**bne:**infrastructure

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# Contents

# Top story

## Government to build 14,000km of new roads by 2015

bne

Prime Minister Vladimir Putin told delegates at a United Russia party congress that the state intends to build 14,000km over the next five years and that all federally controlled roads would be repaired and upgraded to modern standards by 2020.

The state has set up road funds to finance the work as the Kremlin finally begins work on upgrading Russia's road network. The highest profile project is to build a road that reaches from one side of the country to the other. Putin highlighted the project by going on a road trip across Russia this summer, driving a yellow Lada. ●

# Huge traffic jams put a damper on Carfree Day

**bne**

Moscow participated in World Carfree Day for the third year running Wednesday, but the city suffered worse traffic jams than usual — even as officials abandoned their cars for the cameras, reports The Moscow Times.

The newspaper report says that traffic jams, worsened by rainy weather, clogged many city streets throughout the day, and few drivers appeared willing to give up their cars for public transportation, even though ticket prices were slashed in half. •

# Putin pledges 14,000 km of new roads by 2015

**RIA Novosti**

Prime Minister Vladimir Putin has promised 14,000 km of new roads by 2015.

The Transport Ministry should build another 14,000 km of roads in the next five years, Putin said at a conference with the ruling United Russia party, the Vedomosti newspaper reported on Wednesday.

The premier said the creation of a Federal Road Fund in 2011 will see to it that his order is carried out.

The Federal Program for Transport Development, approved by Putin in 2008, stipulated the construction of only 5,900 km of roads between 2010 and 2015.

But while the program accounted for asphalt roads only, the new 14,000 km will consist of both asphalt and "soft" roads, the premier's press secretary said.

This is a realistic goal, a Transport Ministry official said, adding that nearly half of the country's road network is not asphalted.

But analysts say quantity does not equate to quality. It is about the quality of those kilometers, not how many there are, expert Mikhail Blinkin told Vedomosti. Russia has not built new roads in the past few years - in fact, the road network has been decreasing, he said.

While the Federal Road Fund will boost the transport sector, it will not heal one of the county's perennial woes, bad roads, Blinkin said.

Finance Minister Alexei Kudrin has said the Fund will amount to 377 billion rubles ($12.6 bln) in 2011, 348 billion rubles in 2012 and 408 billion rubles in 2013. •

# Railway says Russian trade shifts to Asia

**bne**

According to head of the railroad monopoly Russian Railways, Russian trade is rapidly shifting to booming Asia from troubled Europe.

Vladimir Yakunin a long time friend of Vladimir Putin prime minister of Russia said that neither the company which is often seen as a barometer for the economy as a whole nor the government had anticipated the sudden change.

Yakunin said that "In the end of 2008, beginning 2009 our cargo flows shifted. The main volumes went to Far Eastern ports because shippers have reoriented toward South-East Asian markets.". He said that shipping volumes of steel, coking coal, petro chemical products and fertilizers have grown by up to 30% in the Far East, and the existing infrastructure had no excess capacity to cope with the rising trade.

China has overtaken Germany this year as Russia's largest trade partner, accounting for 9.2% of the total trade turnover, while South Korea has overtaken Great Britain. Yakunin said he regretted the lack of investment in infrastructure in the last 20 years and added that if not for the new USD 2 billion Kuznetsov tunnel being built in the Far East the situation would be critical in 2015. Yakunin said that forecasting the trend will persist in the next 2 to 3 years. He added that "I think that cooperation, if not an economic integration with Europe, is more in the interest of the European states than of Russia."

Yakunin said that "Russia has an option of developing cooperation with the South and East as well."

Yakunin one of the most prominent advocates of a stronger state role in the economy, said the privatization of Russian state assets announced earlier this year was a reasonable thing given the right market conditions and completion of reforms necessary to get a good price. ●

# Sudden shift to the east

**bne**

Russian trade flows are shifting quickly, increasingly heading towards Asia rather than west to Europe, said the head of Russian Railways, on Wednesday.

Speaking at a Reuters investment summit, Vladimir Yakunin, said neither the company nor the government had anticipated the sudden change. "In the end of 2008, beginning 2009 our cargo flows shifted. The main volumes went to Far Eastern ports because shippers have reoriented toward South-East Asian markets," Yakunin told the Reuters Russia Investment Summit.

The changing pattern has been reflected in Russian infrastructure plans announced in recent weeks. It emerged in August that the Altai pipeline - carrying gas from the Siberia and the Far East to northern China - has been penciled in for completion ahead of the South Stream project which heads to southern Europe. Meanwhile, Russian Railways revealed that it will build a major line to China to help boost trade volume earlier this month.

Yesterday, Yakunin said that shipping volumes of steel, coking coal, petrochemical products and fertilizers have grown by up to 30% in the Far East, and that existing infrastructure has no excess capacity to cope. China overtook Germany this year as Russia's largest trade partner, accounting for 9.2% of total trade turnover, while South Korea now does more trade with Russia than does Great Britain.

Yakunin said he regretted the lack of investment in infrastructure in the last 20 years and added that if not for the new $2 billion Kuznetsov tunnel being built in the Far East the situation would be critical by 2015.

"Asia says it is ready to buy and is buying. While there is a fall in demand in the traditional European markets," Yakunin said, forecasting the trend will persist in the next 2-3 years.

"I think that cooperation, if not an economic integration with Europe, is more in the interest of the European states than of Russia... Russia has an option of developing cooperation with the South and East as well," Yakunin said. ●

# Transneft and Summa Capital to acquire control of NCSP

**Alfa Bank**

State-owned Transneft and Ziyavudin Magomedov's Summa Capital are set to buy the controlling stake in NCSP. The structure of the deal implies that first Transneft and Summa Capital will sell their 100% in Primorsk port, the largest port for the transshipment of crude oil and petroleum products in north-west Russia, to NCSP and then acquire 100% in Kadina Ltd, an offshore entity that controls 50.1% of NCSP. Unfortunately, no other details on the deal, the price NCSP will pay for Primorsk port or the price paid for the controlling stake in NCSP have been disclosed. The current MCap of 50% in NCSP is $1.5 bln.

We believe the news is POSITIVE for the following reasons:

1) NCSP will become the largest Russian port for oil, handling ~120-125 mln tons a year, which is close to half of Russia's total oil exports.

2) The risk of losing oil volumes disappears. Earlier, Transneft was pushing NCSP to sell its Sheskharis oil terminal or it would build its own terminal.

3) If the price paid for NCSP is above the market (premium for the control, etc), minority shareholders may benefit from a mandatory buy-out offer.

We believe the news is NEGATIVE for the following reasons:

1) NCSP's tariffs on oil handling may be decreased, as Transneft has been unhappy with them.

2) NCSP' debt load is set to increase as a result of Primorsk port acquisition.

We view the news as MIXED for NCSP at the moment, as the price of the deal was not disclosed and the deal carries both opportunities and risks for investors. As the government is going to sell 20% of NCSP as a part of its privatization plan, we think NCSP could be estimated above the market to set higher benchmark. ●

# Sudden shift to the east

**bne**

Russian regions are expected to receive a total of RUB34bn to finance road construction and repairs in 2011 under a road project of United Russia, the largest pro-Kremlin party, says Vyacheslav Volodin, secretary of the party's general council presidium and deputy chairman of the State Duma, reports Prime-Tass.

The news agency quoted Volodin as saying that of the total, the Chelyabinsk Region is expected to receive RUB1bn to finance road construction in 2011. ●

# Russia infrastrcuture news

## FESCO not planning private placement before 2011

**VTB Capital**

**News:** Interfax has quoted CEO of FESCO Sergey Generalov as saying that the company is not planning a private placement of its shares earlier than 2011. Nor does it intend to cancel the recent additional share issue as it is considering using these shares as part of the payment in potential acquisitions in the railway transportation segment. FESCO is also considering replacing FX liabilities with rouble bonds and selling treasury shares as a way to attract new financing.

**Our View:** The sale of a 50% stake in NCC back in July solved FESCO's debt problem and was a green light for the company's aggressive business expansion. The decision to postpone the potential private placement of additional shares looks logical for a cash positive company. Using its own shares in addition to the USD 200mn cash pile expands the list of potential acquisition targets in the strategically important railway transportation segment, which is demonstrating a strong recovery in traffic and will also, in our view, get a new growth momentum from the market liberalisation in 2011. Issuing bonds would not only help to mitigate the FX risk, but would also provide additional financing for potential deals. All these steps are reasonable for an unleveraged company planning a rapid expansion through acquisitions. They are also in line with the previously announced development plan, and so we see the current announcement as neutral for the stock.

