rail operator North-Caucasus Railways invested a total of \$153m building rail road Sochi - Adler - Sochi Airport in 2010, the company reports.

The railroad is scheduled to start operating in December 2011.

At the moment transportation between Adler train station and Sochi airport is only possible by car or bus.

North-Caucasus Railways is a part of national rail operator Russian Railways.

Russian Railways seeking 11.7% tariff increase in 2012

Renaissance Capital, Russia

Event: Prime-TASS reported on Friday (21 January) that Russian Railways will seek an 11.7% tariff increase in 2012. Russian Railways has stated that the 7.4% increase proposed by the Ministry for Economic Development is insufficient. Earlier the railway company asked for a 23% tariff increase.

Action: Supportive for the Globaltrans investment case, in our view.

Rationale: Although railway car tariffs are not regulated, increases in infrastructure and locomotive tariffs usually serve as a benchmark. A 23% tariff increase would be a drag on the economy, while the 11.7% increase is more reasonable, in our view, given the need for infrastructure investment and the fact that the Ministry for Economic Development is being met halfway. We currently forecast 7.4% tariff growth for Globaltrans this year.

Ivan Kim

'Smart' transport system to be created in Moscow

RIA Novosti

A brand new "Intelligent Transport System" will be created in Moscow within three years, a source in the City Hall said on Monday.

The system will comprise navigation information services from Russia's Glonass navigation system as well as a photo and video surveillance net for monitoring road traffic.

It will take no more than three years to create and fully implement the new transport system throughout Moscow, the source said.

A similar transportation system will also be implemented on the Moscow Ring Road (MKAD) that encircles the entire city.

Moscow Mayor Sergei Sobyenin has pledged to solve the Russian capital's transportation problems. When appointed, he said he would take "extraordinary measures" to eliminate traffic jams. President Dmitry Medvedev has said he will personally oversee the efforts.

Sobyenin replaced long-serving Moscow mayor Yury Luzhkov, fired in late September by Medvedev over a "loss of confidence." Luzhkov had in particular been criticized for his inability to cope with Moscow's notorious traffic jams.

St. Petersburg to spend \$36m on new transport in 2011

Marchmont

Authorities in St. Petersburg have announced plans to spend \$35.8m on new public transport in 2011.

Under plans, the authorities are to purchase 17 trams for \$6.6m, 24 trolley buses for \$5m, 25 buses for \$7.5m and 25 metro train cars worth a total of \$16.7m.

Transneft diverts Belarusian exports to ports

Aton

On Friday (21 Jan), Interfax reported that Transneft plans to redirect oil that was to have been refined in Belarus to the Novorossiysk, Primorsk and Gdansk ports. While the company did not disclose the volume of oil to be directed to each port, a Transneft spokesman stated that Belarus previously received 1.5mn tonnes of oil per month. These additional volumes may positively affect the utilisation rates of NCSP's oil handling facilities. NCSP loaded 3.2mn tonnes of oil in Nov 2010. Currently, Transneft, in consortium with Summa Capital, is in the process of buying a controlling stake in NCSP .

VTB may buy transport hub project in Moscow City biz center from Dutch Citer Invest

RIA Novosti

Russia's second largest bank VTB is considering purchasing a transportation terminal construction project in Moscow City business center from Dutch Citer Invest, Vedomosti business daily reported on Tuesday, quoting a Citer Invest official.

The project will be implemented by VTB-controlled Sistema-Hals development company, the paper said. Sistema-Hal, VTB and Citer Invest gave no comment, but a source close to the bank told the newspaper that the information seemed to be true. A source close to the managers of the business center told Vedomosti that the project was under consideration.

The transportation terminal will connect the business center with Moscow's Vnukovo and Sheremetyevo airports and the Third Ring road that runs round the outside of the city. The total area of the project amounts to 228,000 square meters, including 78,200 meters underground. The project also includes two office buildings of 47,300 and 75,000 square metres, a 390 room hotel, a mini-metro station and a parking lot for 903 cars. The project is to be implemented by 2015. Citer Invest said at the beginning of 2010 that VTB and Turkey's IS Bank would grant a credit of \$190 million for the project.

Citer Invest also said that \$70 million had already been invested in the project as of March 2010. The paper's sources could not specify the amount of funding invested by VTB. Vladimir Avdeyev, a partner of S. A. Ricci / King Sturge property consulting firm told the newspaper that the cost of the project could be \$91.2-114 million as of today and about \$500 million would be needed to finish it.

Russia infrastructure finance & statistics

Aeroflot reports 2010 operating stats – It was a good year

Renaissance Capital

Event: Aeroflot released operating numbers for FY10 yesterday (26 January).

Action: We think Aeroflot's operational dynamics are robust. The company has great operating momentum, which will continue into 2011. This year, this might be accompanied by improvement in passenger yields as well, with a positive influence on the top line. The key investor concerns - cancellation of flyover fees, acquisition of Rosavia airlines and management of Sheremetyevo terminals - are properly addressed, in our view. Excluding flyover fees, Aeroflot trades at 5.8x EV/EBITDA 2012E, at a 15% discount to EM and growth carriers, on our estimates.

Rationale:

- Aeroflot Group's revenue passenger-km (RPK) increased 18% YoY in December 2010 and 31% YoY in 2010, driven by growth in both domestic and international traffic, which was driven in turn by economic recovery and growth in disposable income. The December traffic numbers were affected by the travel disruption at Sheremetyevo airport. The 31% increase in RPK is strong (one of the strongest globally this year) and is largely in line with our 30% growth forecast. Importantly, 2011 should also be a strong year for Aeroflot - we forecast a 21% increase in RPK.
- The group's freight tonne-km (FTK) was up 27% YoY in 2010, which is robust growth as well.
- The airline's 2010 passenger load factor (PLF) of 77% was 7 ppts higher than the 2009 PLF. This is a significant uptick and is largely in line with the stats shown by flag carriers globally.
- Aeroflot Group's 2010 freight load factor was 63%, improved vs 58% in 2009.

Ivan Kim

Aeroflot: It just gets better

Aton

In this note we increase our target price for Aeroflot to incorporate strong 9M10 financial and operational results and a number of value_accretive corporate actions.

We believe Aeroflot will demonstrate approximately 29% YoY physical growth and reach 38.9bn passenger_kilometres (pkm) for FY10. Moreover, we note the improvement in margins in 9M10 thanks to more efficient cost control. We positively view the postponement of the Rosavia airlines merger to 2012 and the anticipated deconsolidation of Aeroflot's low_margin Nordavia subsidiary in 2H11. As a result of forecast revisions to our DCF model, we have raised our target price 12% to \$3.42 per share, up from \$3.05 previously. Our new target price implies 28% upside potential and fully supports our current BUY rating on the shares.

An international peer group comparison using our updated forecast shows that Aeroflot trades at around 10_30% discounts on EV/EBITDA and 10_20% on P/E to emerging markets airlines for 2010_12E. At the same time, given Russian passenger traffic growth and the consolidation of Rosavia's assets, Aeroflot offers the sector's highest revenue growth rates at over 35% per year in 2010_12E, based on our forecasts. When compared to emerging market peers, Aeroflot has a low net debt/EBITDA ratio and solid EBITDA margins with a comparable organic revenue CAGR. Consequently, we do not believe its valuation discounts are fully justified, further supporting our DCF_based upside estimate and BUY rating.

9M10 Financial Results

Aeroflot's 9M10 IFRS results were strong and came in above our bottom line estimates (Figure 1), with notable YoY improvements in EBITDA, operating income and net income.

