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# Top story



## 1. Aeroflot approves strategy through 2025

### VTB Capital

assumes aggressive growth to grab 46% share of Russian market - and become a top five airline in Europe - we see this as quite challenging - near-term focus on how successfully Aeroflot consolidates the Rosavia assets - our concerns over Aeroflot remain intact

**News:** Yesterday, Aeroflot approved its strategy through 2025 at a meeting of its newly elected Board of Directors. The strategy assumes aggressive growth with its market share increasing to 46% by 2025, including 60% of international flights and 40% of domestic flights. The company seeks to be a top five airline in Europe, increasing the number of passengers carried to 70mn a year (from the current 15mn). Additionally, Aeroflot is to develop its regional airline subsidiaries, including those focusing on the south of Russia (Donavia, Kavminvodyavia and Saratov Airlines)

and the Russian Far East (Vladivostok and Sakhalin airlines), while Aeroflot itself is to focus on the premium segment to secure 40% of the total group's traffic.

**Our View:** Aeroflot's strategy is quite aggressive and it would be challenging to achieve the goals. In the near term, the major focus is on how successfully Aeroflot consolidates the Rosavia assets. This alone would allow Aeroflot to increase its market share substantially (to get around 40% in international flights and 30% in domestic flights). Overall, the strategy remains a long term trigger.

However, we reiterate that we have a number of concerns over the company's share price performance in the near term (including the involvement of Rostekhnologii, a possible share overhang risk and high fuel costs this summer). ●

## 2. Government suggests large-scale development to enlarge the City of Moscow to more than double its size

### VTB Capital

- plan would boost development activity in the city - and serve as cap for prices

**News:** Vedomosti has summarised the proposals of Moscow Mayor Sergey Sobyenin and Governor of the Moscow Region Boris Gromov to extend the boundaries of the City of Moscow, thereby increasing the capital by 2.5 times, with residential and commercial construction within 1,500km<sup>2</sup> to the south of the city between Kievskoye Highway and Varshavskoye Highway. The new area can accommodate as much as two million people and is suitable for the construction of 105mn sqm of space (60mn sqm of residential and 45mn sqm of commercial). According to preliminary estimates, the project could be finalised by 2020.

Gromov and Sobyenin also suggested including Skolkovo and Rublevo-Archangelskoye (to the south-west and the north-west of the capital, respectively) into Moscow.



**Our View:** The proposal to develop outside of Moscow is in line with the recently adopted plan to ban new construction within the Third Ring Road. If agreed, it would be the largest development in Moscow in the last twenty years, implying 10mn sqm of completions annually (assuming 2020 as a final year of development). We note that this figure is double the average annual completions in Moscow in the last three years.

According to our calculations, the construction costs alone (excluding infrastructure) could reach USD 160bn, meaning some USD 18bn is to be spent each year in the city.

We think it is too early to draw any conclusions as the project is likely to be discussed for a while, with potentially significant changes to the scope and timing of the project. Were it to be adopted, though (even on a smaller scale), that would materially increase the amount of construction in the city, both residential and infrastructure, and serve as a cap on price growth for residential property. ●

## 3. Medvedev orders nationwide transport safety checks after deadly catastrophes

### RIA Novosti

Russian President Dmitry Medvedev ordered large-scale safety checks of all passenger transport after two fatal transport accidents in Russia in as many days.

A cruise ship sank on the Volga River on Sunday killing at least

24 people and left more than 100 missing. An airliner ditched on a river in Siberia on Monday killing five people and injuring 30.

"We should carry out total examination of all passenger transport," Medvedev said at a meeting with government officials to discuss

Sunday's tragedy at his Gorki residence near Moscow.

Only 80 were rescued of more than 200 people on board the cruise ship Bulgaria, which sank in the Volga River in the republic of Tatarstan on Sunday afternoon. Investigators discovered that the ship, built in 1955, had a list to starboard and its engine was broken when it left port, and was heavily overloaded with passengers.

The Russian Transport Ministry said on Sunday the vessel had passed a regular technical inspection on June 15 and was certified for further use. A criminal case has been launched into the ship's sinking on charges of violating safety violations.

The number of worn-out ships in Russia is "out-of-limit," Medvedev said. "Civil ships, including cruise ships, certainly have a long operating life, longer than that of planes, but still, according to information that we have today, this vessel's state was unsatisfactory," he said, urging investigators to find out why the damaged ship was in operation.

Owners of all worn-out ships throughout the country should either carry out major refit of their vessels or stop operating them, the president said.

Lawmakers urge decisive steps Sunday's tragedy, as well as a recent series of deadly accidents involving aircraft, prompted criticism from Russian lawmakers who urged the government on Monday to take decisive steps to improve transport safety.

Sergei Shishkaryov, who heads the transport committee in the Russian parliament's lower house, said amendments to Russian laws were necessary that would ban companies from operating worn-out vehicles and increase the punishment for violating transport safety regulations.

Sunday's tragedy on the Volga River, as well as Monday's ditching of an Antonov An-24 and the deadly crash of a Tupolev Tu-134 plane in Russia's Karelia in late June are "systematic occurrences," Shishkaryov told journalists.

Ivan Melnikov, the State Duma vice speaker and Russian Communist Party first deputy head, blamed frequent transport accidents on transport operators' "acquisitiveness" combined with "systematic corruption problems" in Russia.

"Those are not individual shortcomings, but flaws of the 'Russian-style market'," he said.

Rustam Minnikhanov, the leader of the Tatarstan republic, ordered checks on Monday on the state of all passenger ships in the republic within a week, while Russian Emergencies Minister Rashid Nurgaliyev ordered local authorities to check the permits of all companies organizing cruises in Tatarstan.

On Monday, the ditching of an Antonov An-24 plane left five people dead and at least 26 injured. The Soviet-designed aircraft, which had 36 people on board, ditched in the Ob River in Siberia's Tomsk region after a fire broke out in its port engine. Police have launched a criminal investigation into the breach of air transport operation and flight safety rules.

In late June, 47 were killed when a Tu-134 plane crashed while landing in Petrozavodsk, the capital of Russia's Karelia republic. Russian safety experts have all but ruled out technical failure as a possible cause of the crash and think pilot error was the most likely cause of the tragedy.

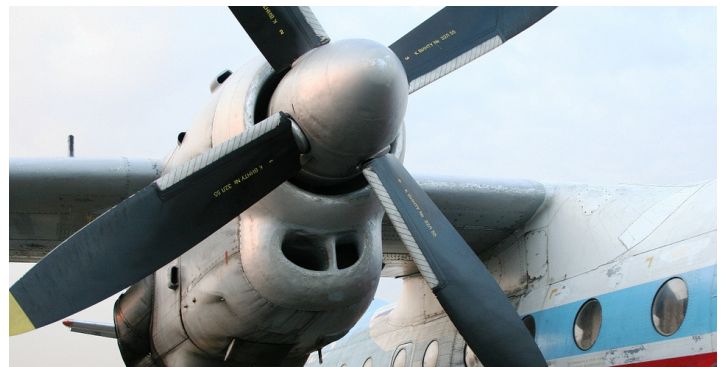
Medvedev has instructed the government to look into the possibility of early retirement of all An-24s and Tu-134s, which entered service in the late 1950s and 1960s respectively. ●

## 4. Medvedev orders Soviet planes grounded

**RIA Novosti - Moskovskiye Novosti**

The July 10 An-24 airliner crash prompted Russian President Dmitry Medvedev to rule that this type of aircraft should be phased out. This decision could deprive many of Russia's northern remote communities of their transport links to the rest of Russia.

"What I said recently about the Tu-134 equally applies to the An-24," President Medvedev said at a meeting with Emergencies Minister Sergei Shoigu. "Now that we are overhauling our aircraft fleet, I suggest the same approach be taken with the An-24," Itar-Tass news agency quoted the president as saying.