Elena Sakhnova

## RZhD eyeing state's stake in NCSP

**VTB Capital**

**News:** President of Russian Railways Vladimir Yakunin has been quoted by RIA- Novosti as saying that the national railway operator is interested in acquiring the state's stake in NCSP on market terms.

**Our View:** Russian Railways already owns a 5% stake in NCSP and the fact that it has shown an interest in the state's stake supports our view that the port has good long-term prospects. Were RZhD to bid for the 20-% stake, which is to be auctioned in a single lot, it would provide some support to NCSP's (currently depressed) stock.
Elena Sakhnova

## State's 20% stake in NCSP may be sold by year-end

**Alfa Bank**

Vedomosti reports that the government may sell its 20% stake in Novorossiysk Commercial Sea port by the end of this year as part of a large- scale privatization plan. No further details on the auction, except that the stake will be sold as a single lot, have been disclosed. The government previously announced that it would be sold in 2H10-1H11.

We believe the only companies interested in buying the stake will be Transneft and Summa Capital, both of whom recently agreed to buy a controlling stake in NCSP. The market reacted negatively to the latter news, pushing the stock down by 17%. No other contenders except those invited by the government would be interested in participating in the privatization owing to the risks associated with the seaport's new major shareholders. We therefore believe the price of the 20% stake is unlikely to be high.

*based on Bloomberg consensus 6 Georgy Ivanin

# Russia infrastrcuture finance & statistics

## Priargunsk Plant's EGM approved an additional shares issue

**Metropol**

Priargunsk Plant's EGM was held on September 13, 2010, and approved the additional common share issue. The company will place on open subscription 40,302 new shares accounting for 2.2% of current common equity. The sale price for the new shares is RUB 21,900 (USD 730), which is 224% higher than the RTS offer of USD 225.

We note that Priargunsk Plant is experienced in additional shares issues and placed five additional common shares issues with total of 579,980 common shares from 2006 up to now.

Since the news does not create trading possibilities and the raised funds will have small effect on the balance sheet, we believe that the news will be neutral for the shares.

We reiterate our BUY recommendation on the stock. Our fair value for the shares is USD 601.

## Russian Ports Continue Growth in Aug 2010

**Aton**

The Association of Commercial Seaports reported the operational results of Russian commercial ports for 8M10 on Friday (10 Sep). Positive cargo turnover dynamics continued in August, but as the low base effect of 1H10 started to subside, the pace of cargo growth decreased from 9% in 7M10 to 8% in 8M10. This negative MoM result is explained by an overall decline in oil and oil product overhauling, which comprises the majority of total cargo turnover. The fastest growth was seen in the Far East region (+32.4% YoY in 8M10), while the North_West and Southern regions showed growth rates close to 2.5% YoY in 8M10. Positive trends can be seen in import and export, while transit and cabotage were mostly flat. The overall results for Russian ports are positive as growth continues despite a slowdown in its pace. We believe that FESCO may benefit from the increase in cargo turnover in the Far East region.

# Russia roads

## Governor sees northern part of St Pete diameter road ready 2012

**bne**

St. Petersburg Governor Valentina Matviyenko says that the northern part of the 49-kilometer Western High-Speed Diameter toll highway in St. Petersburg is expected to be built in 2012, reports Prime-Tass.

The news agency quoted Matviyenko as saying that tenders have been held, some of the contractors have been selected.

## Minister says Russia to expand Kavkaz highway to four lanes

**bne**

Russian Transportation Minister Igor Levitin, says that Russia's Transportation Ministry plans to expand the federal highway Kavkaz to four lanes from the current two lanes, reports Prime-Tass.

The news agency quoted Levitin as saying that the Kavkaz highway runs from the Krasnodar Region to the constituent republic of Dagestan and border with Azerbaijan through the Stavropol Region, as well as constituent republics of Kabardino-Balkaria, North Ossetia-Alania, Ingushetia, and Chechnya.

# Official sees Chita-Khabarovsk road completed by end of September

**bne**

Russian Deputy Prime Minister Sergei Ivanov has said that construction of Russia's Chita-Khabarovsk automobile road is expected to be completed at the end of September, reports Prime-Tass.

The news agency says that the 2,100-kilometer road links the city of Chita, the capital of the Zabaikalsky Region, with the city of Khabarovsk, the capital of the Khabarovsk Region.

# Propsal to raise road tax for older/cheaper cars

**Aton**

Vedomosti reports today (14 Sep) that the Ministry of Industry and Trade (Minpromtorg) has proposed the doubling of the road tax for cars more than five years old and increasing the tax on cars with an ecological class of lower than Euro_4. It has also suggested leaving the rate for Euro_4 class vehicles unchanged. The ministry insists that the proposed measures will increase demand for newer and more technologically_advanced cars.

However, we doubt that these proposals will have any major effect other than raising taxes as the majority of cars produced in Russia, such as AvtoVAZ models and the Renault Logan, are Euro_3 class or lower. That said, we do not expect these tax changes to be adopted as they would negatively impact both AvtoVAZ's sales and the financial position of most of the population. Neutral news for the automobile sector, in our view.

# Rotenburg to take stake in Mostotrest

**Aton**

Kommersant reported today (16 Sep) that Arkady Rotenberg plans to buy a 25% stake in Mostotrest from Mikhail Abyzov's RU_COM. Very few details were disclosed, but we believe that Mostotrest should benefit from the new shareholder's lobbying power, which might help it secure additional construction contracts in the Moscow and Sochi regions.

# Russian govt to extend road fees to domestic trucks

**bne**

Russian Deputy Prime Minister Sergei Ivanov has said that the Russian government plans to start charging domestic trucks for using the country's federal roads, reports Prime-Tass.

The news agency quoted Ivanov as saying that at present, Russia charges only foreign trucks for using its federal roads.

# Russian govt ups subsidy to road-mgmt co Avtodor to RUB6bn

**bne**

The Russian government has ruled to increase the subsidy to state-owned road-management company Russian Automobile Roads (Avtodor) to RUB6.066bn from RUB4.911bn in 2010, reports Prime-Tass.

The news agency says that the government has already provided RUB17.271bn and RUB497.9mn in subsidies to Avtodor this year, according to earlier reports.

## Tambov's $10.6mn roads repairs plan

bne

A total of $10.6mn is to be spent on repairs of street roads and yard territories in the city of Tambov, reports local media.

Reports suggest that of the total funding, $8.8mn is reportedly allocated from the federal budget, and $1.8mn is to be put up by regional authorities.

## VEB, Russian Highways ink memo on understanding, cooperation

bne

Russia's state-owned Vnesheconombank (VEB) and state company Russian Highways have concluded a memorandum on understanding and cooperation for five years, reports Prime-Tass.

Citing a joint statement issued by the company, the news agency says that under the agreement, VEB and Russian Highways, known in Russian as Avtodor, plan to jointly choose investment projects, consider ways to implement them, and organize financing of the projects.

# Russia trains

## Exec sees Russian Railways IFRS net profit at over RUB58bn in H1

bne

Vadim Mikhailov, the senior vice president of State-owned railroad monopoly Russian Railways, says that the company expects its net profit to amount to more than RUB58bn in January-June, as calculated under International Financial Reporting Standards (IFRS), reports Prime-Tass.

The news agency quoted Mikhailov as saying that the company's net profit amounted to RUB58.485bn in January-June, as calculated under Russian Accounting Standards (RAS).

## Freight One sale to be 'Pivotal' in 2011

bne

Russian Deputy Economic Development Minister Stanislav Voskresensky has said that Russian Railways' sale of a holding in its Freight One unit will probably attract industry investors in one of the biggest infrastructure disposals of 2011, reports The Moscow Times.

The newspaper report quoted Voskresensky as saying that the government's upcoming sale of state assets, dominated by interest in oil producer Rosneft, should also lure suitors for Freight One who seek earnings growth from cargo transport.

## Railway transport grows to 42.5% of commercial haulage in Russia in January-August

bne

Economic Development Ministry monitoring indicates that Railway transportation increased 10.5 percentage points year-on-year to 42.5% of total commercial freightage in Russia in the period January-August, reports Interfax.

The news agency says that experts attribute railways' gains to reviving metals and coal industries.