The company demonstrated solid 28% YoY revenue growth supported by the recovery of Russia's airline market. Aeroflot's 9M10 EBITDA margin improved, reaching an impressive 18% bolstered by higher fleet utilisation, lower fuel consumption and better personnel management. We expect strong results to persist going forward, although the FY10 financials will likely be weaker due to the traditionally poor 4Q.

FESCO's Transgarant posts strong 2010 operating results in line with our expectations

Alfa Bank

Transgarant, FESCO's key rail asset, which contributes approximately 27% to FESCO's 2010E EBITDA, increased freight rail transportation by 28% y/y to 24.6 mmt. This is slightly above our forecast of 25% y/y growth and much higher than Russian Railways' rail cargo transportation growth of 8.8% y/y.

Transgarant's freight transportation rose faster than Russian Railways' mainly because its traffic shifted from Siberia to the Far East. Asian countries continue to generate strong demand for Russian raw materials, especially coal. Transgarant's coal transportation expanded by 49% to 11.6 mmt, or 47% of its entire cargo volumes. In addition, transportation of crushed stone increased by 75% to 1.3 mmt of lime, and container transportation surged by 82% to 112,800 TEU.

Overall, we treat the published results as POSITIVE, as they exceed the market's performance and are slightly above our expectations. However, we are not planning to make any changes to our FESCO model until we see the operating performance of the company's other divisions (Shipping, Liner & Logistics).

Georgy Ivanin

NCSP: Punished Beyond Reason

Aton

In this note we revise our target price for NCSP to incorporate the Primorsk Trade Port (PTP) acquisition as well as NCSP's recent financial and operating results. While we believe the acquisition of PTP is value dilutive for NCSP shareholders, we nevertheless argue that the market has overreacted to the news.

While the price paid for PTP exceeds our estimate of a value-accretive level for NCSP shareholders, the latter's share price has lost over 15% since the acquisition was announced (15 Sep 2010). The stock has come under intense pressure and now, on our estimates, trades at a 55% discount to international peers on 2012E P/E vs a historical 40%. In our view, the market has overreacted and does not fully recognise the potential (although expensive) benefits for NCSP from its new purchase.

We remind our readers that through PTP, Novorossiysk Port will gain exposure to a high-profile asset with a stable business and high margins. In addition, Primorsk Port's low capex requirements provide us considerable comfort that NCSP will not be used as a cash cow.

Additionally, PTP's rouble-denominated revenues may be viewed as a currency hedge for the combined company. Currently, NCSP has dollar-denominated revenues and rouble-denominated expenses, making it sensitive to rouble appreciation.

Grain export ban and low volume of oil transshipment led to disappointing 9M10 operating results, which showed a 3.9% YoY decline in cargo loaded, worsening to -5.4% YoY in 11M10. Nevertheless, we believe that improvements in operating results are likely in 2H11, as the government will cancel the grain export ban in July 2011. In addition, the presence of new shareholders may reduce volatility in oil volumes transshipment, which would improve port capacity utilisation.

The port's 9M10 financial results were relatively strong despite poor operating data. NCSP managed to report flat revenue YoY and maintain an attractive 69% EBITDA margin - despite accelerating inflation - via tighter cost control and better management of its cargo mix.

As a result of forecast revisions to our DCF model and adjustments to our WACC and terminal growth rate estimates, we have changed our target price to \$15.02 per share, down slightly from \$15.05 previously. Our new target price implies about 40% upside potential and fully supports our current BUY rating on the shares.

Vladivostok Container Terminal posts strong 2010 operational results

Alfa Bank

Vladivostok Container Terminal, in which FESCO has economic interest of 75%, increased container throughput in 2010 40% y/y to 288,195 TEU. This exceeds our forecast of 20% y/y growth and, all else being equal, may add \$8m (1%) to FESCO's forecasted revenues in 2010, \$7m (4.5%) to EBITDA and \$5m (1.5%) to net income. According to our estimates, VCT contributed up to 6% to FESCO's 2010 top-line and 14% to EBITDA.

We consider this news as POSITIVE for FESCO. Moreover, it supports our positive view on the development of the container business in Russia owing to strong import growth. We note that on a net basis, the positive impact on the company's financials from the better-than-expected VCT results may be partially offset by the weaker operational performance of Vladivostok Sea Commercial Port (VMTP). VMTP is FESCO's second port asset, which grew 11.2% y/y vs. our expectation of 20%.

Overall, we view the results as POSITIVE for the company, as they exceed our expectations. However, at this stage we are not planning to make any adjustments to our model until we see the operational performances of FESCO's other divisions (shipping, liner&logistics, rail).

Russia roads

Federal roads in Mary El to get \$33.5m aid

Marchmont

A total of \$33.5m is to be allocated from the federal budget on federal roads in the Republic of Mary El in 2011, regional officials report.

The funds are reportedly to be taken out in budget loans and subsidies under the federal programs.

Liski overhead road expects \$33m federal finance

Machmont

Authorities in Voronezh region expect to raise \$33m finance from the federal budget on construction of an overhead road in the town of Liski, regional officials report.

The road will reported increase traffic capacity under the rail road.

According to the regional authorities, a \$665,000 project design for the road has been financed by local authorities, who are also to finance construction of access roads to the overhead crossing.

Specifically, to date almost all old houses in the construction zone have been put down and the citizens have been relocated to new apartments, the officials said.

Who will build \$31m bypass road in Voronezh?

Marchmont

Authorities in the city of Voronezh have announced an open tender to select a contractor to build a \$30.9m bypass road in the city.

Of the total funding, \$26.6m is to be allocated from the regional budget, and \$4.3m is to be put up by the city authorities.

Under the auction terms, the contractor is to overhaul the bypass road on the Antonova-Ovseyenko Street before August 31, 2011.

Yoshkar-Ola roads to get \$6.4m repairs

Marchmont

A total of \$6.4m is to be spent on roads repairs in the city of Yoshkar-Ola, Republic of Mary El, in 2011, regional officials report.

Under plans, the funds are to be spent on repairs of street roads and yard territories and development of urban recreation zones.

Russia trains

Ex Slovak minister sees holding company as solution for ailing rail firms

bne

Former Slovak Transport Minister, now an MP for the opposition SMER-SD, Lubomir Vazny is of the opinion that a state holding company formed on the basis of three state ailing railway companies would be a systemic step for their stabilization. The Transport Minister in the SMER-SD shadow cabinet is convinced that a separate organization must be established to manage the superfluous property of rail companies and take over the conduct of their secondary activities. Such an organization can provide services on the entire transportation market, not only in the railway transport. It must prove its viability in practice, Vazny said.

The opposition deputy argues that the Transport Ministry should have continued in his proposal to set up a railway holding, whereby the operator of the railway infrastructure was supposed to continue functioning separately from transport operators as required by EU laws. All the three companies would have operated independently in Vazny's concept. It had been supposed that a holding comprising the three railway companies would ensure their optimal functioning and competitiveness under local circumstances, said Director General of the Transport Research Institute in Zilina Lubomir Palcak. Vazny intends to continue in professional opposition to the Cabinet and the Transport Ministry.

He has already selected some of experts for his team. When reasonable, they will submit constructive proposals for the field of transport policies. The Ministry of Transport presently led by KDH nominee Jan Figel has not yet answered the questions about the potential creation of a holding company. But based on the so far presented information, the department does not intend to carry on with the project.