The president's words do not mean there will be a total ban on any further use of An-24 liners, Sergei Izvolsky, a Federal Air Transport Agency (Rosaviatsia) spokesman, told MN. In June, following a similar crash involving a Tu-134, the Transport Ministry ordered that only Tu-134, An-24 and Yak-40 planes that are equipped with terrain and midair collision avoidance systems could be used on established routes. Airlines must order and install these systems at their own expense.

"An-24s that have these systems installed before January 1 will be cleared for operation," he said, adding that the devices make no

economic sense because they cost \$200,000 to \$300,000, while an An-24 fit for operation sells for \$500,000 to \$600,000.

In Russia, An-24s are predominantly the poor man's aircraft. They were mass-produced between 1959 and 1979 and totaled about one thousand. Today, airlines operate 99 such planes, mainly to Russia's northern and eastern scarcely-populated communities.

So far, the airlines are not eager to equip their An-24s with warning devices, a Transport Ministry source told MN on Monday. "The ministry will, of course, ban flights without these systems after January 1. But this will make transport to sparsely populated areas difficult. The An-24 has the advantage of being able to land on dirt airfields. None of today's modern aircraft could completely replace it," the source said.

The latest developments, although more advanced in engineering terms, are financially disadvantageous for the An-24. The new An-140 model, developed in Ukraine in the late 1990s, carries too high

a price tag at \$20 million. It is also produced in small numbers: Samara-based Aviakor plant has manufactured only four planes since 2005.

"In this past decade, the production of turboprop aircraft that seat 30 to 50 passengers and are capable of landing on unpaved airfields has practically stopped world over," says Vladimir Karnozov, a Moscow spokesman for Flight International magazine. Modern aircraft of this class are only produced by the European ATR company. But its avionics are delicate and unsuited to the extreme weather conditions of the Russian North.

China manufactures the Ma-60 and its modernized version Ma-600. But these are merely pirate copies of the An-24. Other global manufacturers, including Canada's Bombardier and Brazil's Embraer, have also moved out of this niche, saying the business is not profitable enough to be interesting. So even abroad, there is no replacement for the An-24. ●

## 5. Railway Cargo Turnover: Back To Business

### VTBC

In June, Russian railway cargo turnover rose 6.8% YoY, accelerating from the relatively slow spring months (4.0% YoY in May and 3.4% YoY in April). This improvement was observable across most segments and is generally supportive for transportation stocks (the slowdown in construction materials was mostly due to the shortage of the rolling stock, rather than insufficient demand). We note that the YTD cargo turnover growth of 6.9% is in line with our FY11 growth forecast of 7%.

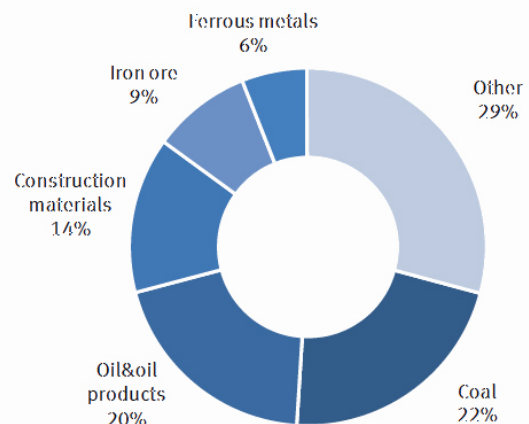
The growth in cargo volumes slowed to 2.4% YoY in June after the 3.0% rise in May, mainly due to flat volumes in construction materials (the third largest cargo segment). Meanwhile, containers, iron ore and coke showed strong momentum.

Containers were the best performer in June, posting volume growth of 13% YoY (16% YoY in 1H11), fuelled by the rise in internal consumption. We highlight Transcontainer and FESCO as the key beneficiaries of this positive trend.

The largest cargo, coal (22% of June 2011 volumes), showed a 3.7% increase YoY, gaining pace after the slow February-April. The next largest, oil and oil products (20% of volumes), also accelerated and grew 3% YoY in June (0.7% in 1H11), following a slowdown after the launch of the Skovorodino-Daqin pipeline (fuels the Chinese economy). Building materials (14% of total volumes) were flat after their strong run since the beginning of the year (17.5% in 1H11), mainly due to the shortage of rolling stock during the peak summer demand. This also applies to cement, where the YoY volume growth slowed to 2.8% in June (from 8.6% in

1H11). Meanwhile, most metallurgical cargoes saw faster growth over the last month, including iron ore (10.7% YoY in June vs. 9.6% in 1H11), ferrous metals (8.9% vs. 5.2%), scrap (5.3% vs. 2.4%) and coke (10% vs. 3.8%), while base metals kept plunging: they were down 9% YoY in June (and 12% YoY in 1H11). We highlight Globaltrans as the major beneficiary from this growth in ferrous metals due to its strong exposure to the segment. ●

Railway cargo portfolio by volume, June 2011



Source: Company data. VTB Capital Research

## 6. Russian seaports data for 1H11: Not good news for NCSP

### Renaissance Capital, Russia

**Event:** Yesterday (11 July), the Association of Commercial Seaports released data on Russian ports' performances in 1H11. Total cargo traffic through Russian seaports decreased 0.5% YoY to 256.9mnt in January-June, vs a 0.6% YoY decrease for 5M11, with 105.6mnt of dry cargo (+1.7% YoY) and 151.3mnt of bulk cargo (-2.0% YoY) handled. Oil transshipments declined 5.1% YoY to 98.7mnt in 1H11, while oil products transshipments rose 4.5% YoY to 51.9mnt.

According to the statement, the ports of the Black Sea basin continue to show negative dynamics [-6.8% YoY], with the port of Novorossiysk reporting a 6.9% YoY decline in cargo traffic.

**Action:** The weak operational data do not support NCSP shares, in our view.

**Rationale:** NCSP has not published its 1H11 operational results yet, but we expect a continuation of its weak turnover dynamics when it does. NCSP has reported almost flat YoY liquid cargo volumes and very weak bulk cargo dynamics this year. We expect this trend to persist in June with falling oil, ferrous metal and grain turnover, but think there will be some improvement in bulk cargo transportation in 2H11, after the export ban on grain is lifted. According to management, NCSP is expected to handle not less than 2mnt of grain exports this year (22% of total grain volumes in 2009). ●

Dmitry Kontorshchikov

## Russia infrastructure news

### 7. Duma may pass passenger insurance bill in October

#### RIA Novosti

The State Duma, Russia's lower house of Russian parliament, may pass a bill on compulsory insurance of passengers by carriers in a second reading in October, the Transport Ministry's finance and economy department said on Wednesday.

The draft was passed in the first of three required readings last November.

"Unfortunately, we have no time to discuss the bill during the current spring session. We are planning to do it in a second reading in October," the Transport Ministry's methodology and fiscal policy division head Yelena Potseluyeva said.

If the bill is adopted carriers would have to pay no less than 2 million rubles (\$71,420) within 30 days in case of damage to health or life of passengers, Potseluyeva said.

Her statement comes just days after over 100 people died when the river cruiser Bulgaria sank on the Volga river on July 10. The vessel was apparently not licensed or insured to carry passengers.

# Russia infrastructure finance & statistics

## 8. Railway tariffs growth is likely to stay intact

### VTB Capital

as per the suggestion by the Ministry for the Economy - 7.4% planned increase in 2012 is in line with our expectations - neutral to slightly positive for transportation companies

**News:** The Ministry for the Economy has suggested keeping railway tariffs growth at the initially planned 7.4% in 2012, 6.4% in 2013 and 5-5.5% in 2014, Interfax reported yesterday. The numbers were sent to the government as part of the economic outlook for three years ahead. In the meantime, the CPI-linked scenario prepared by the Ministry implies more conservative growth over 2012-14 (6%, 5.5% and 5%, respectively) while its Deputy Head Andrey Klepach said it was unlikely to be considered as the base case scenario.

**Our View:** The news is largely neutral to slightly positive for transportation companies. The suggested tariff growth of 7.4% for 2012 is fully in line with our expectations. For 2013-14, we expect slightly higher growth (7%), while we note that the 2012 figure is of more importance due to the annual tariff revision.

