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Top story



Bombardier buys 50% in Russian Railways unit for RUB1.9bn

bne

Canadian aircraft and train manufacturer Bombardier on Monday signed an agreement to buy 50% minus two shares in railway equipment maker United Electrical Engineering Plants (Elteza), a 100% owned subsidiary of railroad monopoly Russian Railways, for RUB1.9bn, reports Prime-Tass.

The news agency says that the agreement was signed by Pierre Beaudoin, president and CEO of Bombardier, and Vladimir Yakunin, president of Russian Railways. ●

Istanbul airports flying into trouble

David O'Byrne in Istanbul

Sometimes the oldest clichés ring true. Billed for centuries as "the bridge between east and west," Istanbul has over the past two years been the beneficiary of work by the Turkish authorities to prove that it is just that. With plans already afoot for a tender to construct a third bridge over the Bosphorus straits and a final investment decision on the already tendered project for a second tunnel under the Bosphorus expected early next year, officials have announced that the city will get a new main airport.

According to an announcement made by Istanbul Mayor Kadir Topbas at the end of November, his municipality is working with Turkey's ministry of transportation on plans for a third passenger airport to be located at Silivri, a coastal town 65 kilometres to the west of Istanbul. The planned new airport is slated to have a capacity several times that of Istanbul's existing main airport, Ataturk Airport, located only 10 km from the city centre.

Turkish Prime Minister Recep Tayyip Erdogan, who is backing the plan, argues that Istanbul's two existing airports are simply unable to cope with the growing levels of traffic. And he certainly has a point. Thanks to Istanbul's growing importance as a major regional business hub and its burgeoning popularity as a city-break tourist destination, throughput at the existing Ataturk Airport and its counterpart on Istanbul's Asian side, Sabiha Gokcen Airport, has rocketed from 8.7m passengers in 2002 to 41m passengers last year.

And with passenger traffic expected to grow at 10% a year for the next decade at least, it is little wonder Turkey's national carrier Turkish Airlines has its eyes on the planned new airport. "Our assumption is that we will use the new airport as our main hub," Temil Kotil, CEO of Turkish Airlines, told bne recently.

Spare capacity

However, this planned third passenger airport is not without its critics. They point out that the two existing airports are still not close to full capacity and that Istanbul already has a third airport at Corlu, 20 km to the east of Silivri. Why they ask, when Corlu was designed specifically to handle cargo flights, is most of the air freight traffic in Istanbul still passing through the city's main passenger hub, Ataturk Airport, taking up capacity that could be used for increased passenger flights?

"Corlu Airport is already there and operating at a fraction of its capacity, so why are we thinking about a fourth airport?" asks



Tayfun Kahraman the secretary-general of the Istanbul branch of the Turkish Chamber of City Planners, pointing out that little attempt has been made to integrate Corlu into the regional transport infrastructure. "Turkey's main European rail line runs nearby, but there is no connection. Let's improve the transport links to Corlu, make full use of it and then when it begins to approach capacity, then let's think about a fourth airport."

Improving existing ground transport infrastructure is key to handling Istanbul's growing traffic problems, rather than building a new airport a long way from the centre. "A new airport would only work if the necessary transport infrastructure connecting it to the city is built first," Kahraman explains, pointing out the ongoing problems experienced by Istanbul's second airport Sabiha Gokcen.

Opened a decade back on the outskirts of the Asian side of Istanbul, growth of traffic at Sabiha Gokcen has been severely hampered by poor transport connections. Plans were only recently announced to link the airport to the planned Marmaray rail system, which will allow passengers easy access from both sides of the city, and are still some years away from fruition.

The importance of good road and rail connections for Turkey's airports is echoed by Ergin Buyukbayram, head of Global Logistics Consulting Services, who recently prepared a master plan for the Turkish government on how to develop the country's logistics sector. However, he is sceptical of the extent to which Corlu can be developed as a main freight and logistics hub. "The surrounding land is too hilly - coastal sites are much better for airports, as it allows planes to approach low over the sea," he explains, adding that Corlu is also far from ideal in respect to connections to existing road and rail lines.

Silivri, he says, would be a far better site for a new airport for Istanbul - albeit as a cargo airport allowing freight to be easily shipped on by road and rail, not as the main passenger hub which current plans foresee.

Logistics aside, Kahraman also identifies another problem with developing a new airport at Silivri, which official plans have overlooked. "The area around Silivri has some of the best and most productive agricultural land in the country - we risk destroying something we can't replace, to build something we don't yet need," he warns. ●

Moscow budget passed with spike in infrastructure spending

Aton

The Moscow City Duma approved its budget for 2011 at just under RUB1trn yesterday (8 Dec). Interestingly, spending on transport infrastructure has been increased to RUB131bn, up from RUB38bn in 2010. Among the key projects are RUB21bn for construction of a fourth ring road, RUB16bn to fund the connection of the



Leningradskoe and Dmitrovskoe highways and RUB9bn to build a transport intersection near Moscow City. We view the news as supportive of Mostotrest, which is Moscow's largest bridge builder, on our estimates. We expect it to benefit from Moscow Mayor Sergei Sobyenin's intention to completely revamp the city's infrastructure. ●

Moscow plane crash rooted in industry mess?

RIA Novosti

Tupolev Tu-154 airliner made an emergency landing at Moscow's Domodedovo airport 20:01 06/12/2010(c) RIA Novosti. Andrei Stenin RIA Novosti military commentator Ilya Kramnik

Related News Russian aviation watchdog not to ground Tupolev planes One engine of Dagestan-bound plane functioned until landing On December 4, 2010 a Tupolev Tu-154 airliner belonging to Dagestan Airlines made an emergency landing at Moscow's Domodedovo airport. After taking off from nearby Vnukovo airport, the airplane's three engines, generators and navigation systems all suddenly shut down. The plane overshot the runway and crashed into airport facilities. The impact broke the airplane into several pieces, killing two passengers and injuring dozens more. This accident raises two recurring questions in Russian history: "Who's to blame?" and "What's to be done?"

Who's to blame?

At first glance, it is tempting to blame the accident on the airplane's advanced age. Mass production of the Tupolev Tu-154 began in the late 1960s. Clearly, it is far from the world's most advanced aircraft. However, the Tu-154M in question was manufactured in 1992. It is not a "veteran" according to Russian and even international aviation standards, and the airplane was overhauled just last year.

But the facts are undeniable - the airplane crashed, people died.

Thankfully, the skilled flight crew was able to land the airplane with three engines down and avert a disaster.

It remains unclear why three of the four engines failed, one after another. Speculations so far include poor quality fuel, technical defects or improper pre-flight preparation. Any of these could be the cause, either individually or in combination.

The accident raises familiar questions about the safety of commercial flights in Russia, especially among the smaller regional airlines. Incidents involving a variety of airplanes, both Russian and foreign, are growing more frequent, and not all of them have endings as happy as the Alrosa Tu-154 airliner, which was successfully landed at an abandoned airport in Izhma in September 2010.

There is a consensus among experts that the growing number of accidents is rooted in the negligent use of airplanes as part of commercial plans to maximize profits. Test pilot and Hero of Russia Magomed Tolboyev cited this reason in his recent interview with the radio station Russian News Service.

"Airplanes are not given new engines or new equipment as a way to save money... If an airplane is at the end of its lifespan, it should be retired. But this is not what happens. It's all backwards. Airplanes

are used to the max, until they pay for themselves dozens of times over," Tolboyev said.

What's to be done?

Finding a solution is not nearly as easy as identifying the problem. Spending to ensure flight safety and airplane maintenance will have to be increased significantly. Only major airlines such as Aeroflot can afford to do this. There are numerous smaller regional airlines using obsolete planes, both Russian and foreign. These airlines cannot afford to properly maintain these planes, thus putting their passengers at serious risk.

The situation is unlikely to improve in the foreseeable future given the aging airplane fleet and money-saving maintenance policies. Planes will continue to crash or, at best, make emergency landings.

Most likely, safety will improve only if the government gets involved. Using its administrative and economic leverage, the government should work to restore the airplane fleet and to ensure proper maintenance.

Government involvement is also needed in the form of loans and other incentives that will encourage Russian companies to start purchasing new Russian-made planes.

Order must be restored in the commercial aviation business in Russia. There are currently dozens of small airlines, with fleets between 1 and 15 planes, which do not provide quality services. There has been talk of mergers among small airlines for a long time now. The time has come to stop talking and get down to business. ●

Moscow to triple investment in transport infrastructure to RUB203.6bn in 2011

Renaissance Capital, Russia

Event: Yesterday (8 Dec), Moscow Mayor Sergey Sobyenin announced that the Moscow government intends to triple its investments in transport infrastructure to RUB203.6bn (\$6.6bn) in 2011. The key target is to provide convenient transport within the city. The city will spend RUB102bn (\$3.3bn) to complete road construction projects that are already at an advanced stage of development.

Action: In our view, the news is positive for Moscow-based infrastructure construction companies, including Mosinzhstroy and Mostotrest. ●

Mostotrest raises \$212.3mn in extra share offering

bne

Russian infrastructure builder Mostotrest has raised about \$212.3mn through an additional share offering, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Mostotrest placed 33,975,500 common additional shares at a price of \$6.25 per share.

Of the total, Cyprus-registered Marc Polo Investments Ltd, one of the company's shareholders, bought additional shares worth a total of \$195.1mn, says Prime-Tass. ●

Motorway to drive through Khimki after all

bne

The Kremlin is to approve the route of the Moscow-St Petersburg Expressway through Khimki Forest after all, reports Vedomosti. The decision to plough onwards through the forest is the Kremlin's final decision, the newspaper suggests.

President Dmitry Medvedev suspended the project in August, as the forest was being cut down, but it will now continue on the same route, according to several unidentified Kremlin sources, including a senior official, quoted by the paper. The Kremlin declined to comment on Thursday.

Many saw the decision to suspend the project as political, after a crowd of 2,000-3,000 were allowed to protest in central Moscow

in the summer. Medvedev's suspension then put the issue firmly in focus, including the long opposition campaign against the destruction of the forest, which was largely ignored by the international media up to that point.

Others however have suggested that the issue was a squabble between competing business interests. In particular, its thought that officials from Moscow and Moscow Region were pushing different routes according to how it would affect the value of land holdings. ●

Putin promises high speed travel during 2018 World Cup

Ria Novosti

Russia's Prime Minister Vladimir Putin promised on Sunday new high speed rail services between the 2018 World Cup host cities.

He made his statement after joining Finnish President Tarja Halonen for an inaugural journey on the French-made high speed Allegro train linking Helsinki to St. Petersburg. The two leaders arrived in Russia's former imperial capital earlier on Sunday.