Globaltrans: Valuation Upped on Operating Performance and Sector Outlook

Alfa Bank

Globaltrans, Russia's largest private rail-service operator, is one of the most attractive plays in the transportation sector. During 2010, the company improved its EBITDA margin (which rose from 40% to 44% in 1H10), increased its fleet at favorable prices, and continued to improve its solid balance sheet. This solid performance, along with lower WACC and the upbeat sector outlook, lead us to increase our 12M TP 21% to \$21.58/share, implying 24% upside, and maintain our O/W recommendation. The release of FY10 results in April will likely be a catalyst for the stock, which is trading at 18% and 48% discounts to EM peers on 2011E EV/EBITDA and P/E, respectively.

Investment Case

Market recovery ongoing, but still room for growth: In 2010, Russia's rail cargo transportation market rebounded strongly from 2009 lows, increasing 8.8% y/y to 1,206 mmt, the best year-on-year growth since 2000. Nevertheless, there is still room for further growth, as 2010 rail cargo transportation is still 10% below the 2007 pre-crisis level. The recovery effect should sustain the sector's strong performance in 2011.

Solid 2010 operating results reflect improving margins: Globaltrans' 1H10 EBITDA beat our estimate by 3.4% even though adjusted revenue was 5.2% below our forecast. The key reason was slower growth in empty-run costs, the largest cash-cost element, compared with revenue (14% vs. 28%), primarily due to a decrease in the empty-run ratio for gondolas from 54% in 1H09 to 42% vs. our FY10 forecast of 45%. As a result, the adjusted EBITDA margin climbed to 44.3%, 4.4 pts higher than in 1H09 and 3.7 pts higher than our forecast.

Timely fleet expansion: In 2009, Globaltrans ordered 6,000 open-top and 500 rail tank cars, half of which were optional. By the end of last year, all cars, including optional units, had been delivered, which we estimate increased owned and leased rolling stock by 17% to ~43,000 cars and boosted average rolling stock operated by 20% to ~34,000 cars. The new cars were acquired at the lowest prices of the past three years, or 30% below current levels. We expect this fleet expansion to result in ~13.4% y/y cargo transportation growth, which is 4.6 pts above the market's overall growth, in 2010.

Solid balance sheet: We estimate the company's net debt as of YE10 at 0.9x 2010E EBITDA, which is relatively low compared

with the sector as a whole. The share of dollar-denominated debt decreased from 64% as of YE09 to 26% in 1H10, decreasing currency risk, as revenue and costs are in rubles. The average effective interest rate declined from 9.04% at YE09 to 8.73% as of July. Debt profile is strong and can accommodate further expansion.

Valuation and Risks

TP up 21% to \$21.58/share: We increase our target price for Globaltrans to \$21.58/share, implying 24% upside, from \$17.89 owing to fleet expansion, strong 1H10 results and lower WACC. We reiterate our O/W recommendation. The company trades at 7.3x 2011E EV/EBITDA and 9.5x P/E, which imply 18% and 48% discounts to emerging-market peers.

Risks: The key risks to Globaltrans are 1) a global economic slowdown, especially in Asia; 2) concentrated client base; 3) car price appreciation, as they are in short supply, limiting possibilities for further expansion; and 4) currency risk: revenues and costs are in rubles, and investors therefore cannot hedge against share-price fluctuations.

Russian Railways invested \$187m in Tuapse - Adler rail line infrastructure

Marchmont

National rail operator Russian Railways invested a total of \$187m in reinforcement of infrastructure at Tuapse - Adler railway line in Krasnodar region in 2010, the company reports.

The funds were reportedly spent on construction of double-track lines on the sections in order to increase the line's traffic capacity.

As of the end of 2010 the company has reportedly built 13.8 kilometers of double-track lines.

Russian Railways seeking 11.7% tariff increase in 2012

Renaissance Capital

Event: Prime-TASS reported on Friday (21 January) that Russian Railways will seek an 11.7% tariff increase in 2012. Russian Railways has stated that the 7.4% increase proposed by the Ministry for Economic Development is insufficient. Earlier the railway company asked for a 23% tariff increase.

Action: Supportive for the Globaltrans investment case, in our view.

Rationale: Although railway car tariffs are not regulated, increases in infrastructure and locomotive tariffs usually serve as a benchmark. A 23% tariff increase would be a drag on the economy, while the 11.7% increase is more reasonable, in our view, given the need for infrastructure investment and the fact that the Ministry for Economic Development is being met halfway. We currently forecast 7.4% tariff growth for Globaltrans this year.

Ivan Kim

Russian Railways seeks cargo transport tariff up 12% in 2012

bne

State-owned railroad monopoly Russian Railways believes that the tariff for rail cargo transportation should be raised by 11.7% in 2012, reports Prime-Tass.

Citing an industry source, the news agency says that the tariff growth of 7.4% proposed by the Economic Development Ministry is not sufficient to cover operating expenditures.

Russian Railways to up 2011 invest in Buryatia rail project 90% on year

bne

State-owned railroad monopoly Russian Railways plans to invest RUB3.435bn in the development of rail infrastructure in the constituent republic of Buryatia in 2011, up around 90% on the year, reports Prime-Tass.

Citing a statement issued by East Siberian Railroad, a branch of Russian Railways, the news agency says that the branch also plans to sign an agreement on cooperation for 2011-2015 with the republic's government.

Russian Rail's \$15.6m 2010 Sakhalin modernization reported

Marchmont

Russian Railways invested \$15.6m last year in modernization of Sakhalin's railroad infrastructure, the firm said.

The report specifies that the company upgraded three bridges along the Korsakov - Nogliki line and gave a major face-lift to tunnel 21 on the Shakhta - Ilyinsk line, with installation of avalanche protection on the latter.

RZD says 11.7% freight tariff hike, RUB80bn subsidies needed in 2012

bne

Russian Railways (RZD) thinks an 11.7% increase in freight charges and RUB80bn subsidies are needed in 2012, reports Interfax.

Citing an industry source, the news agency says that the 7.4% tariff growth [proposed by the Russian Economic Development Ministry] isn't enough to cover operating costs.

Russia planes

Aeroflot draws a line under the December incident

UralSib

Incident triggers positive changes. Aeroflot's (AFLT RX - Buy) BOD on Tuesday approved changes to streamline its management structure and equip it to deal more adequately with critical situations, such as that which occurred on 25-29 December, when 212 flights were cancelled and 358 delayed as a result of insufficient supplies of de-icing liquid. The main outcomes of the December incident for Aeroflot are:

1. The operations and critical-situation management departments will now report directly to the CEO Vitaly Saveliev rather than to the vice-president.
2. The three senior managers responsible for ground services, supplies, and operational control are to be replaced; two new candidates for these positions were approved by Aeroflot's BOD at its Tuesday meeting.
3. All purchases of de-icing liquid are to be made via open auction, under the control of the Federal Antimonopoly Service and Economics Ministry. Imported de-icing liquid is to be replaced with domestic product, according to Saveliev.

4. Top management of the company will not receive 4Q10 bonuses, which should save the carrier up to \$2 mln, according to Vedomosti.

5. The maximum cost of the December fiasco is estimated by Aeroflot at \$20 mln, the most of which is represented by vouchers for passengers affected by delays (which can be exchanged for tickets in 2011).

Financial effect to be insignificant, management process to improve. We expect the measures to allow Aeroflot to deal more effectively with emergencies in future. We estimate the additional expense at maximum 4% of the company's 2010E EBITDA and 17% of net income. The actual cash cost of extra expenses, however, is likely to be far below \$20 mln, as vouchers are non-cash and hence should not be registered as costs in the P&L. We expect all costs associated with the incident to be accounted for in 4Q10, and to be partly compensated for by a cut in annual bonuses for management as well as by potential compensation from suppliers of de-icing liquid for the delivery delays. Finally, we expect the company to spin off Terminal D this year in order to focus fully on its key passenger and cargo transport business.