# Regulator clears Russian Railways to set up Second Cargo Company

bne

The Federal Antimonopoly Service has cleared state-owned Russian Railways to set up a cargo transportation subsidiary called Second Cargo Company, reports Prime-Tass.

Citing a statement issued by the service, the news agency says that the charter capital of Second Cargo Company is to amount to RUB46.4bn.

# Restrictions of train traffic from Sevastopol related to track modernization

bne

Restrictions of train traffic from Sevastopol are related to track modernization work being done on the Simferopol-Sevastopol section, reports Interfax.

Citing the press service of Prydniprovska Railways, the news agency says that at present, a new railway station complex is being constructed at Simferopol station and the Simferopol-Sevastopol section of track is being reconstructed according to the program of Crimea's social and economic development.

# Russia, Moldova, Ukraine to resume rail service via Transdniester

bne

Russia, Moldova, and Ukraine have agreed to resume railroad transportation through Moldova's breakaway republic of Transdniester starting October 1, reports Prime-Tass.

Citing a spokesperson for the Railway of Moldova, the news agency says that the sides concluded an agreement to resume passenger transportation on the route between Chisinau, the Moldovan capital, and the Ukrainian city of Odessa, as well as cargo transportation between the Ukrainian village of Kuchurgan and the Moldovan village of Causeni.

# Russian city Rostov-on-Don eyes project to build subway

bne

The government of the Russian city of Rostov-on-Don plans to implement a project to build a subway in the city, reports Prime-Tass.

Citing the city government, the news agency says that investments in the first stage of the project proposed to be launched in 2014-2020 are estimated at over RUB53bn.

# Russian Railways may revise up 2010 investment plan by 11%

bne

State-owned railroad monopoly Russian Railways may increase its 2010 investment program by around 11% to RUB300bn compared to the original plan, reports Prime-Tass.

Citing an unnamed source close to the company, the news agency says that the company's investment program for 2010 was originally approved at RUB270.5bn.

# Russian Railways needs RUB2.24 trillion investments until 2020

bne

Russian Railways requires RUB2.24 trillion in investments until 2020 to ensure rail capacity adequate to the needs of the national industry expansion, reports local media.

# Russian Railways to consider increasing 2010 invest plan early October

bne

Russian Railways' board of directors is to consider increasing its 2010 investment program by around 11% to RUB300bn compared to the original plan in early October, says Vadim Mikhailov, the company's vice president, reports Prime-Tass.

The news agency quoted Mikhailov as saying that the company could increase its investment program because of growth in the company's profit resulting from increased transportation volumes.

## Russian Railways to invest $6.25bn in Transsib development

bne

National rail operator Russian Railways has developed a $6.25bn program to develop the Eastern field of the Trans-Siberian Main, reports local media.

Reports suggest that the program's goal is to eliminate "narrow places" and to grow shipment to ports and border points with China.

## Russian Railways to spend RUB10bn on Moscow railway stations

bne

Sergei Abramov, head of the division for railway stations of state-owned railroad monopoly Russian Railways, says that the company plans to spend RUB10bn on upgrading railway stations in Moscow in 2011-2012, reports Prime-Tass.

The news agency quoted Abramov as saying that investments are expected to be recouped in about seven years.

## Russian Railways to up 2010 invest program for BAM railroad

bne

State-owned Russian Railways needs to increase its 2010 investment program in order to finance development of Russia's Baikal-Amur Railroad (BAM), reports Prime-Tass.

The news agency quoted Vladimir Yakunin, the company's president, as saying that the development of BAM is one of the priorities in the railroad sector.

## Russian service cuts freight rail tariffs for grain shipments

bne

Russia's Federal Tariff Service has cut freight rail tariffs for grain and bread shipments, reports Prime-Tass.

Citing the service, the news agency says that the tariff for grain and bread transportation for distances of over 1,100 kilometers to the Volga, Northwest, and Central federal districts from the Siberian Federal District is set to amount to 30% of the standard tariff.

## RZD creates logistics operator

bne

The board of directors of Russian Railways (RZD) has approved the documentation needed to set up RZD-Logistics, reports Interfax.

Citing RZD, the news agency says that RZD will own 100% minus on share in the new company, with the other share going to Zheldorreforma Center, an autonomous, non-commercial organization (ANO).

## RZD group holds 5% of Novorossiysk Port

bne

The group Russian Railways (RZD) now holds 5% of the shares in Novorossiysk Commercial Sea Port (NCSP) - a pair of 2.5% stakes that Blagosostoyanie and TransCreditBank acquired during NCSP's IPO, reports Interfax.

Citing the group's press service, the news agency says that RZD had received 16% of the port-company's stock to manage, but that agreement was not extended.

# Russia planes

## 22.67% shares in Taimyr Airlines auctioned at min. $1.93mn

**bne**

Authorities in Taimyr municipal district of Krasnoyarsk region have announced an auction to sell municipally-owned 22.67% shares in Taimyr Airlines, operating under NordStar brand, reports local media.

Reports suggest that the starting minimum price for the stock is reportedly set at $1.93mn.

## Construction of Pulkovo Airport terminal to start October

**bne**

Yury Molchanov, St. Petersburg's deputy governor, has said that the construction of a passenger terminal at Pulkovo Airport near St. Petersburg is expected to start at the end of October, reports Prime-Tass.

The news agency quoted Molchanov as saying that the terminal is expected to be launched in 2013.

## Omsk region and Turkey's AtlasJet to set up airline in Siberia

**RIA Novosti**

The government of Russia's Omsk region in Siberia will team up with Turkey's national air carrier AtlasJet to set up a regional airline by the end of this year and finish construction of an international airport in Omsk with a local building company.

A letter of intent was signed by Omsk region Governor Leonid Polezhayev, AtlasJet President Murat Ersoy and (builder) Mostovik General Director Oleg Shishov," the regional government said said on September 14.

The new air carrier will perform both domestic and international flights, the regional government said.

"The Omsk region government, which is a shareholder in Omsk airport, will be a co-founder of the new airline and therefore will be able to influence the air carrier's tariff policy and routes," it said.

AtlasJet is also prepared to bid in a tender to finish the construction of the Omsk-Fyodorovka international air hub. A tender is expected to be announced in the first half of 2011, it said.

"Russia's air transport market is a growing and very promising market. We are proud that we will have an opportunity to share our rich experience and know-how," AtlasJet President Ersoy said.

## Rostechnologies plans to procure 50 Boeing aircraft for Aeroflot

**UralSib**

Agreement signed between Rostechnologies and Boeing. Last Friday, Rostechnologies signed an agreement with Boeing to purchase 50 Boeing 737s for delivery in 2013-16, with the option to acquire an ad- ditional 35 aircraft. The contract is valued at $3.7 bln, however, this figure is subject to further negotiations and possible discounts. Under the agreement, Rostechnologies will function as a leasing company, supplying Boeing aircraft to the domestic airlines including possibly Aeroflot (AFLT RX - Buy).

Aeroflot may face risks if forced to acquire Boeing aircraft from Rostechnologies. At first, the agreement was designed to procure air- craft for Rosavia - the failed project to create a competitor for Aeroflot based on airline assets owned by Rostechnologies. However, due to the collapse of the project, the government decided to merge with Aeroflot the assets that were originally to be consolidated under Rosavia. Therefore, despite the change in contractor, Rostechnologies expects Aeroflot to acquire the Boeing aircraft instead of Rosavia. If Aeroflot is forced to acquire these aircraft from Rostechnologies, the market may see two potential risks for the carrier: (1) a potential premium to be paid by the airline operator for the aircrafts versus the price it could get by buying from the pro- ducer directly, and (2) a potential loss to the standardization of Aeroflot's fleet, which is mostly made up of Airbus aircraft, and this may result in additional expenses for the company.

While there is some risk, we do not believe it to be too high. While this news may add negative sentiment to Aeroflot shares, we do not see the risks for the carrier as being high, as, according to Aeroflot, the company is not obliged to acquire Boeing air- craft from

Rostechnologies if it believes their price is unfair. We also assume the aircraft may be used by Aeroflot's subsidiaries, which are to be acquired from Rostechnologies, and this may ease their adoption into the company's Airbus-based fleet. There- fore, we doubt that the final outcome of this agreement will be unsatisfactory for Aeroflot. We reiterate our positive view on the company and the stock.

Anna Kupriyanova

## Vnukovo airport may be closed for runway overhaul – minister

**RIA Novosti**

Transportation Minister Igor Levitin confirmed on Friday plans to close Moscow's Vnukovo Airport for up to three months to reconstruct one of its runways.