New services designed to cut journey times and run more frequently than present services will be built between Moscow, Kazan, Samara and Ulyanovsk, Putin said.

"It will be a powerful incentive for the development of high speed rail services in the European part of Russia," he said.

Russia won the right to host the 2018 World Cup last week, defeating bids by England, Spain/Portugal and Holland/Belgium.

All of the 13 host cities are in the European part of the country and President Dmitry Medvedev has promised that fans will not need visas to travel to Russia for the event. ●

Russia considers high speed railway communication with Ukraine and Germany

Itar-Tass

Sergei Ivanov Deputy Prime Minister of Russia said the Russian government discusses high speed railway communication with Ukraine and Germany with border control en route. The official said the government considers practicalities of that plan on the route between Moscow and Kiev and also considers the Moscow-Kharkov and Moscow-Berlin routes. Mr Sergei Ivanov said the first

such route will be opened on December 12 between St. Petersburg and Helsinki. This experience, according to him will show how it all works. He added that "This is in a way an important event and a challenge for controlling agencies, which will have to work in a new way and on an absolutely new basis." ●

Russia to launch speed train between Moscow and Helsinki

Ria Novosti

French-made Allegro speed train will make its first run from Russia's second largest city of St. Petersburg to Finland's capital Helsinki on Sunday.

Two trains would move with the maximum speed of 200 kmph (124 mph) on the Russian stretch of the railroad, and 220 kmph (137 mph) across the Finnish territory, covering the distance of 443 km (275 miles) in slightly more than 3.5 hours. Previously, a trip from St. Petersburg to Helsinki took six hours and 18 minutes.

The number of trains would be increased to four by summer 2011.

Each train has 244 seats, including 48 first-class seats. The first-class ticket costs 134 euros (\$177.2), a seat in the second class is available for 84 euros (\$111.1).

The project's estimated cost stands at 79.7 billion rubles (\$2.6 billion), including 51.7 billion rubles (\$1.7 billion) provided by Russia's railway monopoly RZD and 28 billion rubles (\$900 million) from Russia's investment fund. ●

Russian airlines are likely to outpace international peers in 2011

UralSib

10-12% YoY growth for the Russian airline passenger segment expected versus 5% for international peers. Yesterday, Interfax quoted the Head of Rosaviation Alexander Neradko's comments on the Russian airline industry. The key highlights include the following: (1) 30% YoY growth expected in 2010 (compared to growth of 25% announced earlier) and 10-12% YoY growth in 2011 (we understand this refers to the passenger segment); (2) the consolidation process in the industry is to continue in 2011 (no details were provided). Recently, the International Air Transport Association (IATA) released its revised outlook for the airline industry worldwide. The new forecast implies 8.9% YoY growth for the passenger segment in 2010 (versus 7.7% earlier) and 5.2% for 2011 (versus the 4.9% forecast previously). Based on this, Russian airlines are likely to outpace international peers.

Aeroflot, the major beneficiary from the anticipated growth. Aeroflot (AFLT RX - Buy) is expected to benefit the most from the anticipated increase in air travel passenger demand in Russia. Our current model implies 30% and 10% YoY passenger

growth for 2010 and 2011, respectively, which is in line with the expectations announced for the Russian industry and we see such growth rates as fully achievable for the company. Given that Aeroflot is set to become the major consolidator of the Russian airline industry through both organic and non-organic growth, we believe our current 2011 estimates for growth of the passenger segment might turn out to be too conservative. Thus, through non-organic growth alone, Aeroflot's market share will increase to nearly 40% after its merger with Rostechologies' assets (from 25%, currently), which is expected to take place by the end of 2011. However, our current model does not incorporate Rostechologies' assets as the terms and financial details of the deal have still not been announced.

News supportive for Aeroflot. We view the news as supportive for Aeroflot shares and recommend using any weakness in the name as a good buying opportunity. We therefore maintain our Buy recommendation on the name. ●

Trans-Siberian railway to expand as infrastructure continues to turn east

bne

The state and Russian Railways (RZD) will plough \$14bn into extending the Trans-Siberian Railroad to boost development of the Far East, as Russia's infrastructure continues to rapidly turn towards Asian markets.

Prime Minister Vladimir Putin outlined plans for the rail project on Monday at a conference of United Russia officials from the Khabarovsk region, reports The Moscow Times. The PM said that the new track would help expand commodities production and investment in the country's Pacific regions.

Putin claimed that modernization of key ports, including Vanino, Nakhodka and Sovietskaya Gavan, was being "held back by bottlenecks" on the Baikal-Amur Mainline, one of two main railroads crossing Siberia.

"In the next few years we'll need to upgrade the Trans-Siberian Railroad and significantly increase BAM's throughput capacity. Until just recently, I was being told that BAM had been built but that it wasn't being used," Putin said. "But now BAM's capacity

is insufficient, and this has taken place in the past three or four years."

BAM-2, as the new project is being called, will cost an estimated RUB448bn (\$14bn), including RUB380bn for infrastructure, state-owned RZD said in a statement. The expansion "will require major funding, but all of it is justified," RZD president Vladimir Yakunin said. "The realization of this project will certainly require financing from the federal budget."

In October, Yakunin told a conference in Moscow that the government and major state companies had been taken by

surprise by the sudden demand for Russian infrastructure to turn away from traditional customers in Europe and towards energy hungry Asian markets. Yakunin said in late November that he expects freight rail to China to expand by up to 100% over the next decade.

The PM moved to dampen Yakunin's expectations of the level of state finance for BAM-2 however. "Of course, there's the Finance Ministry and there are limitations to budget funding, but there are also priorities," he said. "This isn't dependent on the Finance Ministry, but above all on you." ●

TransContainer forms transportation JV with Chinese co

bne

Russian container shipping company TransContainer and China Railway International Multimodal Transport Co. Ltd. (CRIMT) have set up a container transportation joint venture called Rail Container, reports Prime-Tass.

The news agency says that CRIMT owns a 51% stake in the joint

venture and TransContainer owns a 49% stake.

The joint venture is to focus on container shipments between Russia and China, says Prime-Tass. ●

Russia infrastructure news

CORRUPTION WATCH: Prosecutor General calls for Moscow subway chief's dismissal

RIA Novosti

Russia's Prosecutor General's Office has called on Moscow Mayor Sergei Sobyenin to fire the long-standing chief of the Moscow subway system Dmitry Gayev on suspicions of embezzlement, prosecutor's office spokeswoman Marina Gridnyova said on Tuesday.

The appeal follows a probe into the activities of the Moscow subway, Gridnyova said.

According to the probe, Gayev, 59, devised several sophisticated schemes from which he earned kickbacks from many of the contracts which the Moscow subway concluded with other companies.

Over the last five years, Gayev has allegedly illegally earned some 112 million rubles (\$3.64 million), investigators said.

The subway system management also concluded deals which affected passenger tariffs negatively, according to the investigation.

Gayev has so far not commented on the charges.

EuroChem ups stake in Baltic General Cargo to 100%

bne

Russian mineral fertilizer holding EuroChem has increased its stake in cargo operator Baltic General Cargo in the Leningrad Region-based Ust-Luga port to 100% from 25%, reports Prime-Tass.

Citing a statement issued by EuroChem, the news agency says that the deal was closed on September 14.

Govt OKs boosting Russian Railways capital by RUB44bn

bne

The Russian government, which owns 100% in railroad monopoly Russian Railways, has approved increasing the company's charter capital by RUB43.612bn through an additional share offering, reports Prime-Tass.

Citing a government ruling, the news agency says that Russian Railways is expected to privately offer 43,611,848 additional common shares with a face value of 1,000 rubles per share to the government.

Industrial output remains strong, construction expected to soar

Troika Dialog

Industrial output rose 6.7% y-o-y in November, bringing the 11m10 figure to 8.4%. The slight deceleration of industrial output growth in y-o-y terms was due to the higher base in 2H09. We reiterate our forecast of annual industrial output growth in excess of 8%. Raw material extraction grew 3.7% y-o-y in 11m10, while the manufacturing sector demonstrated strong growth at 12.1% and the supply and redistribution of electricity, gas and water was up 4.5%.

Interestingly, construction materials production increased significantly in November: cement output surged 30.5% y-o-y, wall block production jumped 36%, window manufacturing rose 25.8% and concrete building material output climbed 26.3%.

In our view, this significant growth can be treated as a sign of recovery in the construction sector, which we believe will see a rally in 4Q10.

All in all, the rather strong industrial output performance in 2010 can be explained by arithmetical effects, as the economy was in bad shape in 1H09. In 2011, the pace of growth will moderate to around 5%.

Evgeny Gavrilentov

Over 50 Olympic facilities to be opened in Russia by yearend – deputy PM

RIA Novosti

More than 50 sports facilities for the 2014 Winter Olympics in Russia's Black Sea resort city of Sochi will be opened by the end of the year, Russian Deputy Prime Minister Dmitry Kozak said on Friday.

"We have started the construction of more than 120 sports facilities, over 50 venues should be put into operation by the end of the year," Kozak said.

More than 200 sports facilities and parts of the infrastructure are to be built in Sochi for the 2014 Winter Games. The cost of building the facilities and infrastructure is estimated at more than \$30 billion.

On November 13-14, the Russian Public Opinion Research Center asked 1,600 Russians to choose the best Sochi Olympics mascot from the official website.

The most respondents, 17 percent, voted for the bear cub, Misha, reminiscent of Mishka the Bear, the mascot of the 1980 Summer Olympic Games in Moscow. Next were a couple of little tigers and a hare - 14 percent voted for each of them.

The southern Russian resort city on the Black Sea won the right to host the Olympics at an IOC session in Guatemala in July 2007 after a close race with South Korea's Pyeongchang and Austria's Salzburg.

Then president Vladimir Putin, a noted sports fan and participant, was the driving force behind Russia's successful bid.

Russian Railways may sell stake in TGC-14 at tender in 11

bne

State-owned railroad monopoly Russian Railways could sell its stake in Russian power producer Territorial Generating Company-14 (TGC-14) at a tender in 2011, reports Prime-Tass.

Citing an unnamed source from Russian Railways, the news agency says that Russian Railways could announce the tender in January-March 2011.

Organizing committee for 2022 Winter Olympics bid set up

bne

The Ukrainian Cabinet has established an Organizing Committee to prepare an application to host the 2022 Winter Olympics. Kiev plans to bid for the right to host the games in 2014, reports Ukrinform, and, should it win, expects to spend around \$12bn on infrastructure.

Ravil Safiullin, minister of family, youth and sports said on Friday: "The work of the Organizing Committee will be to develop and approve a plan for the preparation and support of the application to the International Olympic Committee at the highest organizational level."