Strong Buy reiterated. We view the steps taken by Aeroflot management positively, and reiterate our strong bullish view on the company and its shares.

Anna Kupriyanova

Aeroflot passenger traffic up 28.9% on year in 2010

bne

The passenger traffic of flag carrier Aeroflot Russian Airlines increased 28.9% on the year to 11.285 million people in 2010, reports Prime-Tass.

Citing the airline, the news agency says that passenger transportation rose 33.8% on the year to 34.777 billion passenger-kilometers in this period.

Aeroflot - Learning to fly when you ain't got fees

Renaissance Capital

Today (19 January), we release Russia: Aeroflot - Learning to fly when you ain't got fees.

Flyover fees, acquisitions, etc. If flyover fees are abolished as a result of Russia's accession to the WTO, there will be benefits to Aeroflot such as no customs duties on new aircraft, the de-monopolisation of Russian airports, and lower refuelling and handling costs. We believe more than 65% of lost fees (estimated at \$300mn in 2010) will be recouped within one year. Buying the poorly run Rostekhnologii airlines (RTA) which has old aircraft is not great, but the company is likely to be purchased for half of Aeroflot's implied multiples, and the purchase will make Aeroflot the leading domestic carrier, optimise domestic travel, enhance its international network and allow the asset to be turned around. The completion of Terminal D at Sheremetyevo airport gives Aeroflot a strong hub to attract transit passenger flows; and if all Sheremetyevo airport terminals come under the professional management of a foreign airport operator (likely in 2011), Aeroflot's position as the leading Russian air carrier will strengthen.

One of the faster-growing airlines. In 2010, we believe Aeroflot will record 30% growth in revenue passenger kilometres (RPK); in 2011 we forecast a further 21% growth (the airline itself is even more bullish) on the back of adding new planes, continued growth in domestic passenger traffic and attracting new passengers to its Sheremetyevo hub airport. Oil prices are going up, but Aeroflot has started to hedge some of its exposure and in addition has more cost-cutting potential - thus we believe margins will not be significantly affected.

Attractively priced. Aeroflot trades (without flyover fees) on a 41% discount on 2012 EV/Sales and a 15% discount on EV/EBITDA to EM carriers. The discount is 53% and 14%, respectively, vs growth carriers to which Aeroflot clearly belongs. Valuing Aeroflot at

1x EV/Sales and 4.5x EV/EBITDAR, and blending these with the DCF valuation, gives us a \$3.5/share target price (TP) for YE11. We retain our BUY rating, despite an approximate 14-15% share overhang from NRB selling its stake.

Aeroflot: It just gets better

Aton

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We believe Aeroflot will demonstrate approximately 29% YoY physical growth and reach 38.9bn passenger_kilometres (pkm) for FY10. Moreover, we note the improvement in margins in 9M10 thanks to more efficient cost control. We positively view the postponement of the Rosavia airlines merger to 2012 and the anticipated deconsolidation of Aeroflot's low-margin Nordavia subsidiary in 2H11. As a result of forecast revisions to our DCF model, we have raised our target price 12% to \$3.42 per share, up from \$3.05 previously. Our new target price implies 28% upside potential and fully supports our current BUY rating on the shares.

An international peer group comparison using our updated forecast shows that Aeroflot trades at around 10_30% discounts on EV/EBITDA and 10_20% on P/E to emerging markets airlines for 2010_12E. At the same time, given Russian passenger traffic growth and the consolidation of Rosavia's assets, Aeroflot offers the sector's highest revenue growth rates at over 35% per year in 2010_12E, based on our forecasts. When compared to emerging market peers, Aeroflot has a low net debt/EBITDA ratio and solid EBITDA margins with a comparable organic revenue CAGR. Consequently, we do not believe its valuation discounts are fully justified, further supporting our DCF-based upside estimate and BUY rating.

9M10 Financial Results

Aeroflot's 9M10 IFRS results were strong and came in above our bottom line estimates (Figure 1), with notable YoY improvements in EBITDA, operating income and net income.

The company demonstrated solid 28% YoY revenue growth supported by the recovery of Russia's airline market. Aeroflot's 9M10 EBITDA margin improved, reaching an impressive 18% bolstered by higher fleet utilisation, lower fuel consumption and better personnel management. We expect strong results to persist going forward, although the FY10 financials will likely be weaker due to the traditionally poor 4Q.

AFK Sistema may be interested in buying airport assets from Moscow government

UralSib

Sistema reported a possible buyer. AFK Sistema (SSA - Buy) may be interested in buying shares in companies owning assets in Moscow's Vnukovo airport, Reuters reported yesterday. Sistema reportedly could be the first candidate to buy the assets from the Moscow government, and a preliminary agreement between core Sistema shareholder Vladimir Yevtushenkov and Moscow's mayor already exists. However, Sistema denied having such plans.

Moscow's new city government is currently seeking to dispose of its noncore assets, including stakes in companies operating Vnukovo airport. Sistema may be interested in buying other assets from the Moscow government as well.

Price could be attractive. The Moscow government owns 74.7% of Vnukovo Airport, 25% plus 1 share in Vnukovo International Airport, and 26% in Avia Business Terminal. Kommersant recently reported that 74.7% in Vnukovo Airport had been valued by the Moscow government at RUB27 bln (\$0.9 bln), versus the roughly RUB60 bln (\$2 bln) investment made by the city. Vnukovo is the third-largest airport in Moscow and Russia, serving 9.4 mln passengers in 2010.

Investing in airports may reinforce concerns over strategy. Should Sistema acquire airport assets from the Moscow government, it would add exposure to a completely new industry and may deepen concerns over the integrity of Sistema's strategy. That said, the deal may also confirm company's ability to arrange value-accretive M&As, and may be viewed positively. Sistema's stock is undervalued, providing 26% upside to our \$33/GDR target price, lagging the market, having underperformed the RTS Index by 18% in the last three months. We reiterate our Buy recommendation.

Konstantin Chernyshev

Alexander Lebedev might not sell his remaining stake in Aeroflot on the market

Alfa Bank

According to Interfax, Alexander Lebedev, who owns around 15% in Aeroflot, could sell his stake to finance the purchase of 44 TU-204SM airplanes for his Red Wings airline.

We view the news as POSITIVE for Aeroflot. The sale of Mr.

Lebedev's stake is linked to the politically important TU-204 project, which is on the verge of being cancelled. Therefore, the stake will most likely not be sold on the market, but to Aeroflot itself, as was planned a year ago (or to VEB). This would remove the share overhang that has put negative pressure on the stock since the private placement of around 4% from Lebedev's stake in December. 15% of Aeroflot was worth \$440m at yesterday's close.

Avianova passenger traffic at 1.4 mln people 2010

bne

The passenger traffic of Russian low-cost airline Avianova, which started operations in August 2009, increased to around 1.4 million people in 2010 from around 110,000 people a year earlier, says the company's Managing Director Andrew Pyne, reports Prime-Tass.

The news agency quoted Pyne as saying that Avianova, based in Moscow's Sheremetyevo Airport, scrapped its plans to open a second hub in St. Petersburg's Pulkovo Airport.

Emergencies Ministry to boost aircraft fleet

RIA Novosti

The number of aircraft available to Russian Emergencies Ministry will be increased by almost 50 percent in the next few years, the ministry said on Wednesday.

The ministry will receive 26 aircraft in addition to the 53 that it already operates, the ministry said in a report.

Eight Beriev Be-200ES multipurpose amphibious planes, two Antonov An-148 passenger jets, six Ka-32 and ten Mil Mi-8 Hip helicopters will be supplied to the ministry.