Vnukovo is the oldest of Moscow's operating airports. The airport has two intersecting runways of 3,000 m and 3,060 m in length. While the renovation of Runway 2 was completed in March 2009, Runway 1 has not been overhauled since 1985.

"It has to be reconstructed. We believe that the planes will not be able to land there for two-three months," Levitin said on the sidelines of the 9th International Investment Forum Sochi-2010.

The minister said that the reconstruction would be most likely carried out during the off-peak passenger traffic season, which falls on February-April.

According to Levitin, some types of aircraft could still be allowed to land on Runway 2 because the intersection with Runway 1 cuts off only 750 meters of its length.

"It is up to experts to decide whether it's safe to land during the reconstruction. If not, we will have to suspend all operations at the airport for the entire [reconstruction] period," the minister said.

An ambitious strategic reconstruction and development program for Vnukovo airport was launched by the Government of Moscow in 2003.

The program will run until 2015 and is aimed at transforming Vnukovo into a highly competitive air transportation hub.

Traffic at the 70-year-old airport rose by 20 percent last year, while the new terminal which opened in 2010 could support another 7 million passengers a year.

# Russia ships

## NCSP's cargo turnover down 1.7% in 8mo10

**VTB Capital**

News: NCSP's cargo turnover decreased 1.7% YoY to 57.1mn tonnes in January- August 2010.

Our View: The results are mixed and show some worrying signals, considering that the Russian transportation sector is experiencing a robust recovery and the ports of the South basin posted 2.9% YoY growth in 8mo10. Higher oil export duties in August put pressure on the handling of oil (50% of total turnover, down 3.5% YoY to 28.6mn tonnes) and oil products (15% of turnover, down 2.6% YoY to 8.7mn tonnes). Grain handling (down 2.4% YoY to 5.7mn tonnes) reached 68% of its monthly capacity in August, which we see as not bad, given that the export ban took effect on 15 August. NCSP might attract exports of grain originating from Kazakhstan. If it does not, we forecast grain handling down 36.8% YoY in FY10. One of the main contributors to the decline was iron ore (halved to 1.0mn tonnes), a low margin cargo, although it started showing signs of a revival this month.

Some high margin cargoes showed their resilience in growth. In particular, containers (up 82.4% YoY to 284,300 TEUs), which are benefiting from the current economic recovery. Also, fertilisers (up 47.4% YoY to 1.4mn tonnes) and timber (up 30.7% to 1.4mn cubic meters) supported the port's turnover.

While we continue to view NCSP's business model as solid, its medium term prospects are somewhat dimmed by the grain export ban and the slowdown in the handling of liquid cargoes. This is likely to put some pressure on the port's high margins.

## Nomura to draw up concept for special economic zone at Khabarovsk Port

**bne**

Japanese Nomura Research Institute has won the tender to develop the concept for creating and developing a special economic zone in the port of Sovetskaya Gavan in Khabarovsk, reports Interfax.

Citing the company, the news agency says that Nomura will perform an economic analysis of the project and present the reactions of potential investors planning to operate in the special economic zone.

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## Novorossiisk Commercial Seaport - strategic port with new guardians

**Troika, Russia**

We lower our 12m target price for Novorossiisk Commercial Seaport from $15.30 to $11.35 per GDR and change our recommendation from BUY to HOLD in light of the recent corporate announcement to acquire a 100% stake in Primorsk Commercial Port. The transaction hinges on the sale of the 50.1% stake currently owned by Novoport Holding Ltd to Transneft and investment group Summa Capital. The two are expected to hold equal stakes as majority shareholders of what will become the largest stevedoring company in Russia. In reassessing our valuation, we made a number of assumptions taking into account the most probable outcome of events as we currently see. We estimated the fair value of Primorsk Commercial Port at $1.2bn and assumed that the acquiring company will use a combination of cash and debt to finance the deal. Our new 12m target price is multiples based, assumes that the transaction will close by year end and incorporates our best estimate of the combined company's EBITDA using the information that we have in hand.

_ Buying 100% of Primorsk Commercial Port. Novorossiisk Commercial Seaport has launched a process to acquire 100% of Primorsk Commercial Port. We value the transaction at $1.2bn and believe that the company will use a combination of cash and debt to finance the deal.

_ Transneft and Summa Capital to control close to 60% of all liquid cargo exported out of Russia. The transaction is a page turning event in the Russian port industry, with Transneft further extending its reach of crude and oil product transshipment to the south of Russia. The state owned pipeline monopoly already controls the key Kozmino crude terminal in the port of Nakhodka, in Russia's Far East, and has a 50% stake in Primorsk Commercial Port.

_ Current majority shareholders cashing out. Novoport Holding Ltd, which represents the interests of Alexander Ponomarenko, Alexander Skorobogatko (the two have a combined 80% interest) and Arkady Rottenberg (owns the remaining 20%) will receive $1.5 1.8bn in cash in exchange for their 50.1% interest in Novorossiisk Commercial Seaport, we estimate.

_ Valuation is multiples based and assumes that the deal closes by year end.

In deriving our new 12m target price, we took our current 2011E EBITDA estimate for Novorossiisk Commercial Seaport and combined it with our forecast for Primorsk Commercial Seaport, assuming that the deal closes by end 2010. We also imply that the combined port operator will end up with a total net debt of $1.3bn, including the $300m Eurobond maturing in 2012. Our multiples based valuation returns a 12m target price of $11.35 per GDR, which at current prices warrants a HOLD recommendation.

Kirill Kazanli

## Russia: Russian Sea Group – Where are the margins?

**Renaissance Capital, Russia**

We reiterate our HOLD rating on Russian Sea Group (RSEA), but cut our TP to $2.5 (from $4.2). The stock has fallen 34% in the past three months, on the back of a weak 1H10 trading update (4 Aug) and even weaker 1H10 IFRS results (15 Sep), which highlighted a margins squeeze significantly beyond our bearish expectations. Our previous model assumed a FY10 consolidated EBITDA margin decline of 240 bpts vs 2009, but given the negative EBITDA reported by RSEA for 1H10, we sharply cut our FY10 EBITDA margin forecast to just 1.6% (from 5.6%).

What has gone wrong? Fundamental negative factors have persisted: a tight salmon/trout supply from both Norway and the Russian Far East, and high prices that reduced fish affordability and damaged demand. Company-specific negative factors include a number of management mistakes, in our view: 1) RSEA has continued to change top management in both its divisions; 2) the absence of price monitoring and price control in retail in 1H10, especially in the ready-to-eat segment (RSEA lowered prices in ready-to-eat to boost sales volumes, but consumers did not benefit price-wise because the margin was kept by the retailer), which resulted in margins squeeze and volume loss; 3) regional expansion started in 2H09 when the fish market was going into a cyclical downturn - obviously bad timing (investments in regional sales personnel are typically made in times of tight fish supply); 4) substantial write-offs of inventory, which indicate badly managed warehouse operations; 5) planning at the board level seems questionable, in our view, as the company was guiding investors at the time of the IPO that volumes as well as margins would expand in 2010; and 6) corporate governance risks including the unsubstantiated bullish guidance earlier in 2010, and late communication to the market the severity of the margins decline in 1H10.

Any positive signals? We expect a seasonal improvement in fish supply towards 4Q10, with RSEA starting to receive fish from new suppliers in September; the price for farmed salmon in Norway has started correcting (to $5.5-6/kg, from $7-7.5); demand for fish in Russia has shown positive trends in the past few weeks; other protein prices (eggs, meat and milk) have been growing rapidly, fuelled by high grain prices, which have reduced the price differential vs fish; and RSEA increased ready-to-eat prices by 3-4% in August, and this did not affect volumes negatively.

If you have any questions or comments regarding this report, please contact Natasha Zagvozdina or Ulyana Lenvalskaya.

# Russian Sea Group: Where are the margins?

**UralSib, Russia**

We reiterate our HOLD rating on Russian Sea Group (RSEA), but cut our TP to $2.5 (from $4.2). The stock has fallen 34% in the past three months, on the back of a weak 1H10 trading update (4 Aug) and even weaker 1H10 IFRS results (15 Sep), which highlighted a margins squeeze significantly beyond our bearish expectations. Our previous model assumed a FY10 consolidated EBITDA margin decline of 240 bpts vs 2009, but given the negative EBITDA reported by RSEA for 1H10, we sharply cut our FY10 EBITDA margin forecast to just 1.6% (from 5.6%).