Despite the tight economic conditions that the country is negotiating, President Viktor Yanukovich has insisted that Ukraine will exert every effort to win the right to host the event.

Russia infrastructure finance & statistics

Aeroflot 9M10 IFRS Financials: Positive Results and Outlook

Aton

Yesterday (6 Dec) Aeroflot group released its 9M10 consolidated IFRS results. Overall the figures are positive and in line with our revenue expectations (+4%), above our estimates on EBITDA (+25%) and much higher than our net income forecast for the period (+134%).

Key takeaways from analyst meeting:

- The Rosaviation airlines merger will be finalised by the end of 2011. The combined company strategy will be published in 1Q11; until then exact details relating to the merger will be under discussion. The price for the airlines is expected to be 6.3% of the Aeroflot shares purchased from National Reserve Corp.

- Rostechology leasing will be accepted only if it is competitive with the market and the planes offered fit into the company's strategy.

- Tariff policy is not expected to change in the near future; loss-making routes will either be cancelled or the respective tariff will be raised.

- Deconsolidation of the Terminal_3 subsidiary will be finalised by the end of 2011.

- Royalties are expected to remain. No decisions have been adopted at the intergovernmental level, according to management. The size of royalties will not be disclosed any time soon.

- National Reserve Corp is not ready to sell its remaining stake in Aeroflot, but its refusal has not yet been made official.

- The total debt of Rosaviation airlines, including finance leasing, is approximately \$818mn, which roughly equals our estimates.
- Growth of physical turnover in 2011 is expected to reach 23% YoY.

Bottom line

In general, we see the results as strong as the company managed to reduce losses at its Terminal subsidiary and subsidiary airlines, as well greatly increase the profits of Aeroflot as a standalone. Nevertheless, we expect 4Q to be financially weaker than 3Q due to a seasonal decline in turnover. We are encouraged by positive comments relating to the Rosaviation deal and company growth expectations, but are cautious about the possibility of royalty retention.

Aeroflot: Private placement of 4% stake by major shareholder

UralSib

NRC placed 4% of shares at \$2.50/share. On Friday newswires re-ported that the National Reserve Corporation (NRC; owned by Alexander Lebedev) placed 4% of Aeroflot (AFLT RX - Buy) shares (44 mln shares) among private investors at \$2.5/share. Demand at the announced price was double the placement size. Following the placement, Aeroflot's shareholder structure will include the Federal Property Fund (51.17%), NRC (15.5%), Aeroflot-Finance (7.8%), past and present employees and management (10%), Vnesheconombank (4%) and others (11.53%).

Strong share performance may explain delays in NRC-Aeroflot deal. Earlier this year NRC and Aeroflot agreed to the sale of 25.8% of Aeroflot shares at \$1.40/share, and NRC sold 6.3% of shares to the carrier at the end of February in accordance with that agreement. However, no other sale took place afterwards as (1) the market price of Aeroflot shares is up 40% since the end of February, and hence NRC was unhappy with the terms of the initial agreement, and (2) the state has not met its initial commitment to buy another of Lebedev's assets - Ilyushin Finance - in exchange for his exit from Aeroflot.

Placement should be viewed as positive. In our view the placement is positive for Aeroflot for several reasons. First, the price was close to market price, which is good for the company, given it was a private placement, which usually implies a discount to the market price and price of the public offering. Also, demand was twice of the placement size at \$2.5/share. And finally, as a result of the placement the company's free float will increase from an estimated 8% to 12%. We expect further sales of Aeroflot shares owned by NRC to follow, which should improve the liquidity of carrier's stocks and possibly increase the number of Aeroflot's treasury shares, to be potentially used for its M&A activities. We reiterate our Buy recommendation in the name.

Anna Kupriyanova

Cabinet permits Pivdenna railways to take state-secured \$261mn loan

bne

The Ukrainian cabinet has permitted Pivdenna railways to take a state-secured \$261mn loan in 2010, reports Interfax.

Citing cabinet resolution No. 1125 of December 6, 2010, the news agency says that the funds would be sent to buy high-speed interregional trains.

IATA revises forecast for global airline industry profit

Alfa Bank

Yesterday, the International Air Transport Association (IATA) raised its forecast for global airline industry profit. Owing to strong 3Q10 results, the IATA upgraded its 2010 expectation to \$15.1bn from the \$8.9bn forecast in September. The outlook for 2011 was also revised upwards to \$9.1bn from the \$5.3bn expected in September.

We view the new forecast as NEUTRAL for Aeroflot. Industry-wide statistics are not a very good indicator of future profits of individual carriers. Given airline's very low average net margin of 2.7%, profit forecasts are highly sensitive to changes in revenues, and the IATA is generally quite conservative in its forecasts. Moreover, the forecasted slowdown in 2011 is based on the premise that austerity measures, particularly in Europe, where increased taxation in Germany, Austria and the UK will raise the cost of travel by 3-5%, will dampen demand for air travel.

Nevertheless, we note that the new outlook confirms our positive view on industry trends. We expect Aeroflot's revenue and EBITDA to increase in 2011 by 2% y/y and 6% y/y, respectively.

Mosotrest sold 33,975,500 common shares at an additional issue

Metropol

Mostotrest reported that the company sold 33,975,500 common shares during an additional issue, raising USD 212.3mn. Marc O'Polo Investments bought about 92% of additional issue, while 8% was bought by minority shareholders using their preemptive right.

Marc O'Polo Investment's stake in the Mostotrest increased to 38.9% after the issue and the purchase of shares bought under option from NPF Blagosostoyanie. NPF Blagosostoyanie's stake decreased to 26.5% and free float is 34.6%.

Mostotrest raises \$212.3mn in extra share offering

bne

Russian infrastructure builder Mostotrest has raised about \$212.3mn through an additional share offering, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Mostotrest placed 33,975,500 common additional shares at a price of \$6.25 per share.

NCSP Reports Poor Results for 11M10 and Nov 2010

Aton

NCSP reported its operating results today (14 Dec). We regard the results as generally weak and disappointing after the October data, which had provided some hope for a turnover recovery. In November we see a decline in all cargo groups with the traditional exception of container turnover. The latter is fuelled by recovering consumer demand and delayed capex. Current results, if annualised, may allow the company to reach 81.5mn tonnes in 2010, which is 3.5% lower than our estimates (84.4mn tonnes for 2010).

Liquid cargoes dropped into the negative zone, recording a 16.4% decline in November after a promising +8.5% in October. This is discouraging, particularly in light of management's relatively positive comments in September that liquid cargo volatility could actually lead to growth in this cargo segment. Bulk cargoes, lacking export grain volumes, again show weak results with only a minor part of the loss compensated by low-margin iron ore volumes. Additionally iron ore has shown -54% MoM dynamics. General cargo dynamics worsened for the fourth consecutive month, mostly due to low volumes of ferrous metals.

Bottom line

The company reported poor operating results for Nov 2010 which creates downside risk to our valuation. However, in our view, NCSP's share price is now mostly dependent on the outcome of the deal under which a controlling stake in NCSP is being transferred from Kadina Limited to a consortium of Transneft and Summa Capital and thus these operating results will have a limited impact on the market. Additionally we see persistent growth of container volumes as a positive development for the Transcontainer and FESCO businesses, which have strong exposure to the container transportation market.

NCSP's cargo turnover decreased 5.4% YoY in 11mo10

VTB Capital

News: NCSP's cargo turnover decreased 5.4% YoY in January-November 2010, according to the company.

Our View: The main drivers of NCSP's operating performance are oil (52% of the cargo structure) and oil products (15%). In 11mo10, the amounts handled decreased 5.4% YoY and 4.0% YoY, respectively, to 38.4mn tonnes and 11.5mn tonnes, having been affected by one-offs (including the weather and volatile oil export duties). Grain contributed significantly to the decrease, as it represented up to 11% of NCSP's cargo turnover before exporting it was banned on 15 August.

The main drivers of profitability are high margin cargoes, primarily grain, containers, oil products, non-ferrous metals, as well as ferrous metals and timber. We estimate the impact of the grain export ban at 7% of EBITDA in 2010. This will partly be offset by container handling, which nearly doubled to 418,600 TEUs. However, profitability will also be somewhat affected by the negative dynamics of oil products and ferrous metals.

NCSP's cargo turnover in November was particularly hit by one-offs, and decreased 14.0% MoM. Such a bad performance is often followed by a rebound. Further rises in oil export duties in January 2011 will in our view provide an incentive not to delay the export of oil and oil products. We also note that NCSP is carrying out its capacity expansion programme at BSC, its fastest growing container terminal, so there is potential for more growth. The main negative remains the grain export ban being prolonged through 1 June 2011 (at least).

Russian Cement: Time To Build Up

VTB Capital

We are initiating coverage of the cement industry, which provides one of the few limited opportunities to gain exposure to the ongoing revival in construction. We have analysed three companies, of which we assign a Buy recommendation for Sibirsky Cement and Hold recommendations for Iskitimcement and Gornozavodskcement.

An early beneficiary of the pick-up in construction. The Russian cement industry appears to be an early beneficiary of the recent pick-up in construction, with the ongoing robust improvement in cement volumes this year (up 13% YoY to 43mn tonnes in 10mo10) getting fresh support from firming cement prices. This signals a turnaround for the industry, which had been severely hit by the recent crisis, and we believe that these positive trends will get a new impetus in 2011 after the seasonal slowdown this winter.

Balanced market outlook. Our cement market forecasts do not imply any return to pre-crisis tightness, but envisage a gradual increase in volumes and prices, with a large part of incremental demand being balanced by capacity additions. According to our estimates, cement volumes will increase at a CAGR of 8% over 2010-15F, with the available capacity utilisation reaching 80%. In our view, this will allow Russian cement producers to restore profitability, with more efficient producers being able to earn above average margins.

Sibirsky Cement is our top pick. In our view, Sibirsky Cement provides the best exposure to the cement industry's revival, as it faces fairly benign competition and is also likely to benefit from efficiency-enhancing new projects. Our 12-month TP for Sibirsky Cement stands at USD 33.9/share (61% upside from current levels) and we rate the company as a Buy. The company trades at 24-33% discounts to emerging market peers on 2011-2012F EV/EBITDA and P/E multiples.

The state of economy, future competitive landscape and corporate governance represent key risks to our valuations.

Russian Railways to offer Eurobonds worth \$300-\$600mn 2011

bne

State-owned railroad monopoly Russian Railways plans to offer Eurobonds equivalent to \$300mn-\$600mn in 2011, says Pavel Ilichev, deputy director of the company's finance department, reports Prime-Tass.

The news agency quoted Ilichev as saying that Russian Railways plans to offer the bonds in one tranche in late March or early April in 2011.