The ministry currently has 18 planes and 35 helicopters.

In the 15 years since it was created, the Emergencies Ministry has participated in almost 400 rescue and humanitarian operations in Russia and abroad, the report said.

Koltsovo Airport passenger traffic up 27% on year in 2010

bne

The passenger traffic of Russia's Yekaterinburg-based Koltsovo International Airport rose 26.7% on the year to 2.749 million people in 2010, reports Prime-Tass.

Citing the airport's public relations department, the news agency says that of the total, domestic passenger traffic increased 18.5% on the year to 1.529 million people in this period, passenger traffic to countries of the Commonwealth of Independent States (CIS) rose 31.4% to 202,165 people, and passenger traffic to non-CIS countries was up 39.8% to 1.018 million people.

Pension Fund Surgutneftegas to buyout remaining UTair shares

Aton

Vedomosti reports today (17 Jan) that Pension Fund Surgutneftegas, which earlier consolidated 55.68% of UTair, has prepared an obligatory share repurchase offer. The price of the offer was not given. Under Russian law, the price should be the higher of the weighted average market price for the last six months or the deal price under which the controlling stake was obtained. The market average price for UTair's shares for the last six months (ending 14 Jan) was RUB13.1 (\$0.44) according to MICEX data. Pension Fund Surgutneftegas purchased its stake from related parties affiliated with Surgutneftegas. We doubt the deal price was higher than market, so we believe the offer price will be \$0.44, 25% lower than the current \$0.58. We therefore believe the news is neutral for the stock.

Rostekhnologii to lease planes to Aeroflot's subsidiary

VTB Capital

News: Aeroflot's subsidiary Donavia plans to take ten Boeing-737s in operating lease in 2013. The planes are to be leased from Rostekhnologii as part of its big lease deal with Aeroflot, according to Donavia CEO Vitaly Golovin, quoted by Interfax yesterday.

Our View: This first deal between Aeroflot and Rostekhnologii confirms our concerns about the potential worsening of leasing terms, which would eat into the group's profits.

Aeroflot's previous stance was that the company might lease planes from Rostekhnologii but only on market conditions (in other words, if the leasing terms were no worse than those of other participants in the tender). However, to the best of our knowledge there was no tender in Donavia's case and we continue to doubt that Rostekhnologii might offer better (or even equal terms) to international leasing companies.

Rostekhnologii's significant involvement in Aeroflot's business was the major reason for our downgrade and we are reiterating our Hold recommendation for Aeroflot. Since November 2010, the stock has dropped 1.4%, while the market is up 11%.

Elena Sakhnova

Russian airlines should cut ticket prices by 10-15% - watchdog

RIA Novosti

Russia's airlines should reduce their ticket prices by 10-15% due cost savings after the withdrawal of aircraft fuel dealers from airports, Russian Federal Antimonopoly Service (FAS) head Igor Artemyev said on Wednesday.

In 2009, the government issued a resolution on non-discriminatory direct fuel sales by oil companies to airports for refuelling aircraft.

"In St.Petersburg's airport, and in other airports, oil companies sell fuel directly without agents. As a result, the cost of fuel has fallen to 24% from 36% of the total ticket price in the last quarter," Artemyev told the State Duma.

"But our airline companies did not rush to cut ticket prices by the same 10-15%. Now we are doing it," he added.

Russian airlines' passenger flow up 26%YoY in 2010 to a record 57mn PAX

VTB Capital

News: Russian airlines' passenger flow was up 26% YoY in 2010 to 57mn PAX, according to preliminary estimates from the Ministry of Transportation.

Our View: The strong growth figure came in line with our expectations. It confirms that Russian airlines performed well in 2010, significantly exceeding pre-crisis traffic volumes and hitting a new record last year for the number of passengers carried. We see the economic recovery and almost flat fares as the key drivers behind this.

In our view, the market will continue to grow strongly in 2011, although at a less impressive rate of 10%. The high base effect, as well as the pressure on profitability from rising kerosene prices (which have gained 21% since November 2010) forcing airlines to raise fares, are the main reasons for us expecting growth to moderate. Finding a balance between increasing tariffs and securing profitability and traffic growth is likely to be one of the key challenges for the industry this year.

Elena Sakhnova

Sheremetyevo Airport to up passenger traffic 12% on year in 2011

bne

Moscow's Sheremetyevo Airport plans to increase its passenger traffic 12.4% on the year to 21.7 million people in 2011, according to a plan approved by its board of directors, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that the airport's capital expenditures are planned at RUB1.2bn in 2011, while revenue from operating activity is planned at about RUB10bn.

Sheremetyevo boosts passenger throughput by 31% in 2010

bne

Sheremetyevo International Airport boosted its passenger

throughput in 2010 by 31% to 19.329 million people in comparison with 2009, reports Interfax.

Citing a statement issued by the company, the news agency says that the airport provided international services to 12.3 million people, which was a 24% increase from 2009 while 7 million passengers flew from Sheremetyevo to domestic destinations, which was an increase of 44%.

Sistema denies plans to purchase Vnukovo Airport

bne

Russian multi-industry holding AFK Sistema is not interested in buying Moscow's Vnukovo Airport, says Vladimir Yevtushenkov, chairman of Sistema's board of directors, reports Prime-Tass.

The news agency quoted Yevtushenkov as saying that Sistema has a huge number of projects and is not interested in the airport.

St Pete's Pulkovo Airport passenger traffic up 24.9% in 2010

bne

Passenger traffic through St. Petersburg's Pulkovo Airport rose 24.9% on the year to 8.444 million people in 2010, reports Prime-Tass.

Citing the press office of Northern Capital Gateway, the airport's management company, the news agency says that of the total, international passenger traffic outside the Commonwealth of Independent States (CIS) rose 25.4% on the year to 3.678 million people in this period, while CIS passenger traffic increased 28.6% on the year to 709,318 people, and domestic passenger traffic increased 23.9% on the year to 4.057 million people.

Ural Airlines passenger traffic up 20% on year in 2010

bne

The passenger traffic of Russia's Ural Airlines rose 20% on the year to 1.792 million people in 2010, reports Prime-Tass.

Citing the company's press office, the news agency says that the airline's passenger traffic on international flights, excluding flights to the Commonwealth of Independent States (CIS), amounted to 661,402 people in this period.

Vnukovo Airport passenger traffic up 22.4% on year in 2010

bne

Passenger traffic at Moscow's Vnukovo Airport rose 22.4% on the year to 9.46 million people in 2010, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that of the total, domestic passenger traffic rose 17.2% on the year to 6.39 million people, while international passenger traffic rose 34.6% on the year to 3.07 million people.

Vladivostok Intl Airport passenger traffic up 28% on year in 2010

bne

Passenger traffic through Russia's Vladivostok International Airport increased 28% on the year to 1.263 million people in 2010,

Citing a statement issued by the airport, the news agency says that of the total, domestic passenger traffic increased 27% on the year to 1.027 million people in 2010, while international passenger traffic rose 28% to 236,000 people.

Vnukovo Airport to ban Tu-134, Tu-154B, Il-86 flights

bne

Moscow's Vnukovo Airport plans to ban Tu-134, Tu-154B, and Il-86 flights in April, reports Prime-Tass.

Citing the airport, the news agency says that the airport would also ban Tu-145M flights during the evening and at night.

Russia ships

25.5% in Volga Shipping auctioned at min. \$35m

Marchmont

The federal subsurface management agency Rosimuschestvo has announced an open auction to sell 25.5% shares in Nizhny Novgorod-based shipping company Volzhskoye Parokhodstvo (Volga Shipping).