Given that MinEconomy usually defends consumer interests (and hence tries to lower tariffs), agreeing on the initially planned numbers substantially decreases the risk of pressure on railway tariffs following the discussion of tariff increases at CPI levels. Meanwhile, such an outcome was partially expected following indications by Prime Minister Vladimir Putin in early June that CPI-linked growth was unlikely to be introduced.

Elena Sakhnova,

## 9. Transcontainer 1H11 operational results: Strong, as expected - but what's next?

### Renaissance Capital, Russia

**Event:** Yesterday (12 July) Transcontainer released operating results for 2Q11 and 1H11. The company's rail container transportation volumes for 2Q11 increased 13.9% vs 2Q10 to 341k TEU, mainly due to an increase in export transportation by 15k TEU, or 21.6%, and the company's domestic transportation volumes increased by 23k TEU, or 13.0%. The company also published strong transportation volumes for 1H11, which increased 18.3% to 654k TEU, vs 553k TEU in 1H10, mainly due to an increase in import and export transportation. There was also a significant improvement in asset utilisation ratios. Empty container runs decreased 4.2 ppts YoY in 1H11, to 35.7%, while empty runs for flatcars fell by 0.3 ppts during the same period, to 8.7%.

**Action:** Moderately positive for Transcontainer, in our view.

**Rationale:** We think Transcontainer's 1H11 operating results are relatively strong, but also expected, due to a low base effect in 1H10. We expect the growth rate to decrease in 2H11, and we estimate an 11% growth rate in transportation volumes for FY11. On the positive side, we note the current growth is based not only on an increase in import container transportation, but on export container transportation as well. This may allow the company to exceed our expectations in terms of cargo turnover and empty container runs for the current year. According to the company's guidance, the transportation volume growth rate for FY11 could be 12-15%, with the empty run ratio stable at 35-36%, which could, we think, create upside risk potential for Transcontainer shares in 2H11.

Dmitry Kontorshchikov



# Russia roads

## 10. Core volume of Russia's federal road fund to increase 43% in 2012

**bne**

The core volume of Russia's Federal Road Fund is expected to amount to RUB364bn in 2012, a 43.3% increase from 2011, Russia's Transportation Minister Igor Levitin is quoted as saying by Prime.

The agency notes that the fund consists of a core, allocated by the government, and a projected volume, which includes revenue from the increase of fuel excise tax and from use of the federal road infrastructure.

The current budget code envisages the creation of regional road funds, Levitin reiterated, adding that their combined volume could reach RUB473bn in 2013.

## 11. D1 highway to undergo massive reconstruction in coming decade

**bne**

This Tuesday marks the 40th anniversary of the opening of the first section of the Czech Republic's busiest highway, the D1. However, the road - which sees scores of fatal accidents every year - is in a poor state of repair and will have to undergo massive reconstruction over the coming decade, Radio Prague reports.

"The D1 highway is the oldest highway in the Czech Republic and the most important one, because it ensures the West-East connection, not only between Prague and Brno, Bohemia and Moravia, but also from Eastern Europe to Western Europe and also from the south to the west of the continent. As such the road is a vital international transport link," road expert Robert Sastny tell Radio Prague.

"And of course, because of its age, it is a 40-year-old highway, the quality of its surface is not so good and it needs to be repaired and reconstructed."

Maybe you could describe the extent of the repairs and the reconstruction necessary to make this a safe, state-of-the-art highway again?

"The main problem is that the material of the highway is very old and no one knows which problems can be solved in the near future. For example, this summer, some blocks came loose and created big troubles for cars and safety. So the plan is to totally reconstruct this highway, of course in maybe ten years, so it will be a very big reconstruction."

How do you think traffic will be affected during these repairs, and do you think it will be a security issue?

"Everybody is afraid, because, as I said, there is only one East-West by highway, we don't have a substitute highway in this direction. Any reconstruction work on this highway will cause problems - mainly congestions but it also has effects on safety. So we will see how this will be managed and how long the reconstruction will take and how many trafficlanes will be ensured in both directions.

"It is interesting that in the morning, you need a good connection from Brno to Prague, and in the afternoon, you need a good connection from Prague to Brno, so we will see if management will be able to change the number of lanes according to the time of day, and also it will be a very demanding job for the traffic police, to ensure discipline and good behavior, because discipline will be very important."

Robert \_\_astn\_Robert \_\_astn\_ The D1 is notorious for reckless drivers. Will this far-reaching reconstruction improve road safety?

I would expect so, because with the reconstruction, you have the chance to create better infrastructure, for example data cables and special monitoring devices, so it is a big challenge to do this and I think these devices would help with the safety on the highway not only during normal use, but especially during the reconstruction time, so I hope that it will be done."

## 12. Head of the City Planning talks about infrastructure construction in Moscow – roads are as ever a priority

**VTB Capital**

**News:** Kommersant has published an interview with the Head of the City Planning and Construction Department, Marat Khusnullin. The main takeaways from what he had to say are as follows.

- Mayor of Moscow Sergey Sobyenin recently increased the sum to be spent on roads from RUB 107bn to RUB 140bn (USD 3.8bn to USD 5.0bn), with the increase mostly being dedicated to interchanges and main arteries.

- The city still needs the 60km of roads under the previously planned Fourth Ring, but the project's cost was reassessed at nearly RUB 1tn (USD 35.4bn), which was too expensive. Speaking more generally, the 'ring' system does not handle traffic efficiently, and a radial principle has now been chosen.

- Moscow's 4,000km of roads occupy 9% of the city's area, half that of other megalopolises.

**Our View:** The economics of road building behind the change in plans appear reasonable and we see Khusnullin's comments as confirming that road construction is a priority for Moscow. In particular, given the dense urban environment and overloaded interchanges, we highlight the need for an overall road building plan. In our view, the only liquid play on this need to build a transport infrastructure is Mostotrest: Moscow is one of its core regions and complex projects (which are more profitable) are its specialty.

Elena Sakhnova

## Two Russian firms bid for St. Pete highway construction

**bne**

Two Russian industrial companies, Baltic Concession Company Magistral and Mainline of the Northern Capital, have submitted bids to construct the Western High-Speed Diameter highway in St. Petersburg, an official from the city's investment and strategic project agency says, Prime reports.

The winner of the tender, which will invest not less than RUB80bn in the project and build the most complex central part of the highway, is to be announced on August 9.

# Russia trains

## 14. Moscow to extend metro to Skolkovo

**bne**

Moscow's subway network will have an extension running to Skolkovo, the governments of the city and region of Moscow said in a statement, Interfax reports.

Furthermore, the "red line" will be extended from Yugo-Zapadnaya station to the districts of Tropar'yovo and Rumyantsevo, and an extension will also be laid to a line running to the Yuzhnoye Butovo district.

The planned extensions are part of a major transportation program for Moscow and its region, which involves building out the city's railroad infrastructure as part of the plan to expand the territory of Russia's capital.

## 15. Russian economy ministry proposes 6% hike in 2012 rail cargo tariff

**bne**

Russia's Economic Development Ministry has submitted a proposal to increase the tariff for rail cargo transportation by around 6% in 2012, Transportation Minister Igor Levitin says, Prime reports.

The Transportation Ministry in its turn suggested that the Russian government should provide subsidies for state-owned railroad company Russian Railways, Levitin said, adding that the size of the subsidies was to depend on the government's decision on the tariff's hike.

In early June, Levitin said that Russian Railways would require RUB45bn-RUB46bn in subsidies in 2012 to plug the hole in the investment program that would be created by rail cargo transportation tariff increases of 5.0%-6.0%. The agency says the transportation ministry at the time suggested increasing the tariff by 11.4% in 2012.

## 16. Russian Railways cargo traffic up 4.4% y-o-y in 1H11

**bne**

The cargo traffic of state-owned railroad company Russian Railways increased 4.4% year-on-year in January-June to 681.491m tonnes, Prime reports, citing a company statement. In the period, the company transported 167.008m tonnes of coal, up 3.3% year-on-year; 136.034m tonnes of oil and oil products, up 1.9%; and 77.509m tonnes of ore, up 7.3%.