Russian regulator OKs raising rail cargo transport tariff 8% January 1

bne

Russia's Federal Tariff Service has approved raising the tariff for rail cargo transportation 8% starting January 1, 2011, reports Prime-Tass.

Citing a statement issued by the tariff service, the news agency says that the tariff for cargo transportation by rail was increased 9.4% in 2010.

RZD plans to finance 40% of 2011 investment program with subsidiary sales

bne

Russian Railways' (RZD) investment program might be almost 40% paid for with proceeds from the sale of stock in company subsidiaries, says RZD Senior Vice President Vadim Mikhailov, reports Interfax.

The news agency quoted Mikhailov as saying that the main source of investment-program financing, aside from cash flowing from operations, will be the sale of subsidiary companies - RUB132bn.

The investment program for next year has been approved at RUB349bn, says Interfax.

St Pete highway proj operator to offer RUB25bn bonds in 2011

bne

Russian company Western High-Speed Diameter, the operator of a project to build the Western High-Speed Diameter highway in St. Petersburg, plans to offer five bond issues totaling RUB25bn in 2011, says Sergei Lykov, head of the company's economy and planning department, reports Prime-Tass.

The news agency says that the operator plans to offer the first and second bond issues in February and the remaining three bond issues within the year.

St Pete highway project operator bd OKs offering RUB10bn bonds

bne

The board of directors of Russian company Western High-Speed Diameter, the operator of a project to build the Western High-Speed Diameter highway in St. Petersburg, has approved offering RUB10bn worth of bonds, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company's first and second bond issues, worth RUB5bn each, are to be offered publicly in 1,000-ruble denominations.

St Pete highway project operator to offer RUB25bn bonds in 2011

bne

Russian company Western High-Speed Diameter, the operator of a project to build the Western High-Speed Diameter highway in St. Petersburg, plans to offer five bond issues totaling RUB25bn in 2011, says Sergei Lykov, head of the company's economy and planning department, reports Prime-Tass.

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Russia roads

\$124m on access roads to metro-bridge in Nizhny Novgorod

Marchmont

A total of \$124m is to be spent on construction of the last two access roads to metro-and-auto bridge over the Oka river in Nizhny Novgorod, city officials report.

The project is reportedly financed from the federal, regional and local budgets.

Construction of the roads is scheduled to be carried out in 2011-2013.

Adygeya's \$3.8m roads repairs plan for 2011

Marchmont

A total of \$3.8m is to be allocated under the federal New Roads of Russia program in the Republic of Adygeya in 2011, regional officials report.

Under plans, the funds are to be spent on repairs of yard and block territories, as well as highways reconstruction in the city of Maykop.

The repairs are scheduled to start in May 2011.

Avtodor to hold international tender for M4 highway operators

RIA Novosti

Russia's state road-building company Avtodor plans to hold an international tender in February 2011 to choose long-term operators of M4 Don toll road sections, Sergei Kelbakh, Avtodor First Deputy Board Chairman, said on Tuesday.

"Avtodor also plans to attract operators of toll road sections via an international tender. The company has already applied to 12 largest European companies, including enterprises from Spain, France, Italy and Austria. Each of the companies operates thousands of kilometers of roads. Six of them have already responded to our proposal," Kelbakh said in an interview to Rossiyskaya Gazeta.

"The contest procedure will last the whole year of 2011, while the tender itself will be launched in the spring, probably in late February. Starting from 2012 the company will work with foreign enterprises which will become operators of both toll and toll free road sections. The Don highway will be divided into three operator sections, where the first one will include the Moscow and Tula regions, the second section will consist of the Lipetsk and Voronezh regions, while the third section will include the Rostov region and the Krasnodar territory," he said.

The main task of the foreign operators is to establish a modern management system and introduce European technologies, Kelbakh said.

"We want to sign long-term contracts for at least 12 years. In case a foreign company decides to carry out capital maintenance of the section, the contract may be signed for a longer period," he added.

Avtodor will pay operators for the tolling services and for the section maintenance, while the operator itself will have to secure fast tolling and high-quality maintenance of the controlled section in order to attract more users, Kelbakh said.

Khakassia's \$37.4m roads development plan

Marchmont

A total of \$37.4m is to be spent on roads development in the Republic of Khakassia in 2011, regional officials report.

Of the total funding, \$24m is reportedly to be allocated from the federal budget, and \$13.4m is to be assigned from the regional budget.

Medvedev urges state to listen to public as Khimki road gets go-ahead

RIA Novosti

Russian President Dmitry Medvedev urged the government to pay more attention to public opinion after a controversial highway through a protected forest was given the go-ahead on Tuesday.

"The president says that any big project that is a source of concern to people... should be subject to dialogue between the state, businesses and society," Medvedev's spokeswoman Natalya Timakova said.

"The president believes that the Khimki forest should be a lesson that such dialogue is necessary. It is an important signal to the authorities and businesses," she added.

Plans for the road, which would see part of a 650-kilometer toll highway linking Moscow to St. Petersburg cut through a centuries-old oak forest near the town of Khimki, prompted an outcry earlier this year that led Medvedev to freeze construction in August.

Deputy Prime Minister Sergei Ivanov, who led the commission on the road project, said it was "absolutely legal." Natural Resources Minister Yury Trutnev said 500 hectares of trees will be planted to compensate for the 100 hectares that will be chopped down to make way for the road.

He moved to allay environmental concerns, saying there would be no gas stations along the stretch of road that runs through the forest.

An alternative project that proposed bypassing the forest would have increased the cost of the road by 5 billion rubles (\$163 million) and postponed construction until 2017, Transport Minister Igor Levitin said.

Moscow traffic jams stretch almost 3,000 km

RIA Novosti

The total length of traffic jams in Moscow on Wednesday evening has reached 2,850 km, which is equal to the distance between the Russian capital and Siberia's Novosibirsk, an analyst at the Yandex.Probki online traffic portal told RIA Novosti.

Yandex.Probki, which monitors the traffic situation in Moscow

using a scale of one to ten, estimated Wednesday's traffic at 8-9 points.

"According to Yandex.Probki data, the second half of December has been the most difficult period for Moscow drivers in recent years," analyst Leonid Mednikov said.

In mid-December, Muscovites rush to shopping malls to buy New Year gifts. People from neighboring towns and regions also arrive

in the capital to shop as the Soviet-era belief that the best goods can be bought only in Moscow is still alive in the Russian minds.

New Moscow Mayor Sergei Sobyenin pledged to eliminate Moscow's notorious traffic jams. President Dmitry Medvedev has said he will personally oversee the efforts.

Moscow-St. Petersburg highway route through Khimki Forest

RIA Novosti



Permdorstroy gets \$77m contract to build Perm – Kungur road

Marchmont

Perm road building company Permdorstroy has been announced the winner of an open tender for a contract to build Perm – Kungur federal road, Kommersant reports.

The company has reportedly offered the price of \$77m for the contract, while the starting maximum contract was set at \$107m.

State Duma ratifies memo to build road around Black Sea

bne

The State Duma, the Russian parliament's lower house, on Wednesday ratified a memorandum to build a highway around the Black Sea, reports Prime-Tass.

The news agency says that the memorandum has been signed by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine.

Tatarstan to get \$64m RF road aid by the end of 2010

Marchmont

RF Government is to allocate \$64m to the Republic of Tatarstan on construction and reconstruction of roads by the end of the year, news agency RIA Novosti reports.

Russia trains

Bombardier buys 50% in Russian Railways unit for RUB1.9bn

bne

Canadian aircraft and train manufacturer Bombardier on Monday signed an agreement to buy 50% minus two shares in railway equipment maker United Electrical Engineering Plants (Elteza), a 100% owned subsidiary of railroad monopoly Russian Railways, for RUB1.9bn, reports Prime-Tass.

The news agency says that the agreement was signed by Pierre Beaudoin, president and CEO of Bombardier, and Vladimir Yakunin, president of Russian Railways.

The deal is expected to be closed in January-March 2011, Yakunin was quoted as saying.

Freight One valued at \$3.9bn

Aton

According to Kommersant (6 Dec) 75% of Freight One (FO), slated for an IPO, has been preliminarily valued at RUB91.1bn (\$2.9bn) in Russian Railways' (RZD) financial plan for 2011. This implies a total market capitalisation of \$3.9bn and an EV of \$4.3. On our numbers, the company's fair market cap is \$4.9_5.3bn. An RZD representative quoted by Kommersant stated that the valuation would be revised prior to the IPO. The scheme for FO's privatisation has not yet been finalised, and furthermore, the government has

not decided whether a private placement of 25% should precede the IPO. In our view, if FO's IPO valuation is favourable for investors, we expect an outflow of funds from Globaltrans (BUY, target price \$18.90, current price \$18.30).

FTS approves an 8% increase in regulated rail freight transportation tariff

UralSib

Regulated rail transportation tariff raised 8% for 2011. Yesterday the Federal Tariff Service approved an 8% YoY increase in the regulated railcar freight transportation tariff for Russian Railways for 2011; the corresponding increase for 2010 was 9.4% YoY. A similar increase is earmarked for the infrastructure and locomotive part of the tariff. FTS has also decided to unify domestic and export rail freight transportation tariffs for the following goods: grain, pulp-and-paper goods, iron and magnesium ore, ferrous metals, mineral fertilizers and rubber. Previously, railway transportation tariffs differed for goods destined for (1) domestic locations and freight destined for the rail portion of exports via ports, and (2) for exports via land, with the latter being higher on average (this approach being implemented in 2001 to boost the flow of exports through Russian ports, with the aim of raising funds for infrastructure needs). In a nutshell, unification means raising cheaper tariffs (i.e., domestic-destined goods and the rail portion of exports via ports) to the level of the previously more expensive over land rail export tariff.

In line with expectations. The tariff increase is in line with our and market expectations. Unification of the tariffs between the routes, in theory, should result in higher tariffs for transportation to ports, which should be slightly positive for private railcar operators, which have avoided export transportation through ports.

Anna Kupriyanova

Globaltrans. Railway Tariff Increased As Expected For 2011

Renaissance Capital, Russia

Regulated rail transportation tariff raised 8% for 2011.

Yesterday the Federal Tariff Service approved an 8% YoY increase in the regulated railcar freight transportation tariff for Russian Railways for 2011; the corresponding increase for 2010 was 9.4% YoY. A similar increase has been approved for the infrastructure and locomotive part of the tariff. FTS has also decided to unify domestic and export rail freight transportation tariffs for the following goods: grain, pulp-and-paper goods, iron and magnesium ore, ferrous metals, mineral fertilizers and rubber.