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# Smart-Holding to complete designing project of Ochakiv Port's development by 2012

**bne**

Vadym Novynsky, the president of Smart-holding (Kyiv), says that is planning by late 2011 to complete the development of a project to create a deep-water port on the basis of Ochakiv Port Ltd. (Mykolaiv region), reports Interfax.

The news agency quoted Novynsky as saying that now the documents are being agreed at all authorities.

# Venezuela to buy Aframax tankers from Russia's USC in $700 mln deal

**RIA Novosti**

Venezuela's state shipping company has signed a deal to buy 10 Aframax oil tankers worth $700 million from Russia's United Shipbuilding Corporation (USC), USC's Igor Ryabov said on Wednesday.

"The agreement is for delivery of ten ships to Venezuela by 2016," Ryabov told RIA Novosti.

Three tankers will be built at Daewoo plants in South Korea, three will be built in Russia with the help of Daewoo engineers and four in Russia without assistance, he said.

Daewoo will also help build a Zvezda-DSME shipyard at the Zvezda plant in Russia's Far East in 2012-2015 to build Aframax tankers there, Ryabov added.

Aframax tankers, used for crude oil transportation, have a deadweight of 100,000 tons, length of over 250 meters, breadth of over 45 meters and maximum draft of 15 meters.

# CIS infrastructure

## Black sea shipyard starts building next vessel for Dutch Damen Shipyard Bergum

**bne**

Black Sea shipyard state-run enterprise (Mykolaiv) has started building its next container ship under an order from Damen Shipyard Bergum (the Netherlands), reports Interfax.

Citing a statement issued by the company, the news agency says that the building of the 3,800 tonnes deadweight container ship to handle dry cargo and containers was started on September 3.

## Minsk plans to spend BR861.8bln on municipal transport '10-14

**bne**

According to the Minsk development program for that period, it is planned to invest BR861.8bn in the renovation of municipal transport in Minsk in 2010-2014, reports Prime-Tass.

The news agency says that it is planned to acquire 651 buses for a total of BR335.1bn, 271 trolleybuses for BR225.6bn, 60 trams for BR56.6bn, 150 vans for BR9.5bn and 80 metro cars for BR235bn.

## Boryspil airport opens new terminal

**bne**

President Viktor Yanukovych opened the new Terminal F at Kiev's Boryspil International Airport on Tuesday, reports Interfax, adding that country's main air hub already plans to add further capacity in the future.

Construction of the new terminal was kicked off as part of preparations for Euro 2012. The reconstruction of the airports in the four Ukrainian host cities for the tournament (Kiev will be joined by Donetsk, Kharkiv and Lviv) is due to be completed within 18 months.

Costing UAH413m, the 20,000 sqm Terminal F will have a capacity of 900 passengers per hour. Transport and Communications Minister Kostiantyn Yefymenko said that about 40% of flights serviced at Boryspil airport would be transferred to the new facility from October 1.

The project was financed from Boryspil's own funds, but an investigation over embezzlement from the construction by airport officials remains ongoing.

"We will build several more terminals, which will make Boryspil one of the best modern airports in the world," the president promised. A new terminal - the 100,000 sqm Terminal D - is already on the drawing board.

## Ukrainian Cabinet rejects BF group's bid to participate in development of F Terminal at Boryspil Airport

**bne**

The Ukrainian cabinet has canceled a resolution on the signing of an agreement on joint activities between BF Group Ltd. and state-run Boryspil international airport enterprise to develop and support the operation of the airport's F terminal, reports Interfax.

The news agency says that this is stipulated in cabinet resolution No. 1732-r of August 18, 2010, which foresees the cancelation of resolution No. 994-r of April 28, 2010.

## Freight transportation up 11.2% in 8M10

**Astrum**

According to the State Statistics Committee, freight transportation volumes grew by 11.2% y/y in 8M10. Freight transportation by railways increased by 13.3% y/y, while pipeline transit vol- umes rose by 5.3% y/y.

Astrum's perspective: The slowdown in growth rates for shipments of goods produced by the metals and mining complex was associated with a slowdown in the growth of annual out- put in the steel sector, which cooled down from 14.8% y/y in 7M10 to 12.5% y/y in 8M10. We draw attention to the fact that dynamics regarding cement shipments by railways is im- proving rapidly (from a decline of 30.1% y/y in 1Q10 to a slight growth of 0.7% y/y in 8M10). This is yet another fact supporting our view that the construction sector is experiencing re- newed growth (see Astrum Daily of September 15, 2010 for more detail).

# Kryukiv Carriage reports 4X production increase in January-August

**Foyil Securities**

Kryukiv Carriage (KVBZ UK, Buy), a major Ukrainian railcar builder, has announced that it has increased its freight car output in January-August 2010 by 367% y/y to 6,112 units. However, the Company produced 873 freight cars in August, which is 4% lower m/m.

Our view: The KVBZ freight car production increase is in line with our expectations. We believe the Company should keep monthly freight cars production of 850 on average by the end of this year. If this happens, KVBZ would outperform our initial expectation of 7,500 freight cars by 27%. We are positive on the stock and recommend BUYing KVBZ.

Eugene Nikolaychuk

# Kryukiv Railcar delivers fourth subway train to Kyiv

Astrum

According to the press service of Kryukiv Railcar (KVBZ: BUY), after carrying out successful tests, the Company has delivered a subway train consisting of five railcars to the Kyiv Metro- politan Subway. Currently, KVBZ is producing the fifth subway train, which should be delivered to Kyiv by October 25, 2010.

Astrum's perspective: Despite the fact that Krukiv Railcar's plans to deliver 25 subway railcars or five subway trains to Kyiv were already announced in 1Q10, this news is POSITIVE for the Company since it affirms that these plans are near to completely being achieved, a phenome- non that occurs rarely when it comes to municipal purchases. As a result, we upgrade our fore- cast for KVBZ production of subway railcars by 10 units to 25 units in 2010. This should add UAH 73m (or 1.7%) to our earlier forecast for the 2010 net sales of KVBZ. We retain our view that KVBZ shares are currently undervalued and maintain our BUY recommendation for the stock.

Igor Bilyk

# Odessa to double container capacity

**bne**

Construction has started on a $550m container terminal at Odessa Merchant Seaport that will almost double its throughput, reports Ukrainian News.

A joint project with Germany's Hamburg Port Consulting, the final documents on financing the new terminal was signed on September 10, with the pair funding 50% of the UAH4.4bn each.

With a capacity of 600,000 TEU per year, the new terminal will push throughput at Odessa to 1.3m TEU, with construction due to finish within three years. However, Mykola Pavliuk, head of Odessa Merchant Seaport, said at the signing ceremony that with $115m already invested in pile foundations and dredging, he hopes to see operations launched as early as 2012.

Hamburg Port Consulting Ukraine, the local subsidiary of the German company, won a tender to take part in the project in July 2009.

# Passenger transportation down in August

**Dragon Capital**

Passenger transportation in Ukraine declined 18.2% m-o-m and 4.5% y-o-y in August after 7.5% m-o-m growth recorded in July. (SSC) Our estimate of the underlying trend which disregards seasonal and short-term fluctuations shows positive dynamics of +0.4% m-o-m for August, implying the decline in passenger turnover was cyclical.

## Railways announced a tender for 21 passenger railcars

**Astrum**

Ukrainian South-West Railways has announced a tender for the purchase of 21 passenger rail- cars. Applications will be accepted by September 15, 2010.

Astrum's perspective: As the only Ukrainian producer of passenger railcars, we see Kryukiv Railcar (KVBZ: BUY) as the most probable winner of the tender. At the same time, we expect that, due to the usual delays with Ukrainian railways' financing of rolling stock purchases, the orders under the current tender will be placed only next year. We maintain our view that, in 2010, KVBZ will deliver 15-20 passenger railcars to Belarus. The Company should also increase freight railcar output by 158% to 8,500 units and deliver 10-15 subway railcars to the Kyiv Metropolitan Subway. As a result, KVBZ net sales should triple to UAH 4.3bln and its EBITDA should increase by 331% to UAH 613m. The Company currently trades at 5.62 EV/EBITDA 2010 with a 32% discount to international peers. We maintain our BUY recommendation for the stock.

Igor Bilyk

## Ukrainian Cabinet sets equal terms to build terminal D at Boryspil

**bne**

The Ukrainian government has set equal terms for agreeing with Ukrainian and foreign constructors and materials suppliers on building Terminal D at Kyiv's Boryspil International Airport, reports Interfax.

