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Top story



Five injured in Russian train explosion

Ria Novosti

A mysterious explosion on a train travelling from the western Russian city of Pskov to Moscow injured five people on Friday night, the Russian Railways company said.

A special commission has been set up to establish the cause of the blast, which is thought to have been the result of a boiler blowing up.

A station attendant at Bologoye train station, near where the incident occurred, told Interfax news agency the blast had shattered the windows of the carriage.

Speculation in the Russian blogosphere that the incident was a terrorist attack, remains unconfirmed.

The damaged carriage was removed from the train, which arrived in Moscow on Saturday morning with a slight delay. ●

Two dead, 40 injured as plane skids of runway at Moscow airport – Emergencies Ministry

Ria Novosti



Two people were killed and 40 were injured when a Dagestan Airlines plane skidded off the runway at Moscow's Domodedovo airport during an emergency landing, Russian Emergencies Ministry spokesman said.

"According to the latest information, two people were killed and 40 were injured after the emergency landing," the spokesman said.

Sixty rescuers, fire fighting brigades and psychologists are working on the scene, the spokesman said.

A source in Domodedovo airport said about 50 people, including those severely injured are being sent to hospitals.

"The passengers from the plane were sent to the airport building to be examined by the medical staff. People with more serious wounds are being sent to hospitals," the airport official said.

A source in Dagestan Airlines said the reserve aircraft was ready to send the passengers from the troubled plane to Dagestan.

Dagestani aircarrier has yet to give official comments.

The aircraft departed for the southern Russian city of Makhachkala from Moscow's Vnukovo airport at 2.07 pm Moscow Time (11.07 GMT). The pilots were forced to make an emergency landing at Moscow's Domodedovo Airport after all three of its engines failed. The Tu-154 plane was slightly damaged after it skidded off the runway during landing. ●

Avtodor to increase investments into road construction 2.3x in 2011

VTB Capital

News: According to Sergey Kostin, President of the state-owned Russian Highways (Avtodor), Avtodor plans to invest in excess of RUB 50bn (USD 1.6bn) to build 100+km of roads in 2011 (vs. the RUB 22bn (USD 702mn) to be spent in 2010 to construct 88.5km).

Our View: Russia significantly lags both developing and developed countries in terms of road density: per capita or per square kilometre it is 6.4x and 2.7x, respectively, behind Canada and 1.4x and 3.8x behind Brazil.

State companies plan to invest a total of RUB 267.5bn (USD 8.5bn) into toll roads in 2011-13. Avtodor was founded a year ago to manage the development of toll roads and the federal highway network. This includes the M-4 Don highway, on which Mostotrest has obtained contracts for several bridges and interchanges. The sustained support for investment into road construction will provide a tailwind for bridge constructors and we see Mostotrest as the only liquid exposure to this trend. ●

Hundreds of violations exposed on Moscow Ring Road

Ria Novosti

A working group comprising representatives of Moscow, the Moscow Region and the Russian Transportation Ministry has exposed more than 900 violations of construction regulations on the Moscow Ring Road (MKAD).

Deputy Moscow Mayor Nikolai Lyamov, who is in charge of transport and road construction issues, told government daily Rossiiskaya Gazeta that the city needs new roads leading to shopping malls built along the MKAD to reduce the enormous traffic load on the city's key beltway.

Lyamov said the owners of shopping malls and stores located near the MKAD will have to pay for the construction of new local roads from their own pocket.



Moscow Mayor Sergei Sobyanin has pledged to solve the Russian capital's transport problems. When appointed to the mayor's post, he said he will take "extraordinary measures" to eliminate traffic jams. President Dmitry Medvedev has said he will personally oversee the effort.

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

Liberalisation of locomotive services frozen until 2015

VTB Capital

News: The Ministry for the Economy has said that it would be unjustified and premature to liberalise locomotive traction in the railway industry from 2011, as there is no scheme for dispatching private operators' locomotives on the whole network or incentives to attract them to unprofitable, but socially important, routes. According to Target Model for Developing the Cargo Transportation Market Through 2015, prepared by the MinEconomy and cited by Interfax, during this period private locomotives will be allowed to operate on specially dedicated routes competing 'for the route' (the winner of the tender gets exclusive rights to service the route for 5-10 years) or 'on the route' (several operators, including Russian Railways, compete for clients on one route with market price setting).