Previously, railway transportation tariffs differed for goods destined for (1) domestic locations and freight destined for the rail portion of exports via ports, and (2) for exports via land, with the latter being higher on average (this approach was implemented in 2001 to boost the flow of exports through Russian ports, with the aim of raising funds for infrastructure needs). In a nutshell, unification means raising cheaper tariffs (i.e., domestic-destined goods and the rail portion of exports via ports) to the level of the previously more expensive over land rail export tariff.

No changes to our model for Globaltrans. We currently model an 8% increase in the regulated railcar freight tariff for Russian Railways in 2011 and 7.4% for 2012, based on Economy Ministry estimates. After that, we expect tariffs to follow our in-house CPI estimates: in a range of 7-10%. For Globaltrans, we project the annual railcar freight tariff to track 1 ppt below the projected increase for Russian Railways. Unification of the tariffs between the routes should, in theory, result in higher tariffs for transportation to ports, and should be slightly positive for private railcar operators like Globaltrans, which typically avoid export transportation through ports. It is difficult, however, to estimate the exact effect for Globaltrans due to the lack of details regarding the breakdown of the company's transportation flows.

Recommendation changed to Hold after strong performance.

We believe the unified tariff has been priced in for Globaltrans, as an 8% increase in 2011 coincides with the scenario announced earlier by the Economy Ministry. We also do not expect unification of the tariffs to be a surprise for the market as it has been in the works since 2005. We also recommend focusing on the

development regarding the spin off of Freight Two, which may be completed in 2011 and should lead to a hike in railcar tariffs (this is not incorporated into our model). Based on the recent strong performance in Globaltrans shares, which have gained 10% since the end of November, leaving 11% upside, we have changed our recommendation from Buy to Hold. Furthermore, we see no shortterm triggers for stock.

Govt OKs boosting Russian Railways capital by RUB44bn

bne

The Russian government, which owns 100% in railroad monopoly Russian Railways, has approved increasing the company's charter capital by RUB43.612bn through an additional share offering, reports Prime-Tass.

Citing a government ruling, the news agency says that Russian Railways is expected to privately offer 43,611,848 additional common shares with a face value of RUB1,000 per share to the government.

Govt to attract private cos to high-speed Moscow-St Pete rail project

bne

The Russian government plans to attract private companies to a project to build a high-speed railroad between Moscow and St. Petersburg, says Valentin Gapanovich, senior vice president of state-owned railroad monopoly Russian Railways, reports Prime-Tass.

The news agency says that Gapanovich did not provide any details and said only that the project had now been submitted to the government for consideration after a feasibility study was prepared.

Construction of the railroad is expected to cost between U.S. \$15 million and \$100 million per kilometer depending on the relief of the territory and the condition of the ground, Gapanovich was quoted as saying.

High-speed rail service between St Pete, Helsinki opens December 12

bne

A high-speed rail service between St. Petersburg and Helsinki was launched on December 12, reports Prime-Tass.

The news agency quoted Vladimir Yakunin, president of state-owned railroad monopoly Russian Railways, as saying that an Allegro train is to cover the distance between the two cities in three hours and 36 minutes.

Kazan to buy \$22.6m metro trains

Marchmont

Authorities in the city of Kazan, Republic of Tatarstan, have announced an open tender to purchase three metro trains worth a total of \$22.6m.

The tender is scheduled to be held on January 2011.

Putin endorses infrastructure funding for Petropavlovsk iron ore assets

Troika Dialog

Prime Minister Vladimir Putin, at a regional United Russia conference on the development of the Far East, yesterday supported the idea of state funding for the railroad infrastructure required for the development of the iron ore projects of Petropavlovsk, encapsulated within IRC. Talking to Russian Railways CEO Vladimir Yakunin, Putin asked him to "take a look at this particular project very attentively," pointing out the importance of this "super project" for the country and the region. Putin promised Yakunin that the government would support the project as part of the company's investment program. Yakunin suggested that Russian Railways could issue infrastructure bonds to fund the construction.

Stage 1 of the development of the assets will entail the development of the K&S project with capacity of 3.2 mln tonnes from 2013, and Stage 2 will see a 148 km railroad built to connect Garinskoye with the Trans-Siberian Railroad at a price tag of \$500 mln. Stage 2 should allow iron ore output to be ramped up to 8.3 mln tonnes from 2015-17.

As we have stressed in the past, the government appears very supportive of the project - the State Investment Fund approved funding for the construction back in 2009, but the process has been stalled.

We reckon that a regional company like Petropavlovsk - which has built all its operations from scratch and has further aggressive investment plans and substantial accumulated operational expertise - should appeal a lot to the federal government. As a reminder, President Dmitri Medvedev chose to visit Petropavlovsk's mining operations this summer.

Should the state indeed pick up the tab and fully fund the construction of the railroad, this should be positive for IRC's valuation and, consequently, that of its parent company, Petropavlovsk. We feel that the market has now severely discounted the value of Stage 2 of the iron ore projects given the uncertainty over the infrastructure, which we find inopportune.

Mikhail Stiskin

Russian Railways may revise investment plan due to World Cup 2018

bne

State-owned railroad monopoly Russian Railways may revise its medium term investment program after Russia won the right to host the World Cup soccer championship in 2018, says Russian Railways' President Vladimir Yakunin, reports Prime-Tass.

The news agency quoted Yakunin as saying that Russian Railways intends to organize high-speed rail services to the cities that are to stage World Cup events.

Russian Railways mulls offering infrastructure bonds

bne

State-owned railroad monopoly Russian Railways is considering offering RUB400bn worth of infrastructure bonds, reports Prime-Tass.

According to earlier reports, the news agency quoted Russian Railways President Vladimir Yakunin as saying that the company could offer infrastructure bonds to finance large investment projects.

Russian Railways sees cost of building BAM-2 rail at RUB448bn

bne

Russian Railways President Vladimir Yakunin has said that construction of the second line of the Baikal-Amur Railroad (BAM) requires an investment of RUB448bn, reports Prime-Tass.

The news agency says that Viktor Ishayev, the Russian president's envoy in the Far East Federal District promised to provide support for the project given the expected increase in cargo transportation via BAM.

Russian Railways to offer up to \$600mn bonds in Europe

bne

State-owned railroad monopoly Russian Railways is expected to offer Eurobonds worth up to \$600mn in the U.K., Germany, Switzerland, and France, reports Prime-Tass.

The news agency quoted Russian Railways President Vladimir Yakunin as saying that the company is looking at offering its Eurobonds in Europe and Asia.

Russian Railways ups forecast for 2010 cargo shipments growth to 9%

bne

Railroad monopoly Russian Railways has increased its forecast for the growth of its cargo shipments in 2010 to 9.0% on the year from 7.5% projected earlier, says the company's Vice President Vadim Morozov, reports Prime-Tass.

The news agency quoted Morozov as saying that Russian Railways expects its passenger traffic to decrease more than 9% on the year in 2010 due to a significant drop in suburban passenger traffic by around 28%.

Long-distance passenger traffic is expected to decrease more than 3% on the year, Morozov was quoted as saying.

Russian Railways' cargo shipments up 9.3% January-November

bne

State-owned railroad monopoly Russian Railways' cargo shipments rose 9.3% on the year to 1.234 billion tonnes in January-November, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that of the total, the company's coal shipments amounted to 295.285 million tonnes in this period, up 6.5% on the year; coke shipments were at 11.840 million tonnes, up 20.7% on the year; shipments of oil and oil products were at 246.905 million tonnes, up 12.3% on the year; shipments of ore were at 135.454 million tonnes, up 8.6% on the year; and shipments of ferrous metals were at 80.320 million tonnes, up 13.8% on the year.

Train, Metro ticket prices to grow

bne

Train fares nationwide will be increased 10 percent starting January, while in Moscow, metro tickets will cost RUB2 more compared with the current year, and a trip on the city's buses, trolleybuses and trams RUB1 more, reports local media.

Citing media reports, the news agency says that the increase in prices for Russian Railways and Yakutia Railways, which together control the country's railroad infrastructure, was approved by the Federal Tariffs Service.

Russia planes

Aeroflot board member who represents the state has applied to dismiss the CEO

VTB Capital

News: According to Kommersant, Sergey Aleksashenko, a member of Aeroflot's Board and the ex-Deputy Head of the Central Bank, has applied to the Chairman of the company's Board and Minister of Transportation Igor Levitin for the contract of Aeroflot's CEO Vitaly Saveliev to be terminated early. The formal reason for initiating this procedure was that Saveliev failed to provide financial documents regarding overflight fees after an official request from Aleksashenko, thereby violating Aeroflot's charter.

Our View: It is highly unlikely that Aleksashenko is indeed trying to dismiss the CEO of Aeroflot over such a trivial matter. Rather, this is probably about making management more receptive to BoD members' requests. While internal conflicts are unpleasant, we think this one will be resolved in the near future. Saveliev's comments to Kommersant also imply that he wants to resolve, rather than escalate, the conflict.

Aeroflot to buy 20 long-haul Boeings

VTB Capital

News: According to Kommersant and Vedomosti, Aeroflot has signed a preliminary agreement with Boeing to buy 16 long-haul aircraft: eight B777-200ERs and eight B777-300ERs. The catalogue prices of the planes are in the range of USD 232-284mn, and they are to be delivered in 2012-17. In addition, Aeroflot has the option to buy four B787s in 2013 (catalogue price of USD 741mn).

Our View: This is in line with Aeroflot's traditional strategy of using Boeings on long-haul routes. For image considerations, the company needs the B787 Dreamliners to be delivered before the 2014 Winter Olympics in Sochi. The fact that it is obtaining satisfaction on this point is further confirmation of the strengthening relationship between Aeroflot and Boeing.

We note that the planes are being bought, which is in contrast with the industry practice of leasing planes. This is suboptimal

for Aeroflot as it is taking more risks onto itself, whereas we believe it could have obtained good conditions for a leasing contract. We also see this as an indication that the deal under which Rostekhnologii is to lease 50 Boeings to Aeroflot might be implemented (and we are cautious on this deal).

On the back of this, we are reiterating our Hold recommendation for the stock.

Elena Sakhnova

Aeroflot to sell Nordavia subsidiary

VTB Capital

News: Aeroflot intends to sell its subsidiary Nordavia, which operates on routes in Northern Russia, since it does not fit into the consolidated company's new strategy (its route network overlaps that of GTK Rossija, acquired from Rosavia airlines). According to Vedomosti, the deal was initiated by the potential buyer, Norilsk Nickel, and Aeroflot's Board of Directors is to take a decision in January 2011.