The news agency says that the decision is stipulated in cabinet resolution No. 1760 of September 2, which cancels resolution No. 623 of May 27, 2009.

# Eurasia infrastructure

## Almaty Airport's IFRS net profit hits 1.9bn tenge in H1

**bne**

International Airport of Almaty (AIA) posted a net profit of 1.984 billion tenge in January-June 2010 against a net loss of 1.162bn tenge in the same period last year, reports Interfax.

Citing the company's unaudited consolidated financial statements under IFRS, the news agency says that the airport's sales revenue in the reporting period totaled 17.210bn tenge compared to 10.940bn tenge in January-June 2010.

## Azeri transport sector expands

**APA-Economics**

Azerbaijan's transport sector saw revenues of AZN 2.4bn during January-August, 2010, up 4% compared with a year ago.

The State Statistical Committee says that 70.8% of the services were via road, rail and pipeline, 8% via sea, and 10.7% via air transport .129.6 mln tons of cargos were transported during the eight months, up 2.8% compared with a year ago. 51.1% of cargos were transported by road vehicle, 32% by pipeline, 11.2% by railway and 5.7% by sea transport.

At the same time, 889.5m passengers were registered during the same period, up 3.6% compared with a year ago. 86.3% of passengers were transported by vehicle, 13.3% by metro.

# CADEX and the Mongolian Railway State Owned Share Holding Company Sign Comprehensive Consulting Alliance Agreement Supporting Mongolia's Railway Infrastructure

**Press release**

TOKYO--(BUSINESS WIRE)--CADEX KK of Tokyo, Japan and Mongolian Railway State Owned Share Holding Company of Mongolia (Mongolian Railway) today announced the formation of a wide-ranging business consulting alliance with aim of enhancing the railway infrastructure in Mongolia.

Under the newly signed agreement, CADEX and its Mongolian subsidiary CADEX LLC Mongolia (Ulaanbaatar) will act as a business consultant of Mongolian Railway, specifically as manager of projects to acquire railway technologies and personnel (through hiring and education/training) with the goal of contributing to the stable management and long-term growth of Mongolian Railway.

Mongolia faces the urgent need to establish railway systems to regions with high potential for natural resource development. The Mongolian Government is seeking to resolve this situation while at the same time dealing with various management issues related to railway operation, such as funding and human resources.

Under the alliance agreement, CADEX will apply its railway consulting and project management experience in China, as well as its human resources network, achievements and know-how throughout the Asian region, to build cooperative relationships with third parties outside Mongolia with the objective of rapidly achieving a stable freight transportation system, new business opportunities and the efficient development of underground resources.

About the Mongolian Railway State Owned Share Holding Company
Mongolian Railway was established in 2008 by the Government of Mongolia to equip and maintain the country's railway infrastructure, proactively promote the development of resources and supply these resources to international markets. Specifically, the company is working to rationalize Mongolia's logistics system, establish a safe and secure railway management system, and establish and maintain stable quality assurance systems, thereby modernizing Mongolia's railway system, raising the presence of Mongolia in the international resources market and contributing to the development of Mongolia's economy. The company is wholly owned by the Government of Mongolia.

About CADEX KK
CADEX was established in Tokyo, Japan, in 2002 to fill the role of indispensable partner in the continuing development of markets in Asia. We fill this role as consultant on transportation projects, taking part in project management and the supply of equipment and devices for infrastructure development. We also maintain trading operations centered on the development and marketing of nondestructive testing equipment to organizations in the aerospace and military industries in over 30 countries. Today, applying our know-how and strong networks throughout Asia, we are further expanding our business range to include consulting on corporate tie-ups and investment. For more information, visit our website at www.cadex.co.jp.

# Georgian Railway posts solid 7M10 results

**BG Capital**

Georgian Railway (GRAIL) reported 7M10 net income of US$ 22.1mn (vs. a net loss of US$ 7.3mn in 7M09) thanks to solid revenues and lower operating expenses. Revenues gained 28% y/y on the back of strong performance in the freight sector (revenues up 30% y/y) and despite a 4% y/y drop in passenger segment sales, which account for just 4% of the company's total revenues. 7M10 EBITDA surged 118% y/y to US$ 61mn, with the EBITDA margin hitting a historical peak at 49.6%. Staff costs, Georgian Railway's key expense item, eased 8% y/y as the company downsized staff by 4% YTD. Total expenses declined 4% y/y. Management of the company also provided financials guidance for 2010, projecting revenues of US$ 206mn (+8% y/y) and EBITDA of US$ 90mn (+26%).

# KTZ to place Eurobonds; KTZ's paper to debut in the EMBI Global

**VTB Capital**

Kazakhstan's monopoly railway operator, The National Company Kazakhstan Temir Zholy, has yesterday announced its intention to place a new USD- denominated Eurobond issue.

As far as we understand from discussions with company representatives, this will be a USD 500-700mn issue, with proceeds replacing the USD450m KTZKZ 11 Eurobond maturing in May next year. It looks like KTZ bonds will for the first time get into EMBI Global. That means KTZ may price tighter vs its existing bonds, more close to KZOLKZ curve (320-360bp over swaps). KTZKZ 16s are trading at 400bp over swaps. Any selling in that one on the back of new issue news could be unwise. If anything, one could switch from KZOLKZ into the new KTZKZ (for more thoughts, see our special report entitled: KTZ vs. KMG: Relative Value Considerations of 16 March).

# Mongolia favours Russia as rail route for minerals

**bne**

Linking Mongolia's desert mines with foreign clients will require billions of dollars of investment over a decade and some investors fear suspicion of China, rather than pure economic logic, is shaping its plans, reports Reuters.

The wire service quoted Mongolia's vice-minister of transportation, Amarjargal Gansukh, as saying that the country would need to spend $8.8bn to build 5,600 km of critical railway infrastructure over the next few years to deliver its surging mineral output to foreign markets.

# Russia winning the Mongolian Great Rail Game

**bne**

Great Game analogies are getting a bit tired as they get applied to almost all projects in Central Asia, but another one has been playing out close to the hills where Rudyard Kipling's characters Kim and his horse trading friend Mahbub Ali roamed. Except this time the Russians are winning.

For the companies developing the raft of mining projects that will start coming online next year the biggest problem is not finding the coal and minerals but getting them to the huge markets of Russia and China as Mongolia is about as far away from everywhere else in the world as it is possible to be. Currently the only major rail route that runs through the country is the Irkutsk-Beijing spur of the legendary Trans-Siberian express.

However, the Mongolians, terrified of becoming little more than a raw materials appendage to China, have been resisting Chinese proposals to build a rail line straight south over the boarder to China's underdeveloped northeast districts. Instead they have plumped for a longer route across the country towards Russia's Vladivostok in the Far East that has a spur that turns back into China from Russia.

In June, Mongolia's parliament, the Great Hural, said priority would be given to a rail link from the 40-year old Tavan Tolgoi coal mine to an as yet uncompleted industrial park in Sainshand, where the coal can be processed before being shipped north to Russia.

The proposed route makes little economic sense as the direct route south to China's hungry markets is far cheaper, however, the longer route hands Mongolia invaluable geopolitical choices: like oil and gas pipelines, the problem with building expensive rail links is that once they are finished you can't cut you customers off as you don't get any money if you do. The Russian route allows the government in Ulaanbaatar to play the two emerging superpowers off against each other.

And the rail link is a big project. Mongolia's vice-minister of transportation, Amarjargal Gansukh, told Reuters in an interview on in September that the country would need to spend $8.8bn to build 5,600 km of critical railway infrastructure over the next few years to deliver its surging mineral output to foreign markets, instead of the shorter 1,500km route to the nearest Chinese port.

Still some critics say that Mongolia is sacrificing too much to improve its political hand in the game. Graeme Hancock, senior mining specialist with the World Bank, told reporters that the margins on exports of raw materials could be slashed by a tenth if goods are sent out via the Russian ports instead of the Chinese ports.

According to a World Bank report, coal shipment costs via a rail link to the Chinese city of Baotou cost $33 per tonne, whereas the same cost to transport it to the Russian border is $95 per tonnes. To ease the pain (and to get the job) Russian Railways have already offer a 65% discount on transport tariffs.

Still the Great Hural is not total unmindful of commerce: a direct route to China is still on the cards, but only once the Russian route has been built.