Domestic cargo traffic rose 3.5% to 412.734m tonnes, while international cargo traffic increased 5.8% to 268.757m tonnes.

## 17. Russian Railways may miss 2011 investment target if unit sale not approved

**bne**

State-owned railroad company Russian Railways may fall short of money for its 2011 investment program if the terms of an auction to sell a stake in its wholly-owned subsidiary First Cargo Company are not approved by the end of July, Russian Railways' President Vladimir Yakunin says, Prime reports.

"For me it is a crucial issue, as if I don't get the [government's] decision now, I will just lose RUB140bn of the investment program," Yakunin is quoted as saying. "I need to have it approved by the end of July."

## 18. Russian Railways to launch airport express service in 8 World Cup cities

**bne**

Russian Railways plans to establish express services to and from the airport in eight cities - St. Petersburg, Krasnodar, Samara, Kazan, Yaroslavl, Volgograd, Kaliningrad and Sochi in time for the 2018 FIFA World Cup, the Vedomosti newspaper reported, according to Interfax.

The Russian Railways' Institute of Transport Economics and Development estimates the project at RUB241.9bn, the report says.

Moscow and Yekaterinburg already have airport express services, but the plan allocates RUB185.3bn to expand the Moscow service by buying six new trains, Vedomosti reports.

## 19. Russian Railways ups investment program for 2011 by 6%

**bne**

State-owned railroad company Russian Railways has increased its 2011 investment program by 6% to RUB370bn, Russian Railways President Vladimir Yakunin says, Prime reports.

Yakunin is quoted as saying that the Economic Development Ministry and the Russian government support the company's increase in its investment program.

## 20. RZD reports passenger numbers up 2.8% in 1H11

**bne**

OJSC Russian Railways (RZD) carried 463.9m passengers in January-June 2011, 2.8% more than in the first half of 2010, including 91.6m in June, up 5.8%. Passenger turnover grew 2.3% to 60.2bn passenger-km in the half, including 14.2bn passenger-km in June, up 1.8%.

## 21. RZD to upgrade infrastructure for high-speed Moscow-Riga connection

**bne**

OJSC Russian Railways (RZD) is upgrading railway infrastructure for the development of high-speed rail travel between Moscow and Riga, company Vice President Valentin Gapanovich says, Interfax reports.

"Aging infrastructure will be modernized. We will not be building a separate high-speed line," Gapanovich is quoted as saying. He did not specify the investment, saying only that "we have calculated that it will be several billion."

## 22. Transcontainer 1H11 operational results: Strong, as expected - but what's next?

### Renaissance Capital

**Event:** Yesterday (12 July) Transcontainer released operating results for 2Q11 and 1H11. The company's rail container transportation volumes for 2Q11 increased 13.9% vs 2Q10 to 341k TEU, mainly due to an increase in export transportation by 15k TEU, or 21.6%, and the company's domestic transportation volumes increased by 23k TEU, or 13.0%. The company also published strong transportation volumes for 1H11, which increased 18.3% to 654k TEU, vs 553k TEU in 1H10, mainly due to an increase in import and export transportation. There was also a significant improvement in asset utilisation ratios. Empty container runs decreased 4.2 ppts YoY in 1H11, to 35.7%, while empty runs for flatcars fell by 0.3 ppts during the same period, to 8.7%.

**Action:** Moderately positive for Transcontainer, in our view.

**Rationale:** We think Transcontainer's 1H11 operating results are relatively strong, but also expected, due to a low base effect in 1H10. We expect the growth rate to decrease in 2H11, and we estimate an 11% growth rate in transportation volumes for FY11. On the positive side, we note the current growth is based not only on an increase in import container transportation, but on export container transportation as well. This may allow the company to exceed our expectations in terms of cargo turnover and empty container runs for the current year. According to the company's guidance, the transportation volume growth rate for FY11 could be 12-15%, with the empty run ratio stable at 35-36%, which could, we think, create upside risk potential for Transcontainer shares in 2H11.

Dmitry Kontorshchikov

## 23. TransContainer cargo transport up 18.3% y-o-y in 1H11

### bne

The cargo transportation of Russian container company TransContainer increased 18.3% on the year to 654,000 twenty-foot equivalent units (TEUs) in January-June, Prime reports, citing a company statement.

In the period, domestic cargo transportation amounted to 379,000 TEUs, up 13.4% year-on-year, export cargo transportation was at 159,000 TEUs, up 26.3%, and import cargo transportation amounted to 104,000 TEUs, up 34.6%.

Transit cargo transportation decreased 12.8% to 12,000 TEUs, the report says.

## Yakunin says no to selling full stake in TransContainer in 2011

### bne

State-owned railroad company Russian Railways' President Vladimir Yakunin says he is against selling the company's total stake in container shipment company TransContainer this year, Prime reports, adding that the size of the stake to be sold is under discussion at the moment.

"Our position is clear - there is the approved government program to sell 25% [in TransContainer] this year," Yakunin is quoted as telling reporters. "We find it unreasonable to sell it [the remainder of the stake] this year on this market. We believe that should the market be more stable the following year, we could sell the remaining 25%."

# Russia planes

## 25. Aeroflot shareholders OK paying RUB1.2bn in 2010 dividends

**bne**

The annual general meeting (AGM) of shareholders of flag carrier Aeroflot Russian Airlines has approved paying RUB1.205bn, or 1.0851 rubles per share, in dividends for 2010, Prime reports, citing a company statement.

## 26. Alfa seeking to sell 51% stake in discount airline Avianova

**bne**

Alfa Group's investment arm A1 decided to sell its 51 percent stake in Avianova in late 2010, said Dmitry Chernyak, former managing director of the investment group, who quit in March this year, Vedomosti reports.

The discount airline, which is involved in a scandal concerning locked-out foreign employees, has been on the block for several months, a source close to the carrier confirmed to the newspaper. The stake has been offered to Aeroflot, the source said, but Aeroflot management decided not to buy it. Spokespeople from A1 and Aeroflot declined to comment, Vedomosti says.

A1 wants \$70m for the Avianova stake, one manager of an investment company is quoted as saying, while a source close to A1 says the entire airline is valued at \$150m.

Chernyak told Vedomosti that he is willing to buy into the project along with a "first-class institutional investor" he declined to name.

## 27. Domodedovo Airport's passenger traffic up 15% y-o-y on 1H11

**bne**

Passenger traffic through Moscow's Domodedovo Airport rose 14.9% year-on-year in January-June to 11.2m people, Prime reports, citing an airport statement.

In the period, international passenger traffic rose 14.1% year-on-year to 6.780m people, while domestic passenger traffic rose 16.3% to 4.440m people, the report says, adding that passenger traffic rose 22.7% year-on-year in June to 2.590m people.

## 28. Investigators reopen financial case against Domodedovo management

**bne**

Russian investigators have reopened a case against the management of Moscow's Domodedovo International Airport over the spending of budget funds provided for the airport's upgrade, a source in Russia's Investigative Committee says, Prime reports. The agency says the case was initially opened by Moscow's branch of the committee in 2010 but was closed by the Investigative Committee of the Internal Affairs Ministry in November 2010 due to a lack of evidence.

Under the newly reopened case, the investigators also plan to study documents seized on June 30 during a search of the offices of the airport's management companies related to an investigation into a breach of transport security requirements, the source is quoted as saying.

## 29. Rosaviation publishes 5M11 operating results for Russian airline industry - Not supportive for

### Renaissance Capital, Russia

Aeroflot

AFLT RM: BUY, target price: \$3.5 Event: On Friday (1 July) Rosaviation published 5M11 operating results for Russian airlines.

Action: Ahead of Aeroflot Group's official 5M11 operating results, which will provide additional details on international and domestic traffic dynamics, we think the results from Rosaviation are not supportive for Aeroflot.