Our View: Aeroflot acquired control of Nordavia in 2004, but failed to ensure corporate standards of passenger service quality and safety in the subsidiary (Aeroflot's Boeing-737 that crashed in Perm in 2008 and the recent incident when an An-24 overran runway in Amderma were both operated by Nordavia). The company accounts for 10% of Aeroflot's consolidated passenger flow and 5% of passenger turnover in 2010 and is the only loss-making airline entity in the group. Thus, selling it would slightly improve the company's profitability, but is unlikely to affect the consolidated operating figures significantly because the majority of flights were codeshare with Aeroflot and the company could replace Nordavia planes on them with its own medium-haul aircraft.

We value the 51% stake in Nordavia at USD 180-210mn, which would provide good support for Aeroflot's P&L in 2011. Depending on the final valuation of Nordavia, we would see the news as neutral to positive for the stock.

Elena Sakhnova

AEROFLOT: Will It Fly With Royalties Phased Out?

Aton

In this short note we present a scenario analysis of the impact on Aeroflot's financial results and valuations if the company stops collecting royalties from foreign airlines.

This issue has been widely discussed and recently spurred by Russia's latest moves to facilitate WTO entry. Given that Russia appears ready to sacrifice royalties for a WTO ticket, Aeroflot as the main receiver of these payments could end up with its financial profile damaged.

What are royalties?

In the Soviet era, the government obliged foreign airlines to pay a special royalty for Trans_Siberian non_stop flights. Given that Aeroflot was the only airline in Russia at the time, it was charged with the task of collecting these payments. Even after the collapse of the Soviet Union, Aeroflot continued to receive these payments. The EU considers them to be post_Soviet artefacts and insists they should be abolished, as they put Aeroflot in a superior position relative to other airlines. Currently, the EU has placed the cancellation of these payments among the requirements for Russia's accession to the WTO. Russia's position is that these requirements should not be connected to WTO agreements and the royalties should stay. No final decision has been reached so far.

How much and when?

Aeroflot does not officially disclose the exact amount of royalties it receives each year, while estimates vary from \$200mn to \$500mn per year. We estimate these payments will be in the range of \$200_300mn in 2010. In addition, in this report we model that these royalties could be cancelled starting in 2012 if Russia joins the WTO in 2011.

Scenario assumptions We made the following assumptions for each scenario: 1) a predefined royalty amount is removed from each year's revenue starting in 2012, 2) royalties are accounted in net amount, so there are no changes to expenses, 3) all other variables are held constant with the exception of net debt, which is adjusted to maintain a reasonable cash balance.

Our scenario analysis indicates that the sensitivity of Aeroflot's target price and its financials is quite high, so there could be significant downside risk to our base case scenario if royalties are cancelled. Please see the expanded tables on the next page.

Kirov's Pobedilovo airport to get \$26m RF aid

Marchmont

Authorities in Kirov region expect to receive \$26m from the federal budget to complete reconstruction of a runway in Pobedilovo airport, regional officials report.

The runway has reportedly been already lengthened to 2.7 kilometers under the reconstruction program.

Under plans, the received funds are to be used to replace lights signal equipment, install fence and patrol road, launch reserve electricity source and build disposal facilities.

Putin orders probe of high prices for domestic flights

bne

Russian Prime Minister Vladimir Putin has ordered a probe by the Finance Ministry and the Transportation Ministry into the high ticket prices of domestic flights, reports Prime-Tass.

The news agency quoted Putin as saying that it is necessary to find out why ticket prices for Russia's domestic flights are higher than for flights abroad.

Russian airlines are likely to outpace international peers in 2011

UralSib

10-12% YoY growth for the Russian airline passenger segment expected versus 5% for international peers. Yesterday, Interfax quoted the Head of Rosaviation Alexander Neradko's comments on the Russian airline industry. The key highlights include the following: (1) 30% YoY growth expected in 2010 (compared to growth of 25% announced earlier) and 10-12% YoY growth

Figure 1: Aeroflot sensitivity to abolition of royalties

	Target price (\$ per share)	Upside (%)	2012E multiples			EBITDA (\$mn)
			P/E	EV/EBITDA	EV/Sales	
Current	3.05	13%	10.7	4.9	0.6	893
less \$200mn royalty p.a.	2.34	-13%	19.7	6.5	0.6	695
less \$250mn royalty p.a.	2.17	-19%	25.6	7.1	0.6	640
less \$300mn royalty p.a.	2.01	-25%	34.6	7.8	0.6	593
less \$400mn royalty p.a.	1.65	-39%	132.8	9.5	0.7	493

Source: Aton estimates

in 2011 (we understand this refers to the passenger segment); (2) the consolidation process in the industry is to continue in 2011 (no details were provided). Recently, the International Air Transport Association (IATA) released its revised outlook for the airline industry worldwide. The new forecast implies 8.9% YoY growth for the passenger segment in 2010 (versus 7.7% earlier) and 5.2% for 2011 (versus the 4.9% forecast previously). Based on this, Russian airlines are likely to outpace international peers.

Aeroflot, the major beneficiary from the anticipated growth. Aeroflot (AFLT RX - Buy) is expected to benefit the most from the anticipated increase in air travel passenger demand in Russia. Our current model implies 30% and 10% YoY passenger growth for 2010 and 2011, respectively, which is in line with the expectations announced for the Russian industry and we see such growth rates as fully achievable for the company. Given that Aeroflot is set to become the major consolidator of the Russian airline industry through both organic and non-organic growth, we believe our current 2011 estimates for growth of the passenger segment might turn out to be too conservative. Thus, through non-organic growth alone, Aeroflot's market share will increase to nearly 40% after its merger with Rostechologies' assets (from 25%, currently), which is expected to take place by the end of 2011. However, our current model does not incorporate Rostechologies' assets as the terms and financial details of the deal have still not been announced.

News supportive for Aeroflot. We view the news as supportive for Aeroflot shares and recommend using any weakness in the name as a good buying opportunity. We therefore maintain our Buy recommendation on the name.

Anna Kupriyanova

St Pete's Pulkovo Airport passenger traffic up 26.1% in January-November

bne

Passenger traffic through St. Petersburg's Pulkovo Airport rose 26.1% on the year to 7.873 million people in January-November, reports Prime-Tass.

Citing the press office of Northern Capital Gateway, the news agency says that of the total, international passenger traffic outside the Commonwealth of Independent States (CIS) rose 26.1% on the year to 3.471 million people in this period, while CIS passenger traffic increased 28.4% on the year to 653,581 people, and domestic passenger traffic increased 25.8% on the year to 3.749 million people.

Vnukovo Airport sees passenger traffic up 22% in 2010

bne

Moscow's Vnukovo Airport plans to increase passenger traffic 22% on the year to 9.4 million people in 2010, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that the passenger traffic through the airport amounted to 9 million people as of Thursday since January 1.

Vnukovo Airport attributed the increase in passenger traffic to recovery of the air transportation market and launch of an additional terminal, says Prime-Tass.

Russia ships

FAS allows PTP to rent two more berths in Primorsk

VTB Capital

News: According to Interfax, the Federal Anti-Monopoly Service (FAS) has authorised PTP to rent two deep-water berths with operating equipment from BalttransService, a subsidiary of

Transneft, until 2035. The berths, which have a capacity of 8.4mn tonnes, handle the oil products delivered by the Kstovo-Yaroslavl-Kirishi-Primorsk pipeline.

On a separate note, German Gref was quoted by Interfax yesterday as saying that Sberbank had won the tender to provide NCSP with the USD 1.95bn credit to purchase PTP. We remind investors that, under the terms of the tender, the loan is to be provided for seven years at an interest rate of no more than either 9% (if fixed) or 3mo LIBOR+7% (if floating).

Our View: PTP already operates four of the six berths in Primorsk port. So, this rental agreement further consolidates its control over operations there.

We estimate that in 2011, the handling of oil products at these berths will add approximately USD 34mn to PTP's revenues, on which it can generate around USD 25mn of EBITDA.

At an analyst meeting, PTP promised that by the end of the year it would rent those berths and said that it planned to handle 7mn tonnes through them in 2011. The first part of that promise has now been fulfilled, and so we think PTP will be able to generate EBITDA of USD 207mn in 2011. This bodes well for future profitability of the merged entity with NCSP.

Elena Sakhnova

Russian shipbuilders ask for \$100 million to complete frigates for India

RIA Novosti

Russian shipbuilding plant Yantar has asked Russia's state arms exporter, Rosoboronexport, for an additional \$100 million

to complete construction of three frigates for the Indian Navy, Russian business daily Kommersant said on Thursday.

A \$1.6-billion contract on the construction of the ships was signed in summer 2006. Although the ships were scheduled for completion by 2011-2012, a lack of funds has delayed construction, the paper said.

"The lack of funding is linked to the VAT refund problem: we will only receive [the money] after the frigates have been supplied to India," Igor Orlov, the director general of the Kaliningrad-based plant, told the paper.

A source close to Rosoboronexport told Kommersant the Indian side was aware of the issue and was treating it "with understanding." "We are not considering increasing the contract price for India," the source said. "We propose the problem be settled using domestic reserves, including those of the United Shipbuilding Corporation." Russian shipyards have struggled to complete Indian naval contracts on time and budget on several occasions. The price of a refit for the the Admiral Gorshkov aircraft carrier has been almost doubled, and its completion date was put back from 2008 to late 2012.

CIS infrastructure

Azarov presents new infrastructure to ministry's staff

Kyiv Post

Prime Minister of Ukraine Mykola Azarov has presented Vice Premier and Infrastructure Minister Borys Kolesnikov to the staff of the new ministry, the press service of the prime minister has told Interfax-Ukraine.

The presentation was held in the building of the department (the building of the former transport and communications ministry) on Friday.

Azarov thanked former Transport and Communications Minister Kostiantyn Yefymenko for his work.

"This is a young leader, that over the time of his work has advanced to a level of a state leader," the premier said.

At the same time Azarov noted that he and Kolesnikov would recommend that Yefymenko be appointed the first deputy infrastructure minister.

Azarov noted that the Infrastructure Ministry has very serious tasks in modernizing the infrastructure of Ukraine and attracting investment to the sphere.

Read more: <http://www.kyivpost.com/news/politics/detail/92552/#ixzz17ygzYIFs>

Odesa port sees cargo handling fall by 11% over 11 months of 2010

bne

Odesa maritime merchant port in January-November 2010 saw its cargo handling fall by 11.4% on 2009, to 22.355 million tonnes, reports Interfax.

Citing the port, the news agency says that in the period, the port handled 12.075 million tonnes of dry cargo and 10.28 million tonnes of liquid cargo.

Azovmash increased sales by 2.7x YoY to \$730 mln in Jan-Nov

Art Capital

Azovmash increased sales by 2.7x YoY to \$730 mln in Jan-Nov. At the same time, the holding produced 10.6 ths cargo railcars and reports an increase in the demand for metallurgical machinery, 7.7 ths tons of which was produced this year.