# Rail car shortage disrupts Kazakh coal exports to Russia

**bne**

Coal exports from Kazakhstan to Russian electric power plants have been disrupted by a shortage of special rail cars, says Duisenbai Turganov, Kazakhstan's deputy minister for industry and new technologies, reports Prime-Tass.

The news agency quoted Turganov as saying that currently, the delay in coal exports (from Kazakhstan to Russia) amounts to about 600,000 tonnes, there is a daily shortage of about 2,000-2,500 rail cars.

# CE infrastructure

## Hungary's NIF calls tender to plan motorway widening

**bne**

Hungary's National Infrastructure Development Company (NIF) has called a tender to plan a widening of a section of the M1 motorway. The winner will draw up a plan for expanding the M1 between the M1-M7 junction and the city of Tata -- a distance of about 50km -- from two lanes to three.

The deadline for bidding is November 4. The winner is expected to be announced on December 3 and the contract signed on December 23.

## Plans derailed in Poland

**bne**

The announcement crackled over the tinny speakers of the train compartment: "We apologise, but the Warsaw to Krakow train will be delayed by an hour because only a slower locomotive was available." A disheartened passenger quickly grabbed his mobile phone and began to explain why he would be late for his meeting.

"I knew I should have driven," he said as he concluded his call. The story is nothing unusual on Poland's increasingly strained railway system. Much of the infrastructure news out of Poland focuses on the country's inadequate road system, and the government's inability to speedily build new highways and expressways (the government now admits that ambitious plans to build hundreds of kilometres of new highways before the 2012 European football championships will fall short).

But the situation with railways is just as dramatic. Poland's consumer rights watchdog recently issued a report that spelled out the dire state of the railways, which used to be the country's main method of transportation prior to the end of communism in 1989, but have since fallen on hard times as Poles have switched to cars and transport to trucks. In the 1980s, Polish rail served a billion passengers a year - now it transports only a third of that number - the last new rail line was opened in 1987, and the number of usable lines in Poland has dropped from 24,000 kilometres to 19,000 km.

"Railways in Poland function badly," admitted Juliusz Engelhardt, the deputy minister of infrastructure, during a recent debate on the subject. And their situation is worsening. Not on track Over the last decade, the government split the rail operator, PKP PLK, from train operators, which in turn were split into cargo and passenger, and then the passenger companies were again split into competing companies. The increased competition, which became visible about two years ago, may have slashed ticket prices, but it also created havoc on the rails, as competing companies ran trains to the same destinations just minutes apart. Even worse, many of the new companies did not earn enough to pay PKP PLK for use of the rails, prompting the rail operator to prevent some of the companies from running trains until their debts were paid, causing even more confusion for long-suffering passengers.

Currently, most train companies are operating at a loss, and are propped up by more than PLN1bn (€250m) in annual subsidies from the government. Slow train The scale of the problem is daunting. It would cost about PLN47bn to return all the railways in the country to their original parameters. Over the last decade, about 85% of the government's transport financing has gone for roads, and PKP PLK estimates that it will be forced to take 4,000 km of line out service by 2015 because of their poor state. "With the current level of spending and the size of the network, there is too little money," says Zbigniew Szafranski, CEO of the rail operator.

He adds that on about 1500 km of Poland's network, trains can travel at only about 30 kph. "That's the speed of a decent cyclist," he sighs. The mammoth task of bringing Poland's existing railways up to scratch does not include an ambitious programme to create high-speed rail lines linking main cities that is to be completed by 2020 at a cost of PLN26bn. If those lines ever get built, the travel time from Warsaw to the central Polish city of Lodz would drop to 35 minutes from the current 90 minutes, while the trip north from the capital to Gdansk, which now takes 6 hours to cover the 350 km, would fall to just over two hours.

As with highways, the government introduced a railway modernisation programme to improve some of the lines and the more egregiously dilapidated stations before the 2012 championships. However, Szafranski says that only three projects will be completed before European fans start to arrive: links between airports in Warsaw, Krakow and Wroclaw and their respective downtowns. Other ambitious plans, such as a modernised line to the border with Ukraine, north from Warsaw to Gdansk, and between Wroclaw and Krakow will only be partially completed. "When we came up with the modernisation plans, we slightly overestimated our capabilities," says Szafraniec. "We will not succeed in completing the modernisation of any of the long segments."

# Prague rushes through big tenders ahead of new anti-corruption law

bne

The Prague City Hall, controlled by the Civic Democrats (ODS), put up tenders worth billions of crowns hastily on the very eve of September 15 when a new tough anti-corruption law and Prague's own anti-corruption package came into force, CTK reported the daily Mlada fronta Dnes (MfD) as saying Thursday.

If the City Hall had waited a couple of days of hours, the tenders would have had to meet new, tougher criteria, MfD writes, citing the Oziveni (Revival) civic association. The new rules, for example, ban companies with bearer shares, whose owner is anonymous, from participating in public tenders.

Prague launched its latest tenders in the last moment as if to shun the strict rules, MfD indicates. Large financial sums are involved. The projects in question include the reconstruction of the city water treatment plant worth 6.2 billion crowns, a recovery service worth 420 million, the operation of the Opencard centre for chip cards to facilitate payments for Praguers worth 200 million crowns, and a new sewage and water piping in Prague's Cukrovarnicka street worth 122 million crowns, MfD writes.

"The orders that were disclosed on Tuesday and earlier this month will see the old rules applied to them," warns Tomas Kramar, from Oziveni, a NGO that focuses on monitoring corruption. The Local Development Ministry has confirmed the information. The new anti-corruption law does not apply to any tenders that were launched on September 14 and earlier, the ministry spokesman told MfD. The City Hall disclosed the tender for the water treatment plant reconstruction in the Czech Post Information System on Public Tenders on Friday, September 10, MfD writes. The city even disclosed its tender for a recovery service as late as Tuesday, September 14.

The tender in which Prague seeks a company to operate the Opencard centre was disclosed on September 3. The tenders being put up before September 15, the City Hall cannot exclude the controversial firms with anonymous owners from the competition, Kramar pointed out. Prague Deputy Mayor Milan Richter (ODS) did not answer MfD's question why the city launched the tenders a mere few days before the new anti-corruption law took effect.

He said none of the orders was in his jurisdiction and asked the reporters to turn to his colleagues who are responsible. The ODS, the senior ruling party on the national level, has dominated the Prague City Hall in the past two decades. In the past four years it even had an absolute majority of votes in it and fully controlled the City Council. However, a number of corruption scandals have considerably tarnished the ODS's reputation in Prague. This October might be the first time for the ODS to lose local elections. It may be defeated by the new conservative party TOP 09, which already beat the ODS in Prague in the May general polls.

# Prague's southern bypass opens amidst controversy

bne

There were the usual smiles and handshakes as President Vaclav Klaus, Prague Mayor Pavel Bém and other top officials cut the ribbon at the opening of a long-awaited new bypass on the south-western outskirts of Prague on Monday morning. But behind the scenes the mood was far less optimistic. Even before it officially opened the bypass, which links the D1 and D5 highways from Plzen to Brno, evoked plenty of controversy, CTK reports.

The costliest construction project in the country's history did not get off to a good start. A promised preview of the newly constructed road and tunnels to which the transport ministry invited the public on Saturday was badly botched. Thousands of people turned up but saw very little since much of the site was still closed off with workers finishing up in haste for the bypass to open to traffic on Monday. However the wrath of the public was the least of the ministry's problems. As Transport Minister Vít Bárta said at the opening ceremony on Monday, the planned opening of the 20 billion crown project was in serious jeopardy up until the last minute.

"In the past few hours I have had to decide whether to open the southern bypass or not. An inspection of the work revealed three badly sealed joints in construction - which some consider to be a serious problem. I trust the opinion of experts at the Prague Technical University, who have assured me that these faults will have no impact on the structural integrity of the bridge. I also await impatiently the outcome of an independent study from the Technical University of Innsbruck."

Although expert opinion is divided on the matter, the Transport Ministry says it is perfectly safe to open the 23 kilometer stretch of road. Deputy Transport Minister Radek _merda assured the public that the faulty joints would be under constant surveillance with tests conducted at regular intervals. "The bypass can safely be put into trial operation, and I emphasize the word trial. During this time it will be under constant surveillance and it is possible that other inadequacies may emerge, as happens with construction projects this size. Fresh tests will be conducted in a fortnight's time, then again in another two weeks, and after that at regular intervals for the next five years. Moreover a special monitoring device will be put in place to alert us to any change in the badly sealed joints at any time in the future."