Rationale: Aeroflot continues to outperform market growth, which slowed following a very weak performance from regional players (Tatarstan, Donavia, Kogalymavia), however Aeroflot's May operations showed a deceleration in growth vs April. Aeroflot Russian Airlines' RPK increased 21.5% YoY in May vs 25% in April, and 21.1% YoY in 5M11 vs 11.9% YoY RPK growth for the industry; the total number of passengers transported by Aeroflot Russian Airlines increased by 22.3% YoY in 5M11, vs 10.6 % for the industry. Aeroflot Group's RPK increased 16.5% YoY in 5M11 vs 17.9% YoY in 4M11, which is below our FY11 RPK growth forecast of 20% on an annualised basis. The Group's results were depressed by Donavia's very weak performance, with RPK down 58% YoY in 5M11. Rosavia, which is to merge with Aeroflot, saw -2% growth in RPK and 5% growth in passengers in 5M11.

Alexandra Serova

## 30. Russian airline UTair shareholders OK paying RUB69.3m in 2010 dividends

### bne

The annual general meeting (AGM) of shareholders of Russian airline UTair has approved paying 0.12 rubles per share, or a total of RUB69.3m, in dividends for 2010, Prime reports, citing a company statement.

## 31. Sheremetyevo Airport passenger traffic up 17% y-o-y in 1H11

### bne

The passenger traffic of Moscow's Sheremetyevo International Airport rose 16.8% on the year in January-June to 9.926m people, Prime reports, citing a statement from the airport.

International passenger traffic increased 18.8% year-on-year to 6.427m people in this period, while domestic traffic grew 13.3% to 3.499m people.

## 32. St. Pete's Pulkovo Airport passenger traffic up 13.7% in 1H11

### bne

Passenger traffic at St. Petersburg's Pulkovo Airport increased 13.7% year-on-year to 4.134m people in January-June, Prime reports, citing the press office of Northern Capital Gateway, the airport's management company.

For the period, international passenger traffic outside the Commonwealth of Independent States (CIS) rose 8.4% year-on-year to 1.685m people, CIS passenger traffic increased 49.7% to 428,522 people, and domestic passenger traffic increased 12.4% to 2.021m people.

## 33. The AN 24 - an irreplaceable plane

### RIA Novosti - Moskovskiye Novosti

The July 10 An-24 airliner crash prompted Russian President Dmitry Medvedev to rule that this type of aircraft should be phased out. This decision could deprive many of Russia's northern remote communities of their transport links to the rest of Russia.

"What I said recently about the Tu-134 equally applies to the An-24," President Medvedev said at a meeting with Emergencies Minister Sergei Shoigu. "Now that we are overhauling our aircraft fleet, I suggest the same approach be taken with the An-24," Itar-

Tass news agency quoted the president as saying. The president's words do not mean there will be a total ban on any further use of An-24 liners, Sergei Izvolsky, a Federal Air Transport Agency (Rosaviatsia) spokesman, told MN. In June, following a similar crash involving a Tu-134, the Transport Ministry ordered that only Tu-134, An-24 and Yak-40 planes that are equipped with terrain and midair collision avoidance systems could be used on established routes. Airlines must order and install these systems at their own expense.

"An-24s that have these systems installed before January 1 will be cleared for operation," he said, adding that the devices make no economic sense because they cost \$200,000 to \$300,000, while an An-24 fit for operation sells for \$500,000 to \$600,000. In Russia, An-24s are predominantly the poor man's aircraft. They were mass-produced between 1959 and 1979 and totaled about one thousand. Today, airlines operate 99 such planes, mainly to Russia's northern and eastern scarcely-populated communities. So far, the airlines are not eager to equip their An-24s with warning devices, a Transport Ministry source told MN on Monday. "The ministry will, of course, ban flights without these systems after January 1. But this will make transport to sparsely populated areas difficult. The An-24 has the advantage of being able to land on dirt airfields. None of today's modern aircraft could completely replace it," the source said.

The latest developments, although more advanced in engineering terms, are financially disadvantageous for the An-24. The new An-140 model, developed in Ukraine in the late 1990s, carries too high a price tag at \$20 million. It is also produced in small numbers: Samara-based Aviakor plant has manufactured only four planes since 2005.

"In this past decade, the production of turboprop aircraft that seat 30 to 50 passengers and are capable of landing on unpaved airfields has practically stopped world over," says Vladimir Karnozov, a Moscow spokesman for Flight International magazine. Modern aircraft of this class are only produced by the European ATR company. But its avionics are delicate and unsuited to the extreme weather conditions of the Russian North. China manufactures the Ma-60 and its modernized version Ma-600. But these are merely pirate copies of the An-24. Other global manufacturers, including Canada's Bombardier and Brazil's Embraer, have also moved out of this niche, saying the business is not profitable enough to be interesting. So even abroad, there is no replacement for the An-24.

## 34. Transaero board OKs offering bonds totaling RUB5bn

**bne**

The board of directors of major Russian airline Transaero has decided to offer two 3-year exchange bond issues worth

RUB2.5bn each, Prime reports, citing a company statement. Transaero may offer the first bond issue in 2011 and the second in 2012, with the period between the two placements taking no less than six months, financial director Yevgeny Temyakov is quoted as saying.

The agency says Transaero plans to invest the funds in its fleet, airport infrastructure, and IT, but it does not rule out partial refinancing of its short-term debt.

## 35. Ural Airlines passenger traffic up 32% y-o-y in 1H11

**bne**

The passenger traffic of Russia's Ural Airlines increased 32% year-on-year in January-June to 996,112 people, Prime reports, citing the company's press office.

In the period, international passenger traffic amounted to 361,422 people, up 34% year-on-year; domestic passenger traffic amounted to 454,075 people, up 24%; and passenger traffic to countries of the Commonwealth of Independent States (CIS) amounted to 180,615 people, up 56%.

Passenger transportation rose 30% on the year to 2.628bn passenger kilometers in January-June, the report says.

## 36. Vnukovo Airport sees RUB12bn investment in infrastructure by 2015

**bne**

Moscow's Vnukovo Airport expects investments in infrastructure development to amount to RUB12bn by 2015, the airport's First Deputy CEO Vitaly Vantsev said on July 7, Prime reports.

About RUB4bn is expected to be invested in a parking lot for 3,500 cars, RUB3bn each for buildings intended for technical and airfield services, and RUB2.3bn to complete the construction of the second stage of the passenger terminal, Vantsev is quoted as saying. He did not say how much of the funding would come from the airport, but said third parties would be involved.

# Russia ships

## 37. Audit Chamber says two Russian shipbuilders may go into bankruptcy

**bne**

Russia's Audit Chamber believes that Russian shipbuilders Severnaya Verf and Baltiysky Zavod, both controlled by the United Industrial Corporation, could go into bankruptcy due to debts, according to a report compiled by the chamber, Prime reports.

The report was made after the chamber examined the measures taken by the companies in order to avoid bankruptcy in both 2010 and January-June, the agency says, adding that the chamber found that the companies would not be able to pay their overdue debts.

As of late 2010, Severnaya Verf owed RUB6.9m to four entities, while the overdue debt of Baltiysky Zavod to 42 creditors amounted to RUB317.9m, the Audit Chamber says.

## 38. Cargo traffic through Russian seaports down 0.5% in January-June

**bne**

The total cargo traffic through Russian seaports decreased 0.5% on the year to 256.9m tonnes in January-June, the Association of Commercial Seaports said, Prime reports.

Of the total, ports handled 105.6m tonnes of dry cargo, up 1.7% on the year, and 151.3m tonnes of bulk cargo, down 2.0% on the year, the association said in a statement.

## 39. Fenix invests RUB3bn in Bronka port complex in 2009-11

**bne**

St. Petersburg-based company Fenix has invested more than RUB3bn from 2009 until so far in 2011 in the construction of the

Bronka multifunctional transshipment port complex, located in the Leningrad Region on the coast of the Gulf of Finland, Prime reports, citing Fenix press office.

The Bronka port is to comprise three specialized facilities, namely a container terminal occupying an area of 107 hectares, a rolling cargo terminal occupying an area of 57 hectares, and a logistics center occupying an area of 42 hectares.