The starting price for the lot is reportedly set at \$34.9m. The auction is scheduled to be held on February 15, 2011.

Arctic thaw will mean shipping boom

bne

Rosatomflot executive predicted on Tuesday a surge in voyages on an Arctic shortcut sea route in 2011 as a thaw linked to climate change opens the region even more to shipping and oil and mining companies, reports The Moscow Times.

The newspaper report says that high metals and oil prices, linked to rising demand from China and other emerging economies, is helping spur interest in the Arctic and the route between the Atlantic and Pacific Oceans as an alternative to traveling via the Suez Canal.

Azov Transport Company to build \$117m cargo terminal

Marchmont

The Azov Transport Company has announced plans to invest \$117m building a terminal to transship rolling cargoes in Kavkaz port in the city of Temryuk, Krasnodar region.

Under the project, the company is to build a ship channel in the water area of the Kavkaz port, two specialized decks, warehouses and other facilities.

The terminal's projected annual capacity is 50,000 roll-on roll-off cargo units.

The complex is scheduled to be put into commission in 2012.

Cargo handling at Greater Seaport of St Pete up 14.9% in 2010

bne

The cargo handling of stevedore companies operating at the Greater Seaport of Saint Petersburg increased 14.9% on the year to 57.942 million tonnes in 2010, reports Prime-Tass.

Citing the port's data, the news agency says that of the total, handling of oil products rose 2.2% on the year to 16.232 million tonnes in this period, and handling of containers increased 30.6% to around 19 million tonnes.

Moscow group floats \$300m multi-modal river port for Veliky Novgorod

Marchmont

Oleg Kouzbit, Online News Managing Editor

Moscow-based Investment Shipbuilding Group has unveiled plans for a new river port in Veliky Novgorod, Russia's North-West, whose price tag could top \$300m. Although the firm only has 40% of the financing it needs, regional authorities are aggressively shopping the project to bring in outside investors. With Russia's north-south river cargo shipments experiencing a surge, existing antiquated facilities can't handle the logistics, so analysts feel the new complex will not only find investors but get a healthy push from the RF.

Moscow-based Investment Shipbuilding Group has announced plans to build a world-class multi-modal river port in Veliky Novgorod, Russia's North-West. The price tag for the project is expected to top \$300m when completed.

The developer will reportedly start construction not far from the Krechevitsy international airport later this year and by 2014 is hoping to complete a wide range of facilities. In addition to a standard set of port installations including administrative buildings, logistic and container terminals and a fuel terminal for ships, Investment Shipbuilding has plans to also build water treatment and waste-processing facilities, vehicle repair shops, fuel stations, pumping installations, a power station, warehousing and garage space, parking, and even a hotel-mall complex.

The prospective port will reportedly focus on handling containers with a projected capacity of 85,000 units a year. The facility is expected to develop its peak capacity of 2.5 million tons of various cargo in 2014.

Novgorod regional officials estimate that the future construction site, which has been granted a priority project status, will provide temporary jobs for as many as 2,000 people; once the port comes fully on-line it is expected to create at least 3,000 new permanent jobs both on-site and beyond at related businesses.

Looking for the silver lining

The big question remains funding. Investment Shipbuilding reportedly has 40% of what is needed and Novgorod Governor

Sergei Mitin confirmed that "...the investment product... will be put up for sale at an investment forum." Insiders familiar with the plans think that other major sources of funding will eventually materialize, citing Investment Shipbuilding's strong commitment to begin construction this year to back their case.

20 million tons a year and counting...

The just announced project is part of the broader Bacarico national program that calls for construction and upgrades of river ports along the Baltic-Caspian waterway. This is a crucial section of the North-South transportation corridor that connects St. Petersburg by water with the White, Caspian, Black and Mediterranean Seas and by linking the Baltic with the Volga makes Moscow a port of the five seas.

More than 20 million tons of cargo is reportedly shipped along the river artery each year, including important import-export items such as coal, ore, construction materials, fertilizers, petroleum products, large-size structures and equipment, etc. Regional press reported last year that in 2009, more than 8,000 freighters had been handled at a Vologda - Novgorod section alone.

More could have passed-but the existing antiquated facilities are unable to process the increasing shipments.

Shaking up North-West's river logistics

Experts emphasize that St. Petersburg's port logistics capacities-currently most advanced in Russia's North-West-have not kept pace with the rising flow of freight, stifling further development of this vast territory and other regions down south.

Pundits are positive the RF will also support the project, which is expected to become one of the area's few world-class multi-modal transshipment points between Russia's north and south.

NCSP valued at USD 5bn for acquisition

VTB Capital

News: Vedomosti reports that Transneft and Summa Capital have acquired Novoport Holding Ltd, which owns a controlling stake in NCSP, for USD 2.5bn. If true, the deal price of USD 19.43/share implies premiums of 79% to the last close (USD 10.85/share) and 57% to the buyout price for minorities who did not vote for the acquisition of PTP.

Our View: The port's valuation of USD 5bn is close to pre-crisis IPO levels. The fact that the new owners have agreed on such a significant premium to the market implies that they see huge growth potential in the stock. The deal does not imply any changes in the list of direct shareholders or, consequently, a buyout offer for minorities. We see the news as a neutral for the stock.

Elena Sakhnova

NMTP buys Primorsk Commercial Port for \$2bn

bne

Russia's Novorossiisk Commercial Seaport (NMTP) has bought the Primorsk Commercial Port for \$2.153bn from Omirico Ltd, reports Prime-Tass.

Citing NMTP, the news agency says that NMTP had used a loan from Russia's largest bank, state-controlled Sberbank, to finance the deal.

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Novorossiysk Commercial Sea Port finalizes acquisition of Primorsk Trade Port

Metropol

Novorossiysk Commercial Sea Port (NCSP) reported that it has completed the acquisition of 100% of Primorsk Trade Port (PTP). NCSP took out a seven year, USD 1.95 bn loan from Sberbank to finance the deal. At the same time, the port reported that Omirico Limited, jointly controlled by Transneft and Ziyavudin Magomedov (the sellers of PTP), acquired 100% of Novoport Holding on January 21, 2011, which in turn holds 50.1% of NCSP.

We believe that the news is neutral for NCSP, since the deal's impact has already been priced in. Nevertheless, we believe that the stock price could increase if Omirico Limited or affiliated companies acquire the 20% stake in NCSP that the Russian government plans to sell in 1Q 11.

Transgarant cargo traffic up 28% on year in 2010

bne

The cargo traffic of Transgarant, an affiliate of Russia's Far East Shipping Company (FESCO), rose 28% on the year to 24.6 million tonnes in 2010, company's press office

Citing a statement issued by Transgarant, the news agency says that the company's cargo transportation rose 45% on the year to 35.3 billion tonne-kilometers in 2010.

Who will build \$330m river port in Veliky Novgorod?

Marchmont

Authorities in Novgorod region intend to present a \$200-\$330m project to build a river port to potential investors, regional officials report.

The port, to be named Krechevitsy, is to be located on the Volkhov river in the city of Veliky Novgorod, the officials said.

Under the project, the investor is to build logistics terminals, container grounds, waste disposal facilities, waste processing module, workshops, thermal power station, pump station, petrol station, mall and hotel complex and other facilities.

The port's projected cargo turnover is 2.5 million tons or 85,000 containers.

The port and infrastructure facilities are reportedly to create 3,000 local jobs.

The project is scheduled to be carried out in 2011-2014.

CIS infrastructure

Transport Ministry suggests raising municipal transport fares

bne

The Belarusian Transport Ministry suggests increasing municipal transport fares, says Deputy Transport Minister Alexander Shishko, reports Prime-Tass.