Our View: The target market model which has been presented still has to be approved by the government, but we do not expect there to be any problems with that. This would mean the liberalisation

of locomotive operations in Russia being delayed, which we consider to be a major negative for sentiment on Globaltrans and private railways operators. Although it does not affect our current valuation, we had expected liberalisation to become a serious driver of private operators' business growth from 2011. We are therefore disappointed with this decision as it implies a five-year freeze in the development of the railway industry.

The partial solution which has been suggested (cooperation 'for the route' and 'on the route') is unlikely to become a serious value driver since it will apply to just 5% of total cargo turnover (equal to Globaltrans' market share), and is likely to cover routes which are less attractive than those used by the company. Thus, even if the suggested routes provide reasonable operating profitability, Globaltrans is unlikely to be able to use all 60 of its locomotives on them as it will face strong competition from other players.

Moscow govt promises to improve traffic situation by March 2011

bne

The Moscow government has promised to improve the traffic situation by March 2011, reports Prime-Tass.

Citing the press service of the Moscow mayor's office, the news agency says that the city government plans to begin considering

proposals already received from Muscovites and specialists from December 9 on how to deal with traffic jams and to draw up plans to develop a Moscow transport hub. astructure, which are likely to act as a long-term drag on growth. ●

Moscow mayor orders creation of program for public transport devt

bne

Moscow Mayor Sergei Sobyenin on November 27 ordered the creation of a united general program for the development of the city's public transport, reports Prime-Tass.

The news agency quoted Sobyenin as saying that he was surprised that there was not a united general program for public transport development in the capital.

The number one task is to develop and approve such a general program, Sobyenin was quoted as saying. ●

Moscow mayor orders review of metro development plan

RIA Novosti

Moscow Mayor Sergei Sobyenin on Monday ordered a review of the capital's metro development plans.

He said they should be better synchronized with the development of transport infrastructure in the Moscow region, which surrounds, but does not include, the Russian capital.

It is essential to consider extending the metro lines beyond Moscow's boundaries to its satellite communities wherever possible, he said.

The metro should also develop in sync with other modes of passenger transportation, which would help alleviate Moscow's notorious traffic jams.

Sobyenin criticized some of the current plans, for example, a "priority" metro line extending to the southeast of Moscow, which is due to go into operation in 2013 in an area that will only start to be developed in 2015. ●

Putting Polish on the roads

Jan Cienski in Wroclaw

Wroclaw has become one of Poland's primary investment destinations thanks in part to Adolf Hitler, who built the highway connecting the city before the war, when Wroclaw was called Breslau and was part of Germany. But now, rather than mustachioed dictators, Wroclaw and other Polish cities are more reliant on grey Brussels bureaucrats, who are responsible for pumping €10bn in EU structural funds into Poland that will be used for road construction.

The results can be seen all around Poland. Wroclaw is now surrounded by an enormous construction site as bulldozers and other heavy equipment move tonnes of dirt to build a ring road around the city that will finally free its cobble-stoned streets from the thousands of lorries that used to push through downtown on their way to the A4 highway connecting Poland to Germany. "It is going to make an enormous difference to the city," says Rafal Dutkiewicz, the popular mayor of Wroclaw.

In a recent ceremony summing his three years in power, Donald Tusk, the prime minister, spent much of his time boasting about his government's infrastructure programme, which he said had dramatically boosted Poland's development. Standing in front of dozens of photographs showing construction projects from around the country, Tusk said: "The symbol of this boost are Polish roads, which for decades were a symbol of what successive governments were unable to accomplish."