Oleksiy Andriychenko: The news is POSITIVE for Mariupol Heavy Machinery [MZVM UK, HOLD, \$2.9] because November output at Azovmash shows cargo railcar production picked up by 43% m/m, exceeding the 2010 monthly average by 14%. Over 30% of MZVM's output consists of platforms and parts for cargo railcars produced for Azovzagalmash [AZGM, non-rated]. We reiterate our HOLD rating for MZVM with a target price of \$2.9.

Azovzahalmash to lease MZVM assets

Dragon Capital

News: Azovzahalmash, Ukraine's leading producer of freight railcars controlled by Azovmash Holding, will lease the assets of MZVM, another Azovmash-owned freight car maker, as part of cost-cutting measures advised by the parent company's creditors. (Company, Interfax)

Dragon view: We think the news is positive for Azovmash Holding,

whose consolidated debt reportedly comprises \$600m, implying additional benefits for the group stemming from this synergy, particularly lower SG&A and general expenses. However, we view this development as negative for MZVM as the company's financial statements will now include lease payments rather than actual production results. We plan to revise our recommendation on the stock shortly.

Taisiya Shepetko

Bogdan Motors gets bus order from Transport Ministry

Foyil Securities

Bogdan Motors (LUAZ) has been selected as the main supplier of tourist buses for Euro-2012, according to a memorandum signed between the Transport Ministry and the company. Bogdan should launch production of two German MAN and Neoplan brand buses for tourist transportation and for the airports of participating cities. The total estimated demand for buses for Euro-2012 is 400 units, including 100 for airports.

Our view: These new orders are line with our expectation of bus production growth for LUAZ to reach 1,345 units in 2011, yet still not enough to balance the fundamental problems of the company. 400 buses is a small volume for the 9,000 bus building capacity LUAZ has, while the additional revenues generated will not be sufficient to cover the high interest expenses. The news is positive for LUAZ stock, but these factors remain crucial for our SELL recommendation for LUAZ for the next 12 months, although we can expect some short-term speculative buying.

Yuliya Stelmakh

Cabinet approves high-speed rail strategy

bne

The cabinet yesterday approved the state strategy for high-speed trains ahead of Euro 2012, under which an agreement with Hyundai to buy locomotives may expand to total EUR240m, Ukrainian Radio reports.

The strategy will see Ukraine provide rapid travel between the four cities that will host the European football championship. Vice Prime

Minister Borys Kolesnikov announced that the government may buy up to 10 trains from Hyundai, with the locomotives due to start running on services linking Kiev, Donetsk, Kharkiv and Lviv by June 2011.

Running at up to 160 kph, the new services will cut travel time between the cities by around one third. "The travel time from Donetsk to Kharkiv will be one hour and 50 minutes, from Kyiv to Donetsk five hours and a half, from Kyiv to Lviv four hours and a half, and from Kharkiv to Kyiv three hours and a half," Kolesnikov said. He also noted that the government is instructing mayors to introduce a universal public transport ticket for visiting football fans in their cities during the tournament.

In February, Kolesnikov traveled to South Korea to sign a memorandum of understanding with Hyundai to buy 6 high-speed trains. Each train can accommodate up to 368 passengers, whilst they are completely adapted to Ukrainian rail track. The government now says that it may buy a further four locomotives. Each train costs EUR24m.

Six of the trains will run on the routes linking the four cities, according to the official Euro 2012 website, which does not discuss where the other locomotives will be serving. In March, Hyundai said it intends to begin production of electric trains in Ukraine with a view to resupplying the countries general rail stock.

"Beginning our cooperation with Hyundai, we are thinking not only about EURO 2012," Kolesnikov said at the time. "Our aim is to renew the rolling stock of Ukrainian railways. But we decided not to buy 50 or 100 new trains from South Korea, but to create a joint venture with Hyundai on the territory of our country."

The high-speed strategy was initiated in August 2008, when then-Minister of Transport & Communications, Yosyp Vinsky, announced that the key lines would be cleared of freight traffic to allow the rapid trains to run. At that time, the project was forecast to cost \$6.5bn in total.

Meanwhile, Ukraine is struggling in continuing negotiations with Chinese investors over a credit line for building a high-speed link between Kiev and Boryspil airport, reports Interfax.

Prime Minister Mykola Azarov suggested that the talks are tough in a TV interview on December 3. "We're holding rather arduous negotiations on a first credit line for the construction," he admitted, saying that the difficulties stem from China's insistence that the project include a large goods compound, which does not suit Ukraine.

Europe's air safety agency could expel Ukraine over high rates

RIA Novosti

The International Air Transport Association has recommended Europe's air safety agency to expel Ukraine from its membership list over high air navigation rates, a business daily said on Tuesday.

The Kommersant-Ukraine newspaper said that Ukraine has unreasonably increased air navigation service rates this year. At its session in late November, Eurocontrol raised the issue but failed to take any specific decision.

Air navigation rates are calculated for the many services an airline uses including airspace, ground control, satellite systems, and weather reports among others.

During a visit to Ukraine in June, IATA Director General and CEO Giovanni Bisignani asked Ukrainian Transport Minister Kostiantyn Yefymenko to cut the rates.

Bisignani said that although Ukraine's system was one of the most expensive in Europe, it remained one of the least productive. He called for immediate reform in the Ukrainian air transport sector.

However, the Ukrainian ministry failed to follow the advice and announced a 28-39% increase in rates of the country's air traffic management body, Ukraerorukh, in October.

Ukraerorukh has denied the claims saying that the top companies for air navigation rates in the first half of the year were Lufthansa, Singapore Airlines, Emirates, British Airways, Thai Airways International and Russia's Aeroflot.

Experts believe that Eurocontrol is not likely to make Ukraine cut the rates as the organization has no exact mechanism of excluding a member state over increasing the air navigation service rates.

Ferrexpo appoints COO, acquires water transportation company

Dragon Capital

News: Ferrexpo appointed Brian Maynard, who had spent 30 years with Vale managing large-scale mining projects, as its Chief Operating Officer.

In separate news, Ferrexpo acquired a 100% stake in waterway transportation company Helogistics Holdings which operates on the Danube river. Ferrexpo paid EUR 28.5m in cash for the company with net assets of EUR 28.5m and gross assets of EUR 58.8m as of end-1H10 and debt with a face value of EUR 72.1m. Helogistics transported 504 kt of Ferrexpo pellets in 2009 and 575 kt in 11M10 to the company's main customer, Austrian VoestAlpine. Helogistics reported 2009 EBITDA of EUR 0.7m. (Company)

Dragon view: We think the appointment of a new COO reflects Ferrexpo's efforts to intensify the development of its new Yeristovo Mine project as the company has a COO at its production subsidiary, Poltavskiy GOK [Buy; FV \$8.35].

The acquisition of Helogistics Holdings is positive for Ferrexpo, as the company thereby secured a transportation route to its key customer and will be able to increase its profitability by transporting additional iron ore volumes. Helogistics was bought at the net asset value and we believe Ferrexpo will earn additional profits on logistics services thanks to the deal. Pellets transported via the Danube to VoestAlpine and U.S. Steel Serbia accounted for about 30% of Ferrexpo's sales. After the company recently signed a new long-term contract with VoestAlpine, its Danube transportation will increase by 0.8 Mt p.a. to about 3.5 Mt (35% of sales).

Alexander Makarov

Kiev's crumbling infrastructure claims another victim

bne

A man in Kiev suffered severe burns after his car fell into a pool of heated water that had gathered below the road and caused it to collapse beneath him, the Ministry of Emergency Situations said on Tuesday, reports Deutsche Presse-Agentur. The accident is the second such incident in the last two months in the Ukrainian capital, as the cold weather provokes breakdowns in the Soviet-era infrastructure.

The accident occurred in the center of a main street in the upscale Podol district of the capital, after water and steam from a broken hot water main eroded the ground beneath the road surface, which collapsed under the weight of the victim's Daewoo sedan, Segondya newspaper reported.

The pit was more than 2m wide and 1.5m deep according to media reports. The 50-year-old man received burns over 70% of his body before onlookers managed to drag him out. He is now in a Kiev hospital in an "extremely severe condition," according to reports.

The incident follows the death of a female pedestrian on October 24, when she fell into a pit of hot water and steam in a Kiev residential district. The operator of the water main responsible for the sinkhole, the Kiev city heating company Kievenergo, paid for the woman's hospital treatment and funeral. Her relatives reportedly were considering a lawsuit against the government-run utility.

Heating and water infrastructure in Ukraine's cities dates in most cases to the Soviet period, and in a few instances back to the Tsarist period. Poorly maintained pipes fail more frequently during winter months, when hot water and steam come into contact with frozen ground.

Kryukiv Carriage completes passenger carriage order

Foyil Securities

The rolling stock builder Kryukiv Carriage (KVBZ, Buy) has successfully completed its contract with Southwestern Railways and delivered the last five passenger carriages of the planned 21 units for 2010. The new carriages are equipped with air conditioning, video monitoring, fire alarms, vacuum lavatories, and information panels for passengers. The total value of the contract is UAH 107.3m.

Our view: The news is neutral for KVBZ, since the contract was announced in November and the expected output is already priced into the stock. However, fulfilling orders on time demonstrates that Kryukiv is able to manage its casting supply, which has become a major problem for railcar producers. In total, Kryukiv produced 36 passenger carriages in 2010, and we expect this number to triple next year based on orders from Ukrainian Railways to renew its carriage park before the Euro-2012 football tournament. Despite the heady growth of the share price in 2010, we still see some upside left in the stock and believe that the fair price for Kryukiv shares is UAH 45.86, which leaves 24% upside to the current price. We recommend BUYing KVBZ.

Yuliya Stelmakh

Luganskteplovoz unveils excellent November results

Foyil Securities

The locomotive builder Luganskteplovoz (LTPL, U/R) has announced that in November the company's output was eight diesel and two electric locomotives. Six of the diesel locomotives were sold to Russian Railways, two went to Mongolia and the pair of electric locomotives was ordered by Odesa Railways, Ukraine. The total 11M 2010 output comes to 58 diesel locomotives: 50 for Russia four for Kazakhstan and four for Mongolia. In addition, four electric sections were produced for Ukrainian clients. The company also published its 9M 2010 financial results, reporting a considerable contraction of net losses y/y to UAH 20.9m, while revenues were up by 33.7% and reached UAH 541.5m.