## 40. FESCO shipping container traffic up 46% y-o-y in January-June

**bne**

The shipping container traffic of Russian transportation group Far East Shipping Company (FESCO) increased 46% year-on-year to 214,000 twenty-foot equivalent units (TEUs) in January-June, Prime reports, citing a company statement.

In January-June, the company's railway container traffic rose 24% year-on-year to 116,000 TEUs, Intermodal and forwarded shipments were up 69% to 91,000 TEUs in the same period, the report says.

## 41. Morgan Stanley to organise Sovcomflot privatisation

**bne**

Morgan Stanley's Russian unit has been selected as sole organizer for the privatization of oil & gas shipper Sovcomflot, reports Prime.

The government made the decision on June 29 according the news agency, and has not yet been officially announced. The Economic Development Ministry chose Morgan Stanley from amongst 19 investment banks that bid for job of selling the 25% minus one share stake in the state-owned shipping company. The government has said that it will invite banks to tender for all the privatisations in its \$50bn drive over the next five years, with price the most important factor.

Morgan Stanley will now submit proposals on the strategy for selling the stake, taking into account Sovcomflot's development, conditions for attracting investment into the company, and its prospective entrance into foreign markets. The sale of the stake is planned by the end of the year.

President Dmitry Medvedev has ordered that the charter capital of Sovcomflot be increased through an additional share offering,



Prime reports, citing a decree on the Kremlin's official web site.

The company declined to provide the volume of the additional share issue, the agency adds.

## 42. NCSP: Waiting for its Potential to be Realised

### Aton

In this note we revise our 12M target price for NCSP down to \$12.85 per GDR, vs \$15.02 previously, incorporating lacklustre financial results and a minor increase in WACC. We discuss the reasons for the stock's poor performance, which we believe include the absence of meaningful triggers and a stream of negative news flow.

Several negative events and the absence of triggers discourage investors. NCSP's shares are currently experiencing a period of extremely weak performance, down about 20% since February. We think this is linked to a series of relatively minor but nevertheless negative events as well as the failure of certain triggers to materialise. These factors include weak YoY operating data, lack of progress in renovating the railway in Primorsk (which is creating a bottleneck for Primorsk Trade Port) and rouble appreciation, which is putting pressure on margins.

Given this negative backdrop, we think the stock is likely to underperform until improvements in operating performance are reflected in the company's financials. We expect to see better results in the 9M11 IFRS numbers, which should be released in Dec 2011. However, we think the fundamental and relative undervaluation of the shares may be noticed earlier if the overall market mood improves. Meanwhile, if market conditions worsen, NCSP could become a good defensive stock due to the low sensitivity of its cargo volumes to cyclical changes and the inverse relationship between the rouble exchange rate and the company's profitability.

1Q11 IFRS financial results: mixed with a negative flavour. The company presented its first financial report reflecting the combined results of Primorsk Trade Port (PTP) and NCSP on 28 June. The results were mixed in our view. Revenue was a nice surprise though this was mostly attributable to an unexpected increase in low-margin bunkering services. The biggest disappointment was seen in the EBITDA margin, which dropped for both PTP and NCSP. PTP was affected by poor weather conditions which limited capacity utilisation while NCSP was hit by rouble appreciation (Novorossiysk port has dollar-denominated tariffs and rouble-denominated expenses and thus underperforms during periods of rouble strength). A solid net income performance was related to foreign exchange differences arising from the revaluation of a major loan taken to acquire PTP in early 2011.

After adjusting our DCF model, incorporating the operating and financial results and increasing our WACC from 11.5% to 11.9% we reduced our 12M target price by 14.4% to \$12.85 (vs \$15.02 previously). If our WACC estimate had remained unchanged the new target price would have been \$13.75. Despite this downward revision the stock still offers 46%

upside potential and supported by the shares' deep discounts to peers on valuation ratios, we reiterate our BUY rating on NCSP.

## 43. Novoship shareholders OK paying RUB257m in 2010 dividends

### bne

The shareholders of Russia's Novorossiisk Shipping Company, or Novoship, have approved paying RUB256.99m, or 0.75 rubles per common and preferred share, in dividends for 2010, Prime reports, citing a company statement.

## 44. Russian property agency cancels auction for Cheboksary Port, no bids

### bne

Russia's Federal State Property Management Agency has cancelled an auction to sell the government's 25.5% in the charter capital in the Cheboksary River Port due to a lack of bids, the agency said in an official statement, Prime reports. Bids had been accepted until May 25, with the starting bid set at RUB28.322m.

## 45. Russian shipbuilder may cut prices by reducing development projects

### bne

Russia's state-controlled United Shipbuilding Corporation may reduce the price of its products only by cutting the number of design and development projects, corporation spokesman Alexei Kravchenko said in response to a statement from Russian Defense Minister Anatoly Serdyukov, Prime reports.

Serdyukov said the Defense Ministry had failed to sign contracts worth a total of RUB108bn with a number of defense industry companies, including United Shipbuilding Corporation, due to high prices.

## 46. Vostochny Port freight traffic up 11% y-o-y in 1H11

**bne**

Freight traffic through Russia's Vostochny Port increased 11% year-on-year to 8.179m tonnes in January-June, Prime reports, citing a statement from the port.

For the period, freight traffic through the company's specialized coal terminal amounted to 6.7m tonnes, up 9% year-on-year, while the universal handling complex transported 1.479m tonnes of various types of freight, up 20% on the year.

# CIS infrastructure

## Azerbaijan lends Georgia \$575m to build rail link

**bne**

Azerbaijan has agreed to lend Georgia \$575m for the construction of a railway link that will create a new corridor to transport goods between Europe and Asia, Reuters reports.

The Kars-Tbilisi-Baku railway between Turkey, Georgia and Azerbaijan has an initial annual capacity of 6.5 million tons and is due for completion in 2013.

The loan deal between the Azeri Transport Ministry and the Georgian company Kartsakhi-Marabda was signed in Baku on July 1. The loan is for 25 years with an annual 5 percent interest rate, Reuters says.

locomotives operating on alternating current, as well as the planned modernization of signaling and communication. Work also began on the reconstruction of the Baku - Boyuk Kesik road with length of 317 kilometers.

In addition, there are plans to modernize and improve the financial and technical resources of all sectors of railways. In order to determine the amount of necessary work, there has been established the technical and economic committee headed by the Deputy Chairman of JSC Gurban Nazirov.

The Commission is currently developing a program of measures, covering all aspects of the modernization of railways.

## 48. Azerbaijan: Order signed on modernization of railways in Azerbaijan

**APA-Economics**

Chairman of the Joint-Stock Company "Azerbaijan Railways" Arif Asgarov signed a decree on modernization of all areas of railway transport in the Republic of Azerbaijan.

The order states that in accordance with a program approved by the head of state, Azerbaijan Railway is currently undertaking the renovation of rolling stock and locomotives, purchase of

## 49. Azerbaijan: President signs order on allocation of AZN 6 mln to construction of Guzanli-Khindiristan-Ahmadagali-Afatli motor road

**APA**

Azerbaijani President Ilham Aliyev has signed an order on additional measures about acceleration of social-economic development of Agdam region.

According to APA, AZN 6 mln was allocated to construction of Guzanli-Khindiristan-Ahmadagali-Afatli motor road which connects 21 villages and 6 IDP settlements, from the President's Fund.

The financing will be implemented by Ministry of Finance.

Cabinet of Ministers was given task on solution of issues arising by order.

## 50. CIS railway freight turnover went up by 7.8% YoY in 1H2011

### Art Capital

The combined freight turnover in three key CIS markets, Russia, Ukraine, and Kazakhstan, went up by 7.8% YoY in 1H2011 to 1264 bn tkm. Ukraine is leading in growth with 13.5% YoY, while Russia is setting the trend with 7.8%, and Kazakhstan lagging with 3% YoY growth.