All boasting aside, Tusk's judgement of his predecessors' failures is fairly accurate. In the two decades since the end of

communism, governments had failed to improve Poland's terrible roads. Initially, the country was bankrupt after the high borrowing and economic collapse of the final years of communism. But as the country began to recover, governments were seduced by the idea of getting private companies to build highways in return for collecting the tolls once the roads were completed. The idea seemed to be both a seductive something-for-nothing deal, as well as conforming to the liberal stereotypes of the early 1990s. But the state's failure to extend guarantees to builders meant that the concept failed. Later, the country was both short of cash, and bedevilled by an arcane bureaucracy that made construction very difficult.

Going for goal

Then about six years ago, things changed. The money issue was dealt with by Poland's entry into the EU in 2004, which turned on spigots of EU cash, and the regulations have in large part been fixed by Cezary Grabarczyk, a lawyer who heads the infrastructure ministry, and who spent much of his early time in office slashing through the thickets of regulations impeding building.

The 2012 European football championships, co-hosted by Poland and Ukraine, have provided a convenient target date for completing the first round of highway construction. The government vowed that by the time of the championships in June 2012, there would be 900 kilometres of new highways - for a total network of 1,600 km - and 2,100 km of new slightly lower quality four-lane express roads - for a total network of 2,500 km.

The idea was to build a main north-south highway running from Gdansk, on the Baltic Sea, to the Czech border, and two east-west highways, one along the southern border, passing by Wroclaw and Krakow, and one through the centre of the country, connecting Warsaw with Berlin. "I guarantee you that you will be able to drive by a modern highway from Berlin to Warsaw by 2012," Grabarczyk insists during an interview with bne.

But the reality looks as though it will not be as glowing as the predictions made a couple of years ago.

Poland currently has only 893 km of highways, and there are 753 km under construction. There are also about 500 km of express roads, with 510 km under construction. Now there is almost no chance of the ambitious promises being fulfilled. Grabarczyk admits that the A1 north-south highway will have a big gap in the middle, other highways will be driveable but not properly completed, and the express roads network will be a pale shadow of what had been promised.

One reason for the delays is that Poland simply does not have the bureaucratic and construction capacity to build as much and as fast as

the government had promised. Another is that the economic crisis has made it difficult to pay out the needed funds. In 2008, the government had planned to spend PLN21bn (€5.4bn), but actually managed to spend only two-thirds of that; last year, it was to spend PLN32bn, but spent only PLN18bn. Similar problems are likely this year. And for next year, the cash-strapped government, which is battling a high budget deficit and a rising public debt, promises to be even stingier.

Still, even if the reality is a little more down-to-earth than the dreams of a couple of years ago, the improvement in roads promises to be significant.

Poland's terrible roads have wreaked both an economic toll - scaring away investors - and a human one. Poland has the highest number of road deaths of all 27 EU countries - 4,572 people were killed on the roads in 2009, a death rate of 120 for every million citizens, while the EU average is 69 deaths per million. "The improvement is going to be significant. No one in Polish history has ever completed so many roads so quickly," says Magdalena Jaworska, the deputy head of the Polish road-building agency, the General Directorate for National Roads and Highways. ●

Railway freightage with china will double over 10 years

bne

Russian Railways (RZD) projects that railway freightage with China will increased by 50% to 100% over the coming ten years, reports Interfax.

The news agency quoted RZD President Vladimir Yakunin as saying that the prospective volume of freight moved along direct

railway lines with China could increase by 1.5-2-fold in the next decade.

The rails carry a significant portion of the foreign-trade goods moved between the two countries, Yakunin was quoted as saying. ●

Russia hits a hatrick as it wins right to host 2018 World Cup

bne

Russia won the hard-fought battle to host the 2018 World Cup yesterday. The announcement in Zurich was met by joy from Deputy PM Igor Shuvalov and midfielder Andrei Arshavin amongst others of the Russian delegation. Shuvalov said from the podium: "You have trusted us with 2018 and you will not regret it."

FIFA officials delayed the announcement by over half an hour after the vote went into extra rounds as the 22 committee members weighed the pros and cons of the competing bids from England, Spain & Portugal and Netherlands & Belgium.