The news agency says that the current fare, standing at BR700 per trip in Minsk and 600 rubles in region centers and other cities and towns, is not enough for transport organizations to work sustainably.

Belarusian Railway says freight transport to Customs Union up 27% per year '10

bne

Belarusian Railway in 2010 increased freight transport to Russia and Kazakhstan, the two members of the Customs Union, 27% on the year to over \$4.2mn, reports Prime-Tass.

The news agency says that export of construction freights rose 60% to 1.59 million tonnes, of ferrous metals increased 61% to 403,000 tonnes, and of sugar rose 17% to 254,000 tonnes.

Belarus' Belavia inks interline agreements with Kazakh, Chinese carriers

bne

Belarusian national air carrier Belavia has inked interline agreements with Air Astana, Kazakhstan, Hong Kong Airlines, China, and Hong Kong Express Airways, China, Belavia said in a statement.

"Belavia's transit passengers traveling to Kazakhstan and China will not have to acquire two separate tickets, but will be able to a combined ticket; their luggage will be delivered to the destination point without interim registration," reports Prime Tass.

Belarus' govt defines terms of creation, operation of infrastructure supporting business

bne

The Belarusian government defined the peculiarities of the creation and operation of entities that form the infrastructure of support for small and medium-sized business, including the establishments offering entrepreneurs financing assistance, reports Prime-Tass.

Citing a statement issued by the press service of the Council of Ministers, the news agency says that the document adopts a provision on centers for support for entrepreneurship, a provision on small business incubators, a provision on financial support for entrepreneurs, as well as a provision on associations of mutual crediting of SMEs.

Belarus' motor transport orgs' capital investments up 31.1% per year '10

bne

Capital investments of Belarusian motor transport organizations in 2010 increased 31.1% on the year to BR368.4bn, says Deputy Transport Minister Alexander Shishko, reports Prime-Tass.

The news agency quoted Shishko as saying that motor transport organizations reported a U.S. \$225.5 million surplus of foreign trade, an increase of 44% on the year; export of transport services increased 42.3%.

International freight transport through Belarus at 112.8 mln tns, up 23.2% per year '10

bne

The overall volume of international freight transport by Belarusian roads rose 23.2% on the year in 2010 to 112.8 million tonnes, says Deputy Transport Minister Alexander Shishko, reports Prime-Tass.

The news agency says that Belarusian carriers transported 81.33 million tonnes of international freights in 2010, up 14.2% on the year.

Lukashenko orders to speed up reconstruction of major motorways

bne

Belarusian President Alexander Lukashenko has ordered to speed up the reconstruction of M-4 Minsk-Mogilev and M-5/E 271 Minsk-Gomel motorways by his ordinance #28 dated January 21, 2011, reports Prime-Tass.

Citing the press service of the president, the news agency says that the reconstruction is to be completed by the end of 2012.

Bazhana Avenue, Gorky Street, part of Peremohy Avenue in Kyiv to be reconstructed by 2012

bne

According to the head of Kyiv City Administration, Oleksandr Popov, Bazhana Avenue, Gorky Street and part of Peremohy Avenue in Kyiv are to be reconstructed by the time the city hosts the Euro 2012 European Football Championship, reports Interfax.

The news agency quoted Popov as saying that if we don't take into account a bridge, and count only road infrastructure, this year UAH500-600mn is to be spent on road reconstruction and the construction [traffic] of hubs.

Kyiv announces tender to design road from Podilsky bridge to Vatutina Avenue

bne

The directorate for the construction of roads in Kyiv has announced a tender to develop a project and documents for the construction of a road from the Podilsky bridge to Vatutina Avenue, reports Interfax.

Citing a statement issued by the Visnyk Derzhavnykh Zakupivel state procurement bulletin, the news agency says that applications are to be accepted until 1000 on February 24.

Siemens ready to supply trains for rail link between Kyiv and Boryspil

bne

Germany's Siemens AG is ready to participate in a project to build a rail link between Kyiv and Boryspil, supplying the trains, reports Interfax.

Citing the company's representatives, the news agency says that what will the trains from Kyiv to Boryspil look like? Siemens has ideas about this.

UEFA hails progress in Euro 2012 preparations

RIA Novosti

UEFA President Michel Platini said Ukraine and Poland, who are set to co-host Euro 2012, have made a "tremendous progress" in their preparations for the event.

Euro 2012 will be held in four Polish and four Ukrainian cities. Ukraine's readiness to hold the 2012 tournament has been a constant source of concern for UEFA.

"We have seen tremendous progress in the last year including new stadiums inaugurated and new air terminals put in operation," Platini was quoted as saying on UEFA's official website.

"The pace of the work has made us at UEFA very confident that the necessary infrastructure will be ready well in advance." The UEFA chief earlier warned that Ukraine could lose its right to host the championship due to the slow pace of stadium construction in the capital, Kiev, where a number of the Euro 2012 matches, including the final, are to take place.

Besides the more rapid construction of sports facilities, UEFA wants Ukraine to improve its roads, assure sufficient accommodation for tournament guests and the proper operation of airports.

Ukrainian railcar builders should benefit from Russian railway modernization

Foyil Securities

After his meeting with FIFA president Joseph Blatter on Sunday, Russian President Putin announced that Russia intends to connect all participating in Football World Cup cities with high-speed railways, including Moscow, Kazan, Samara, and Ulyanovsk.

Our view: We consider this news to be positive for Ukrainian passenger carriage and locomotive producers, which should receive orders in relation to this project. Kryukiv Carriage (KVBZ, Buy, UAH 45.9) should benefit the most with its recently renovated workshop capable of producing up to 200 high-speed passenger carriages per year. Luganskteplovoz (LTPL, Buy, UAH 5.5) as the leading CIS locomotive producer should also have stable orders from this project to haul the newly commissioned trains. Stakhaniv Carriage (SVGZ, Buy, UAH 13.2) is already working at full capacity and recently announced production expansion plans, which is justified by the current high demand from Russia. We believe that the Russian modernization program will contribute to railcar stocks achieving their fair value, which now have on average 30% upsides.

Yuliya Stelmakh

Ukraine's Passenger transportation drops by 6% in 2010, says statistics service

bne

Ukrainian transport companies reduced passenger transportation by 6% in 2010 compared to 2009, to 6.8 billion people, reports Interfax.

Citing the Ukrainian statistics service, the news agency says that passenger turnover dropped by 0.2% to 129.8 billion passenger-kilometers.

CE infrastructure

Poland govt has varying privatisation prospects for railway companies

bne

According to Deputy Infrastructure Minister Andrzej Massel, there are chances the privatisation process of PKP Cargo will be completed in 2011, Polish News Bulletin reported. "Initially, we intended to privatise the company via the stock exchange, but since then the plan has changed slightly, with a sector or financial

Zaliv secures new orders for EUR 20m

Dragon Capital

News: Zaliv Shipyard, Ukraine's leading producer of large-capacity ships, announced it signed contracts worth EUR 20m to supply four off-shore platform service vessels for Norwegian Ulstein and two 4,400 DWT containership hulls for Dutch Bodewes, with an option to build another three containerships. The ships are to be completed over 2011-12. (Ukrainian News, Company)

Dragon view: The news supports our positive outlook on the company. We expect Zaliv to deliver a total of five vessels in 2011, posting full-year sales of \$67m (+19% y-o-y). We reiterate our Buy recommendation on the stock.

Taisiya Shepetko

investor being the more likely option," reveals the official. He adds that the Infrastructure Ministry will invite investors to take part in the privatisation of PKP Cargo in early February.