The newly-opened road will enable drivers travelling from one end of the country to the other to by-pass Prague. The city's heavily congested southern highway is used by approximately 100,000 drivers a day. Prague City Hall is hoping that at least a third of them will now use the bypass instead. This should make life easier, particularly for lorry drivers on transit routes. However, haulage companies are none too happy about the fact that the authorities have lost no time levying a road toll on the new bypass. Money was the operative word at Monday's launch of the most costly road construction project ever undertaken in the Czech Republic and the mood was suitably low-spirited. Transport

Minister **Vít Bárta** bemoaned the excessive cost of the bypass and in a symbolic gesture ordered that instead of champagne and canapés the officials present were to be offered lentils and water.

## Slovak Transport Minister dumps PPP for infrastructure

**bne**

There will be no extension to the deadline for financial closure of the first public-private partnership (PPP) package that was to build a 75-kilometre section of highway between Martin and Pre_ov, announced Transport Minister Jan Figel, unleashing moans of despair from representatives of the previous government who had advocated this method for advancing Slovakia's mega-highway projects as well as from the consortium of firms that had won the concession.

The decision by Figel kills this PPP project that had been in process since early 2009 and terminates the actual highway building that would have been done by a consortium involving the construction giants Doprastav and Vahostav-SK, Slovak companies that are now set to lay off hundreds of employees by the end of the year. Figel argued that the deadline for the financial closure of the project had already been extended six times and it was finally time for the deal signed last April to expire. His predecessor at the transport ministry, _ubomír Vá_ny from Smer party, had extended the deadline several times when final financing could not be arranged.

"I decided not to extend this process anymore, since it has been extended several times and it has cost Slovakia a lot of time," Figel said, as quoted by the SITA newswire. "The ministry has no guarantee after further negotiations with the concessionaire that the first package will be financially covered in a foreseeable time." Figel said the fact that the time in which the deal could be consummated has now ended makes it possible to reopen up the first PPP package and find a way to build the sections separately based on new tenders.

Slovenské Dia_nice, the concessionaire which got the contract to build and operate the 75-kilometre section of highway for thirty years, could not close a loan of €1 billion from the European Investment Bank (EIB). The EIB made releasing the money conditional on approval by the European Commission after assessment of the environmental impact of one of the highway sections going through protected areas in the Fatra Mountains. Robert Fico, former prime minister and chairman of Smer party, commented that the decision by Figel has given Slovakia another reason for national mourning and that the new government is threatening the economic growth of Slovakia.

"In practice it means delaying the highway construction for 10 to 15 years," Fico told the media. Under this first PPP package the state would have paid Slovenské Dia_nice, the consortium led by French company Bouygues Travaux Publiscs, and involving Slovak companies Doprastav and Váhostav-SK, more than €9 billion for construction and maintenance of the highway over 30 years, according to the _TK newswire. Earlier this summer, Figel told the concessionaire that he wanted to negotiate better conditions for the state. In response to this, the concessionaire had suggested that the state's annual instalment could be reduced from the range of €289-€317 million down to €190-€210 million. Figel's decision to not extend the deadline has obviously disappointed Slovenské Dia_nice. "We have made compromises to please the expectations of the government to the fullest possible extent, which resulted in a reduction of the price for availability (the annual sum paid by the state to the concessionaire for the use of highways) deeply below the bid that won the tender in January 2009," the SITA newswire wrote, citing a statement by Slovenské Dia_nice.

# SE infrastructure

## Bosnia and Herzegovina – corridor vc motorway project

**EBRD**

Procurement ref:
6204-PRE-38716
Country:
Bosnia and Herzegovina
Sector:
Transport
Project number:
38716
Funding sources:
EBRD
Contract type:
Project goods, works and services
Notice type:
Prequalification - prequalified firms
Issue date:
6 Sept 2010
Closing date:
26 Oct 2010

14:00 hours, Local Time
More about this project

CONSTRUCTION OF MOTORWAY ON CORRIDOR 5C, SECTION PO_ITELJ-BIJA_A, SUBSECTION ZVIROVI_I-KRAVICE
This Invitation for Prequalification follows the General Procurement Notice (GPN) for this project which was published on EBRD web site "Procurement notice" on 13th Oct. 2008 and updated 13 July 2010.
Bosnia and Herzegovina signed loan agreements with European Investment Bank (hereinafter EIB) and the European Bank for Reconstruction and Development (hereinafter EBRD) to finance priority sections of motorway on the route of Pan European Corridor 5c through Bosnia and Herzegovina. The Federation of Bosnia and Herzegovina will use these loans for payments of the works and consulting services to be procured under this project of construction of priority sections which includes, inter alia, section Po_itelj-Southern Border with Croatia (Bija_a).
Construction of section Po_itelj - Bija_a in total length of 21,255 km, has been divided into four contracts as follow:
Contracts No.FEDA-140-B17-10: Subsection Kravice-Bija_a, length of 4,06 km, will be financed by the loan signed with European Bank for Reconstruction and Development (EBRD)
Contracts No.FEDA-141-B18-10: Subsection Zvirovi_i-Kravice, length 5,00 km, will be financed by the loan signed with European Bank for Reconstruction and Development (EBRD)
Contracts No.3 FEDA: Subsection Po_itelj-Zvirovi_i, length 9,98 km, and Contracts No.4 FEDA: Bridge Po_itelj, length 1016 m,
The subject of this Invitation for prequalification is Contract No.FEDA-141-B18-10 only.

The Federal Directorate for construction, managing and maintenance of highways (hereinafter FEDA) on behalf of the Government of Federation of Bosnia and Herzegovina (hereinafter: Employer) intends to apply the proceeds of the loans from EBRD (the Bank) towards the cost of Construction of motorway on Corridor 5c, section Po_itelj-Bija_a, subsection Zvirovi_i-Kravice (hereinafter the Project).
The Employer intends to pre-qualify firms and joint ventures to tender for the contract to be funded from the proceeds of the loans.

This contract consists of the construction of the subsection of motorway between village Zvirovi_i and Kravice, which will start from interchange Zvirovi_i, crossing over the bridge Studen_ica and viaduct Pavlovi_i, going through tunnel Bijela Vlaka and over the bridge Trebi_at ending in front of auxiliary utility facility Kravice.

Subsection Zvirovi_i-Kravice is 5,0 km long (from cross-section km 11+000 to the km 16+000).

Main structures on this subsection are interchange "Zvirovi_i" with one overpass and underpass, bridges Studen_ica in the length of 590 m and Trebi_at in the length of 380 m, viaduct Pavlovi_i in the length of 387 m and tunnel Bijela Vlaka in the length of 485 m.

Construction period is 24 months.

Prequalification and tendering for contracts to be financed with the proceeds of the loans from the Banks is open to firms and joint ventures from any country.

Prequalification documents may be obtained from the address below upon payment of a non-refundable fee of EURO 250 or equivalent in a convertible currency by bank transfer to: Deposit account for public income opened in UniCredit Bank dd Mostar BA 39 338 900 2211529491, Swift Code: UNCRBA22 (for payments in €) or No. 338-900-22115294-91 (for payments in BAM), Beneficiary: Federal Directorate for construction, managing and maintenance of highways; revenue category 722631, sort code 1804001, municipality 180. Payment option is OUR which means that the Applicant will cover all Bank costs related to this payment and money transfer.
If requested, the documents will be promptly dispatched by courier, but no liability can be accepted for loss or late delivery.
The prequalification documents must be duly completed and delivered to the address below, on or before 26th October 2010, 14:00 (Local time):
Federal Directorate for construction, managing and maintenance of highways
Bra_e Fei_a bb, 88000 Mostar, Bosna i Hercegovina
Interested firms may obtain further information, inspect, and acquire the prequalification documents through the contact details:

CONTACTS
Contact Person: Erdal Trhulj_Federal Directorate for construction, managing and maintenance of highways _Terezija 54, 71000 Sarajevo, Bosna i Hercegovina_Tel: +387 33 562 700 ; +387 33 562 694_Fax: +387 33 562 690_E-mail: t.erdal@feda.ba and a.vanja@feda.ba

# Russia, Bulgaria agree on cooperation in ship construction

**bne**

Russia and Bulgaria have agreed on cooperation in the construction of ships, reports Prime-Tass.

The news agency says that specifically, the countries plan to cooperate in the construction of refrigerator ships.