Our view: The reported output figures are in line with the LTPL target to produce 76 locomotives in 2010, which would correspond to a 100% increase over 2009's output of 38 units. We believe that the order from Mongolian Railways for 70 sections together with continuing local and Russia demand should translate into output for 2011 of at least 120 units, which would generate UAH 1.55bn in revenue. With 3Q 2010 EBITDA margin of 9%, we estimate the

2011 EBITDA at UAH 139m, giving an EV/EBITDA multiple of 6.6. We restrain from giving a formal recommendation until the ownership situation is fully resolved, which should be soon, considering that the Kyiv Appellate Court threw out the lawsuit of the Ukrainian plaintiffs yesterday, which means that the company should remain in the hands of the original buyer, Transmashholding of Russia.

Yuliya Stelmakh

Stakhaniv Wagon declines rumors about possible equity sale to VTB-Leasing

Concorde Capital

Stakhaniv Wagon (UX: SVGZ UK) shareholders are not considering selling an equity stake to VTB-Leasing, CEO Vitaliy Kasinov told Concorde Capital yesterday. Earlier in September, VTB-Leasing CEO Andrey Konoplev said the company was considering buying an equity stake in Stakhaniv Wagon in order to strengthen cooperation

Ukrzaliznytsya's financial plan for 2011 covers a purchase of 6.5 ths cargo railcars

Art Capital

Ukrzaliznytsya's financial plan for 2011 covers a purchase of 6.5 ths cargo railcars. Altogether until 2015, the state monopoly plans to buy 25 ths cars.

Oleksiy Andriychenko: The news is NEUTRAL for the major railcar manufacturers, such as Kryukiv Wagon [KVBZ UK, BUY, \$6.1], Stakhaniv Wagon [SVGZ UK, BUY, \$1.3] and Mariupol Heavy Machinery [MZVM, HOLD, \$2.9] for two reasons. First the state monopoly plans to increase the involvement of its own railcar repair facilities in the production of new rolling stock. Their total output can cover 2-3 ths railcars a year. Second, Ukrzaliznytsya's plans are notorious for missing the mark. Thus in the last five years, the actual purchases accounted for only 20% of the originally planned number.

CE infrastructure

Poland govt presents new road-building programme for 2011-2015

bne

The Infrastructure Ministry has presented the draft of a new government programme for national roads, which is to replace the current programme for the years 2008-2012 adopted during the Law and Justice (PiS) administration, Polish News Bulletin reported.

The new programme for the years 2011-2015 does not state how much money the government is planning to spend after 2013. During the years 2011-2013 the National Road Fund (KFD) is to invest ZL58.6bn in building new roads, including ZL31bn from the EU.

During the years 2008-2010 about ZL50bn was spent, out of which ZL11bn was from the EU. Under the current programme 1,070km of motorway was supposed to be constructed by the end of 2012. So far 183.5km is ready, and by the end of 2013 some 810km will be completed.

The new programme foresees the majority of Polish motorways being ready by 2015, but the basic dual-carriageway network will be ready beyond 2020.

SE infrastructure

EBRD considering co-financing a highway route in Macedonia

EBRD

The EBRD is considering to provide co-financing, together with the European Union's Instrument for Pre-accession ('IPA') and the European Investment Bank ('EIB') of a new 28 km section of Corridor X from Smokvica to Demir Kapija with a total length of 28 km.

This forms a key section of this north-west link which links Austria to Greece. The investment is required to meet the growing traffic demand and to facilitate full motorway standard thus, ultimately facilitating regional integration and connectivity with the wider Europe.

The project intention is to construct a modern highway with four lanes (two in each direction and additional lane for stopping) with predicted traffic frequency of 12,000 vehicles per day as an annual average. The planned highway route is located in the central - south part of Macedonia on the territory of the municipalities Demir Kapija and Gevgelija.

It represents a section of the existing highway E-75 and is segment of the Pan-European Corridor X, which runs through Macedonia in North - South direction, connecting the country with Serbia on North and Greece on South. This Corridor is an important element of the core transport network from Greece to Austria.

Istanbul flying into trouble

bne

Sometimes the oldest clichés ring truest. Billed for centuries as "the bridge between east and west," Istanbul has over the past two years been the beneficiary of work by the Turkish authorities to prove that it is just that. With plans already afoot for a tender to construct a third bridge over the Bosphorus straits and a final investment decision on the already tendered project for a second tunnel under the Bosphorus expected early next year, officials have announced that the city will get a new main airport.

According to an announcement made by Istanbul Mayor Kadir Topbas at the end of November, his municipality is working with Turkey's ministry of transportation on plans for a third passenger airport to be located at Silivri, a coastal town 65 kilometres to the west of Istanbul. The planned new airport is slated to have

a capacity several times that of Istanbul's existing main airport, Ataturk Airport, located only 10 km from the city centre.

Turkish Prime Minister Recep Tayyip Erdogan, who is backing the plan, argues that Istanbul's two existing airports are simply unable to cope with the growing levels of traffic. And he certainly has a point. Thanks to Istanbul's growing importance as a major regional business hub and its burgeoning popularity as a city-break tourist destination, throughput at the existing Ataturk Airport and its counterpart on Istanbul's Asian side, Sabiha Gokcen Airport, has rocketed from 8.7m passengers in 2002 to 41m passengers last year. And with passenger traffic expected to grow at 10% a year for the next decade at least, it is little wonder Turkey's national carrier Turkish Airlines has its eyes on the planned new airport. "Our assumption is that we will use the new airport as our main hub," Temil Kotil, CEO of Turkish Airlines, told bne recently.

Spare capacity However, this planned third passenger airport is not without its critics. They point out that the two existing airports are still not close to full capacity and that Istanbul already has a third airport at Corlu, 20 km to the east of Silivri. Why they ask, when Corlu was designed specifically to handle cargo flights, is most of the air freight traffic in Istanbul still passing through the city's main passenger hub, Ataturk Airport, taking up capacity that could be used for increased passenger flights?

"Corlu Airport is already there and operating at a fraction of its capacity, so why are we thinking about a fourth airport?" asks Tayfun Kahraman the secretary-general of the Istanbul branch of the Turkish Chamber of City Planners, pointing out that little attempt has been made to integrate Corlu into the regional transport infrastructure. "Turkey's main European rail line runs nearby, but there is no connection. Let's improve the transport links to Corlu, make full use of it and then when it begins to approach capacity, then let's think about a fourth airport." Improving existing ground transport infrastructure is key to handling Istanbul's growing traffic problems, rather than building a new airport a long way from the centre. "A new airport would only work if the necessary transport infrastructure connecting it to the city is built first," Kahraman explains, pointing out the ongoing problems experienced by Istanbul's second airport Sabiha Gokcen.

Opened a decade back on the outskirts of the Asian side of Istanbul, growth of traffic at Sabiha Gokcen has been severely hampered by poor transport connections. Plans were only recently announced to link the airport to the planned Marmaray rail system, which will allow passengers easy access from both sides of the city, and are still some years away from fruition. The importance of good road and rail connections for Turkey's airports is echoed by Ergin Buyukbayram, head of Global Logistics Consulting Services, who recently prepared a master plan for the Turkish government on how to develop the country's logistics sector.

However, he is sceptical of the extent to which Corlu can be developed as a main freight and logistics hub. "The surrounding land is too hilly - coastal sites are much better for airports, as it allows planes to approach low over the sea," he explains, adding that Corlu is also far from ideal in respect to connections to existing road and rail lines. Silivri, he says, would be a far better site for a new airport for Istanbul - albeit as a cargo airport allowing freight to be easily shipped on by road and rail, not as the main passenger hub which current plans foresee. Logistics aside, Kahraman also identifies another problem with developing a new airport at Silivri, which official plans have overlooked. "The area around Silivri has some of the best and most productive agricultural land in the country - we risk destroying something we can't replace, to build something we don't yet need," he warns.

Romania Works on Transylvania Motorway will continue in 2011 with Mirzon

state financing

The works on Transylvania Motorway of which 52 kilometers were delivered, will continue in 2011, even if they will only be financed from the state budget, PM Emil Boc said Saturday. He also said that right now the Government is looking for alternative sources of financing. "Transylvania Motorway will go further even if they will only be financed from the state budget and considering that in 2011 most of the money will go on co-financing European projects. This does not mean that we will stop the contract with Bechtel. The construction of the motorway has to continue. Right now we are looking for alternative financing sources to be able to continue the works and I assure those from Cluj and from Oradea that we will have good news about Bechtel.", said Boc. Transylvania motorway was projected to have a total length of 415 kilometers. The construction of the motorway, on Braov-Bor route started in 2004, based on a contract worth 2.2 billion Euro granted to Bechtel.

The works were stopped at the middle of 2005, when the authorities started to reanalyze the contracts closed with the previous Government. Following the works stop, the delivery term, initially set for 2012, was extended by one year.

PM Emil Boc inaugurated on 13 November, another 13 kilometers of Transylvania Motorway (A3), between Turda and Câmpia Turzii, after in 2009 he had inaugurated 42 kilometers on section 2B Turda-Gil_u.

Romania's road infrastructure to improve significantly

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Romania's road infrastructure will improve significantly starting from next year, when the Ministry of Transport and Infrastructure will launch projects with European financing, worth 5.5 billion Euro.

The announcement was made by the Minister Anca Boagiu, according to which the projects launched in 2011 will target, among others, the construction of 289 kilometers of motorway and the modernization of 166 kilometers of railway, Mediafax informs. The delivery term for this projects is 2013, year when, according to the Minister of Transport we will be able to drive on Ndlac-Constan_a motorway. "We already have projects worth 5.73 billion Euro. This is the amount allotted to the Ministry through the operational sector programme transport." said Anca Boagiu. MTI will launch by the end of next year bids for the construction of 288 kilometers of motorway, worth 2.5 billion Euro in total, on five sections - Ndlac-Arad (38.8 km, 234 million Euro), Or_tie-Sibiu (82 km, 693 million Euro), Deva-Or_tie (32,8 km, 355 million Euro), Timi_oara-Lugoj (35,6 km, 217 million Euro) and Lugoj-Deva (99,5 km, 1,02 billion Euro). At present Romania has 314 km of motorway, Câmpia Turzii-Gil_u (52 km), Bucharest-Pite_ti (111 km) and Bucharest-Cernavod_ (151 km). There are 243 km under development, which will be finalized in 2011 and in 2012, the total value being 2.5 billion Euro. The Ministry also plans to modernize 943 kilometers of national roads, with a 848.45 million Euro value, secured through a BEI loan.

For the railway transport the institution has as main project the modernization of Corridor IV and will launch bids for three sections, Curtici-Simeria, Simeria-Co_lariu and Co_lariu-Sighi_oara, with a total length of 166.3 km, with a total value of 1.88 billion Euro and the modernization of 21 train stations, the investment being worth 227 million Euro.