Oleksiy Andriychenko: The news is NEUTRAL for Ukrainian railcar producers, as the continued railway freight growth was already expected. The rate of growth slowed down to 7.8% YoY by June due to rising comparison base. We expect further growth in 2H2011, by 9.5% compared to 1H, due to rising grain exports, ongoing construction projects for Euro-2012, as well as continued economic recovery in the CIS, leading to higher transportation volumes of ore, coal, and metals, among other materials. As a result, freight turnover in the CIS is expected to rise by 9% YoY in 2011. Continued growth in freight turnover has already resulted in sustained orders for cargo railcars as well as rising railcar prices (34% YoY in July). The resulting improved financial performance in 2011 has not, however, been fully priced in the stock prices of key Ukrainian railcar manufacturers, Stakhaniv Wagon, Kryukiv Wagon, and Azovzagalmash. We reiterate our BUY ratings on SVGZ, KVBZ, and AZGM with \$1.8, \$6.1, and \$3.6 targets, respectively.

## 51. Wizz Air Ukraine posts 9/4% rise in passenger transportation in 1H11

### bne

Wizz Air Ukraine (Kyiv) increased passenger transportation in January-June 2011 by 9.4% over the same period of 2010, to 220,628 people, Interfax reports, citing the air carrier's press service.

## 52. Ukrainian transport firms move 10% more cargo in 1H11

### bne

Transportation companies in Ukraine increased the amount of cargo they moved by 10.3% year-on-year in the first half of 2011 to 396.1m tonnes, Interfax reports, citing Ukraine's State Statistics Service.

Cargo turnover increased by 10.4%, to 213.6bn tonne/kilometers over the six months.

Cargo transport by rail increased by 9.2%, to 224.5m tonnes.

# CE infrastructure

## 53. Airbaltic CEO says fleet renewal, share capital increase inevitable for Latvian airline

**bne**

Fleet renewal and share capital increase are inevitable decisions for the Latvian national airline Airbaltic, Bertolt Flick, President and CEO of the airline, said in the interview to the Latvian business daily Dienas Bizness, BNS reported.

"The decision about renewing the [Airbaltic] fleet has to be made. Of course, during the pre-election period some see it as an excellent subject for public rhetoric," he said.

Flick also noted high fuel prices. At 1,200 US dollars per ton and considering Airbaltic fuel consumption reaching 150,000 tons annually, a change by five or ten percent matters. „The fleet is outdated and our airplanes are not as efficient as they should be," he said.

The total amount to be invested in renewal of Airbaltic fleet could be around one billion US dollars (492 mln lats) but this amount did not have to be invested all at once. „At present some 90-100 million lats (EUR 142 mln) are needed," the Airbaltic CEO said.

The Latvian state cannot be expected to come up with such amount but a decision about increasing Airbaltic share capital, for example, by bringing in a new shareholder, has to be made, Flick said.

Airbaltic private shareholder, Baltijas Aviacijas Sistēmas (Baltic Aviation Systems, BAS), which is 50-percent owned by Flick, could make the investment but other options should be considered as well. „There are companies, which are willing to become Airbaltic shareholders," Flick said without giving any specific names.

The Latvian government agreed on Tuesday to invite financial experts to review the audit report about the national airline Airbaltic and produce a vision of solutions for future, including for ensuring the airline's liquidity but the extent of the required investment has not been revealed.

Transport Minister Uldis Augulis has said that Airbaltic had suffered a loss of 13 million lats (EUR 18.5 mln) during the first five months of this year.

Airbaltic closed 2009 with a consolidated turnover of 206.8 million lats at a 2 percent rise from a year before, and an 11.133 million lats profit in contrast to a loss of 26.678 million lats in 2008.

Airbaltic serves direct routes from all three Baltic capitals -- Riga, Vilnius and Tallinn -- and also flies passengers on several domestic flights in Finland.

Airbaltic, established in 1995, belongs to the Latvian state, which holds 52.6 percent of shares, and BAS, which holds 47.2 percent. A 50 percent stake in BAS belongs to Airbaltic CEO Bertolt Flick, and another 50 stake is held by Taurus Asset Management Fund Limited, a company registered in the Bahamas.

## 54. Czech president signs law to speed up transport infrastructure construction

**bne**

Czech President Vaclav Klaus signed an amended law on accelerating transport infrastructure construction that will enable expropriation of land for energy and water construction projects, CTK reported.

The new law is to facilitate the construction of further reactors at the nuclear power plant of Temelin, southern Bohemia, and the construction of anti-flood barriers, among other things.

Klaus today also signed an amendment to the energy law that is to provide better protection of electricity and gas consumers from suppliers, strengthen the powers of the Energy Regulatory Authority (ERU) and separate power transmission operators from power producers and distributors.

Electricity and gas companies will be obliged to publish on the Internet the conditions of supplies and prices for households and businesses with consumption below 630 MWh annually.

ERU will get the power to supervise economic competition.

Klaus also signed an amended law abolishing the restriction of purchase of agricultural land by foreigners.

The Czech Republic negotiated the ban on sale of farming land to foreigners upon its entry in the EU seven years ago. The exception stopped being valid at the beginning of May.

## 55. Czechs see chance in Chinese firm's failure on Polish roads

**bne**

The President of the Czech Association of Building Entrepreneurs, Václav Matyáš, has said the Polish authorities have contacted Czech construction firms to prepare offers to complete a section of motorway where the Chinese firm Covec failed to deliver, Czech Position reported.

So far, communication has been informal as the contract with Covec is still valid, Matyáš says. If the Czech firms are to capture the contract, they will have to move fast, though.

"Czech firms that build in Poland have been approached concerning a solution to the problematic construction work on the A2 motorway. According to my information, however, no concrete steps have yet been taken," Matyáš told Ekonom, adding that a formal offer cannot be made before the contract with Covec formally ends this week.

The Polish state terminated its contract with the Covec after it failed to meet deadlines and pay subcontractors. Poland is seeking the equivalent of around K\_ 4.5 billion in compensation from the Chinese company.

Covec won the contract to build two stretches of motorway in a tender in 2009 after placing an offer to do the job for PLN 1.3 billion (around K\_ 8 billion) - some 40 percent lower than the average price in the country for a section of motorway of the same length.

The incomplete sections are on the Warsaw-Berlin motorway and the Polish government is adamant the road must be finished in time for the UEFA 2012 European football championship. Poland's Prime Minister, Donald Tusk, has said the construction work must recommence by the end of July.

Matyáš, however, says the Poles will have to accept paying a higher price than that offered by the Chinese firm. "If the Poles decide to complete the motorway, they will need a big firm with experience and of course they will have to propose a price with which the builders wouldn't lose out," he said.

The weekly says the Czech contenders to win the contract are the Czech branches of the international giants Skanska and Eurovia, which is part of Vinci group. "If the Poles look for a company to complete the motorway, we will definitely bid for the contract," CEO and board chairman of Eurovia, Martin Borovka, told Ekonom.

When still transport minister, de facto Public Affairs (W) chairman Vít Bárta was inspired by Poland's apparent bargain deal with Covec and threatened to bring in Chinese companies to build Czech roads if local construction firms did not lower their prices. He is even reported to have initiated preliminary negotiations with Covec.

The failure of Covec in Poland has clearly cheered Matyáš, Ekonom comments. "It is satisfying for domestic construction firms and because there is a pressing deadline in Poland, Czech builders will most likely be the first choice," he said.

## 56. Hungary plans EUR11bn of road construction till 2027

**bne**

Hungary plans to build 2,900km of roads at a cost of HUF 3,000bn (EUR11bn) in the next two European Union budget periods till 2027, National Development Ministry state secretary Pal Volner said on Thursday, MTI reported.

About 500 of the 2,900km will be motorways and 1,000km will be expressways, Mr Volner said. An annual HUF 160bn will be spent on building the roads in the first seven-year budget period, until 2020, and a yearly HUF 210bn will be spent after that, he added.

National Infrastructure Development Company (NIF) communications department chief Daniel Loppert said the southern half of the M0 ring road around the capital is being expanded from a two- to three-lane dual carriageway. The section of the ring road between the M1 and the M6 motorways will be completed by November and the section between the M5 and the 51 expressway will be finished by the middle of next year. The stretch between the M6 and the 51 expressway will be completed after two years, he added.