Two other PKP group members that may be privatised by the end of the year are TK Telekom (earlier known as Telekomunikacja Kolejowa) and PKP Energetyka. On the other hand, 2011 will not see the privatisation of PKP Intercity. According to Massel, before that happens the company will have to improve its reputation, which suffered a blow due to the chaos on the railways observed during the Christmas period. Additionally, PKP Intercity is facing problems with its rolling stock.

Poland road construction programme seen full of potholes

bne

In an article in *Gazeta Wyborcza*, experts and motorists are increasingly concerned by news of the cancelation of 45 road construction tenders, many of which are very advanced, Polish News Bulletin reported. During his message delivered in the Sejm following the Civic Platform's (PO) victory in the parliamentary elections in 2007, PM Donald Tusk made a point of stating that the domestic road and motorway infrastructure was very underdeveloped.

"This fact constitutes not only a barrier to further development of the country, but also a real threat to its territorial cohesion. We will do everything we can to change that and accelerate ring road and motorway construction. It will be our ambition to link the cities hosting 2012 European Football Championships (EURO 2012) games with fast roads," he declared. Meanwhile, over three years later the public was hit by news of the planned cancelation of many road tenders. Moreover, the government took heed not to inform them about the issue directly; instead, it came up with a new national road construction programme, which is a step back in comparison to the effective programme.

Trimming the plan According to the old programme, 1,070 kilometres of new motorways and nearly 2,000 kilometres of new dual carriageways were to be built in Poland between 2008 and 2012, with the majority of them to be completed before the start of EURO 2012. Had these goals been reached as planned, at the end of next year Poland would have had a total of 1,650 kilometres of motorways and 2,419 kilometres of dual carriageways, as announced by Infrastructure Minister Cezary Grabarczyk in January 2008.

However, two years later his deputy Radoslaw Stepień presented an update to the road building programme, according to which 2012 was to see completion of only the A1, A2 and A4 motorways. At the same time, he gave assurances that by 2015 Poland would have around 1,800 kilometres of motorways and around 2,000

kilometres of dual carriageways. As if this was not enough, the new national road programme introduces further cuts to the original plan. According to the document, between 2008 and 2013 994 kilometres of new motorways and 984 kilometres of new dual carriageways will be built in Poland. In this way, at the end of 2012 the country's motorway and dual carriageway network would exceed 1,500 and 1,400 kilometres, respectively, with the rest of the original plan to be completed by 2020. Road budget scaled down The Infrastructure Ministry justifies the planned cuts in expenditure on roads with the shaky condition of public finances. "As long as the public finance system remains unstable there can be no long-term investment process," declares Stepień.

Other representatives of the institution point out that in October 2010 the Finance Ministry drastically limited Poland's road-building budget, with the related expenditure in the years 2010-2015 to remain below ZL78bn. As a consequence, during the next three years the expenditure on road construction will amount to no more than ZL58.6bn, with ZL17bn of the aforementioned sum already spent in 2010 and ZL2.5bn frozen until 2015. In practice, the actual expenditure may be even smaller, because around 15 percent of the said ZL58.6bn will have to be allocated for reserves for unexpected road expenses. Moreover, it is already known that a part of this sum will be used to finance road repairs after the last year's flooding. While it is true that the floods and harsh winter halted a part of the planned road investment, the delay was also caused by lower-than-declared expenditure on road construction in the past. During the last three years, the General Directorate for National Road and Motorway Construction (GDDKiA) invested ZL41bn in road building, as compared to the planned ZL75bn.

Poland lagging behind During the first five years following Poland's EU accession the number of cars registered in the country went up 50 percent. At present, the only EU member states with more cars registered are Germany, France, Italy, the UK and Spain. Poland is also among top EU members in terms of truck freight traffic. Meanwhile, the data collected by Eurostat shows that motorways constitute only 0.2 percent of road infrastructure in Poland, with the EU average amounting to 1.5 percent. Unless the former figure rises considerably, Polish motorists will continue to waste their time and nerves due to congestion.

SE infrastructure

Romania State puts 182 kms of motorway up for tender

Mirzon

The National Company of Motorways and National Roads

(CNADNR) has put up for tender the construction of 182 kilometres of motorway, namely the stretches Nadlac-Arad, Timisoara-Lugoj, Lugoj-Deva and Orastie-Sibiu, "Romania Libera" reports. The offers will be opened in mid February.

Works are stipulated to be performed over a period of 30 months, of which the first six will be allotted to the drafting of technical projects. If the contracts are signed by this coming summer, then works will only be completed at the end of 2013. The segments

Arad-Timisoara and Deva-Orastie have already been assigned to the companies FCC-Alpine and Strabag-Straco respectively.

The tender participations criteria are quite tough to meet, at least for Romanian constructors. In order to qualify to the tender for construction of the first 22 km of the Nadlac-Arad motorway, participants must make proof of an average turnover in excess of EUR 100 M during 2007-2009, a demand that could only be met by three to four Romanian companies, most likely Spedition, UMB, Romstrade, Technologica Radion and Delta ACM.

Although the Transport Ministry issued the standard costs for the motorway construction, they will nonetheless count all too little at auctions with a total value in excess of EUR 1 bln.

Slovak ministry finalises revitalization program for state railway firms

bne

The Slovak Transport Ministry is finalizing work on the program for revitalization of ailing state-run railway companies, SITA reported.

The department wants to debate the scheme with the three rail companies, counties, and representatives of trade unions on Friday (January 28). Remarks that will arise at this meeting will be incorporated to the material and the scheme will be submitted to the Cabinet session next week at the earliest.

"We are finalizing this program, communicating with all social partners and subjects. It also is in our interest because we need to revitalize and consolidate the railway companies. This is not simply a question of submitting a formal proposal, we need to speed up the process because we are losing enormous amounts of sources every day," said State Secretary at the Transport, Construction and Regional Development Ministry Jan Hudacky (KDH). He did not comment whether the ministry will table the program at the next Cabinet session.

The state secretary believes that the parties will agree upon joint moves at the Friday's meeting. The process must be debated by all the involved parties and the ministry itself has a say on this issue, Hudacky opines. The ministry would like to convince its partners about the need for far-reaching changes in the functioning of the railway companies in spite of their social and economic impacts. Based on an analysis of the economic performance of the railway companies, the Transport Ministry was tasked with elaborating a revitalization program. The concept should have been submitted to the Cabinet's session by January 26.

At its session last week, the Cabinet a report of the Transport

Ministry on functioning of the railway infrastructure operator Zeleznice Slovenskej Republiky (ZSR), the passenger rail transport company Zeleznica Spolocnost Slovensko (ZSSK) and the freight rail company Cargo Slovakia. According to it, the three state-run loss-making railway companies in Slovakia can be rescued, become more economically efficient and achieve better results only if certain supportive measures are realized. Blueprints of concrete tasks to be implemented and their financial impact, which will be elaborated by the Ministries of Transport, Construction and Regional Development and of Finance, will be included in the draft stabilization program.

Slovakia looks at tapping bonds via syndications

bne

Slovakia's debt agency is looking at tapping existing bonds via syndications in the coming months, depending on market conditions, intending to issue one or two bonds, maturing in 2016 and 2020 as part of borrowing plans, Tomas Kapusta, head of the debt department at the finance ministry's Debt and Liquidity Management Agency, told Reuters in a phone interview.

"These syndications are in our plan, so it is probable we will do it. We are also taking in auctions such amounts as to be prepared for syndication," he said. "Everything is going this way but it will depend on conditions on the market. It is still volatile but investors have started to differ between southern Europe and the rest of Europe and CEE (central and eastern European) countries... which are in good conditions."