## 57. Latvia to spend LVL218.84m on road renovation over 2012-2014

**bne**

LVL218.84m should be spent on road renovation and repairs in Latvia over the next three years, Transport Minister Uldis Augulis (Union of Greens and Farmers) told a press conference, The Baltic Cores reported.

584 kilometers of roads will be renovated next year, which will cost LVL70.121m. The respective figures for 2013 and 2014 are 540 and 585 kilometers and LVL75.98m and LVL72.738m, writes LETA.

Two road construction projects co-funded by the European Regional Development Fund will be completed this year, another seven in October and yet another two in November.

Several road reconstruction projects co-funded by the Cohesion Fund will also be finished this year.

Augulis said he supported the idea of restoration of the Highway Fund, noting that it would only be fair to taxpayers. "This is the only way to have foreseeable renovation costs and to plan road

renovation. The fund would help avert the situation where very few new roads are built and very many roads are crumbling," explained Augulis.

As reported, 25% or 2,069 kilometers of paved roads in Latvia are classified as derelict and in need of complete rebuilding, as the state-owned road maintenance company Latvijas Valsts ceļi (LVC) head Ivars Paze said Tuesday during a debate on the future of Latvia's roads.

The Transport Ministry manages highways and roads of 20,150 kilometers in total, of which 41% or 8,320 kilometers are paved and 59% or 11,830 - gravel.

## 58. More Polish road projects seen at risk before Euro 2012

**bne**

When Prime Minister Donald Tusk warned a month ago that some road building projects may be delayed and not ready before the European football championship EURO 2012, he had in mind mainly the A2 highway as the Chinese investor COVEC quit the construction work, Polish News Bulletin reported. This may not be the only nightmare project for the government as the state agency in charge of roads admits there are more at risk.

For the A2, there is a new investor but the cost may even double from the earlier plan. A venture from Eurovia and Warbud will take over COVEC's contract and finish the construction work. France's Eurovia has accepted all of government's requirements. The two companies declared that the investment may be completed before EURO 2012 and the motorway could be passable as of May 10. Still, all the other bidders that negotiated the contract have said that looks unrealistic. The French investor is demanding a high price for express work and wants to receive twice as much as the Chinese.

## 59. Poland to invest PLN5bn in new airports by 2015

**bne**

During his visit to Lech Walesa airport in Gdansk, PM Donald Tusk announced that by 2015, Poland will spend PLN5bn on investments in air transport, Polish News Bulletin reported. The PM was informed about the progress of ongoing investments in airports in Warsaw, Poznan, Szczecin, Bydgoszcz, Wroclaw,

Katowice and Rzeszow and presented with the construction plans of new airports in Modlin and Lublin. Realisation of these plans is expected to increase the number of passengers using Polish airports from the current 21m to over 40m. The PM believes that air transport will play a crucial role in organisation of the Euro2012 football championships. According to forecasts, about 500,000 of the 1m expected guests from abroad will use air transport services. On 27 June, a perch was installed over the passenger terminal T2 in Gdansk airport. The first passengers will be able to use the terminal in April 2012. The investment, worth PLN400m, was 45-percent financed from EU subsidies. The extension of Gdansk airport entails several other investments, such as construction of another passenger terminal, runway, technical base and ramp.

## 60. Polish firm wins bid to complete section of A2

**bne**

Poland's roads directorate, GDDKiA, has decided to award Dolno\_l\_skie Surowce Skalne SA, a company with quarries based in Lower Silesia, the right to build the 20-km long C section of the A2 motorway between Warsaw and \_od\_, according to a report by Rzeczpospolita, WBJ reported.

The Polish branch of Austrian company Strabag is reported to have fought hard for the commission. But while it fulfilled all of GDDKiA's requirements and offered an attractive price, it couldn't compete with DSS in terms of access to materials, knowledge of the project and quality of work already completed in section C, reports Dziennik Gazeta Prawna.

Czech-German company Boegl & Krysl will reportedly partner with DSS on the project, with suggestions that they will be joined by Polimex-Mostostal.

The road was originally scheduled to be completed by the beginning of June 2012 for the start Euro 2012 soccer tournament. This leaves DSS with approximately 11 months in which to complete the work. So far, the fastest-completed section of the A2 has been the Strykow-Konin segment, which took 19 months.

Przemyslaw Skonieczny, vice president of Eurovia, a firm that was also competing for the contract, said before GDDKiA made their decision this weekend that "finishing the work within the set time, while maintaining quality and keeping to the agreed-upon price is very hard, but possible," according to a report by Dziennik Gazeta Prawna.

## 61. Slovak Cabinet Passes 4-Year Highway and Dual Carriageway Program

### **bne**

Over four years, 130.4 kilometers of highways and dual carriageways should be opened for traffic in Slovakia, with 54.6 kilometers of highways and 75.8 kilometers of dual carriageways to be built, SITA reported.

These figures are included in the Program of Continuing Preparation and Construction of Highways and Dual Carriageways for 2011 -2014 that the Cabinet approved on Wednesday, with comments. The material was submitted by Transport Minister Jan Figel (KDH). During the four-year period, construction 286.8 kilometers of roads should be launched, including 181.3 kilometers of highways and 105.5 kilometers of dual carriageways.

The core priority of the highway program is the construction of nine still not yet built stretches of the D1 highway covering 100 kilometers between Zilina and Presov. According to the original plan, they were to be built using private money acquired through two public-private partnership projects (PPP). Minister Figel, however, ended this arrangement due to disadvantageous financial conditions for the state and reassessed the entire plan. Further priorities include the construction of three sections of the R7 dual carriageway from Zilina to Skalite to the border with Poland and the Czech Republic, consisting of 39 kilometers. The situation with the most overloaded roads in proximity to Bratislava should be solved by three sections of the R7 dual carriageway, from Bratislava continuing around Dunajska Luzna to Zitny Ostrov (Rye Island) and then to Holice, at a length of 32 kilometers, and the northern bypass on the D4 Bratislava-Jarovce-Ivanka pri Dunaji 23 kilometers long.

Construction costs of highways and dual carriageways that are to be completed within four years have been estimated at EUR 2.120 billion, and construction costs of already launched construction is estimated at EUR 7.21 billion. Price competition among construction firms that will compete for the contracts, however, is expected to squeeze the estimated costs down. The ministry plans to finance the highway construction mainly from European structural funds and state coffers, and also from the loan extended by the European Investment Bank while PPP projects, for example, during construction of R7 and D4 should play only a supplementary role. Also, revenues from toll collection and sales of highway stamps will partly cover highway costs. Moreover, a plan is under consideration to finance highway construction via highway bonds in which pension fund management companies will be encouraged to invest.

## 62. Slovak Road e-Toll Collection Amounted to EUR 76M in H1 2011

### **bne**

Slovakia's revenue from electronic toll collection totaled EUR 75.7 million in the first half of this year, which was EUR 12.1 million more than in the same period of last year, SITA reported.

According to information of the system's operator SkyToll, complex e-toll collection service brought over EUR 13.6 million to state's pockets in June of this year, which is EUR 400,000 more than in June a year ago. Foreign transport operators contributed 42 percent to the overall collection in June and over 43 percent in the first six months.

Almost EUR 8.6 million was collected for the use of selected highway and dual-carriageway stretches in June and EUR 48.6 million in the first half of the year. EUR 4.9 million came from selected first category road stretches in June and the amount collected over January-June period reached EUR 27 million. The state obtained EUR 481,700 from transit hauliers within the toll ticketing system in June and EUR 2.7 million over the first six months. An average of 30,688 vehicles daily used selected road sections in June.

As of June 30, there were 193,503 active on-board units registered in the electronic toll collection system, which was a monthly increase by 2,219 units.

SkyToll has signed the contract with the National Highway Company on building and operating the e-toll system in Slovakia in January 2009. The toll system was put into operation on January 1, 2010. Vehicles weighing more than 3.5 tons have to pay toll for over 2,400 kilometers of highways, dual carriageways and selected first category roads in Slovakia.