With the 2014 Winter Olympics in the bag, and Formula 1 to pull up at the starting grid the same year, Russia has now scored a hatrick of international sporting events. However, this latest victory heavily outguns the others, being second only to the Summer Olympics in terms of prestige and international attention.

Hosting the competition is not just a pep pill for Russian football, but will offer a huge boost to the country's crumbling infrastructure, and the overall economy. The government's commitment to upgrade transport and tourism facilities, as well as build the 15 world-class stadiums needed in the next eight years, was central to the success of the bid.

As Chris Weafer of Uralsib put it in a note this week: "Importantly the 2018 World Cup would dominate the agenda of the next government (2012-2018) and, to a much greater extent than the Sochi Winter Olympics, would impose a strict deadline for modernization plans. Several million foreign tourists would turn up in June 2018 and would expect international standard facilities and services. Several billion people would watch on live TV. The government would have to ensure not only modern stadiums but hotels, roads, airports, communications and a reliable power supply.

"No doubt about it, while the cost would likely run into the tens of billions, World Cup 2018 would inject a great deal more urgency - and a stricter timeline - into the government's modernization programme."

Prime Minister Vladimir Putin - whose decision not to take part in the final presentation of the bid had looked a bad omen - said yesterday that the country plans to spend \$10bn on preparing for the tournament, reports RIA Novosti.

As soon as the result was announced, Putin dashed to Zurich to bask in the glow of victory, and then hosted a press conference. "According to our estimates, construction of stadiums and surrounding infrastructure will cost us about RUB300bn, which is comparable with expenditures in South Africa," the PM said.

Of course, finding that cash for long term investment is not the easiest job in the world for a country running a budget deficit, but the government has plenty of influence with leading businessmen. It has not struggled to find investors to build the infrastructure for Sochi 2014.

Putin stated that many projects will be implemented with the participation of large state-run companies and private sector.

For instance, he urged Russian oligarch Roman Abramovich, who owns the Chelsea football club, to contribute.

"We are planning to use the help of business circles to minimize state expenses on hosting the World Cup and I do not rule out the possibility that Mr. Abramovich could contribute to one of the projects," Putin said.

As with any such international tournament, there's no guarantee that the country won't end up out of pocket, despite the massive income boost for tourism and retail operators. At the same time, as recent hosts have found, the non-monetary benefits can be huge, and Russia could certainly do with the PR boost that a successful World Cup could offer.

In 2006, Germany transformed its image into a nation of smiling hosts welcoming the world to party-packed streets. Meanwhile, this year's tournament transformed South Africa from a crime-ridden hell where no sensible football supporter should even dream of leaving the main drag into a 'normal' country, albeit with an annoying penchant for blaring plastic horns.

The government has already promised free visas and heavily subsidized transport for fans traveling the huge distances between the host cities, which are divided into five hubs in European Russia, with Yekaterinberg the only venue across the Urals.

Renaissance Asset Management was very excited by the news. It said in a note to investors: 'This is big - very big. It will unleash one of the largest spending sprees on infrastructure over the next five years the world has ever seen.'

'Roads, bridges, rail, airports, ports and sports facilities will all be brought up to world-class standards. This will increase substantially productivity, employment and elevate trend growth. Historically, large infrastructure spending has tended to add a 1-2% non-cyclical layer to trend growth. On the back of this and high commodity prices, Russia can re-join the club of the high-growth countries in the world.

'Spending of such magnitude will alter the GDP composition of the country's economy and gradually reduce its excessive dependency on resource price movements. For seasoned Russian watchers, this is a welcome and long-awaited development. ●

Russian govt to lend RUB36bn to regions to fund roads 2011

bne

Russia's federal government plans to disburse 5-year loans totaling RUB36bn to regional governments in 2011 to fund the construction and maintenance of roads, says Deputy Prime Minister and Finance Minister Alexei Kudrin, reports Prime-Tass.

The news agency quoted Kudrin as saying that the loans are to be provided at a rate equal to one quarter of the Central Bank of Russia's (CBR) refinancing rate, which currently amounts to 7.75%. ●

RZD to tender controlling stake in Freight One

bne

Russian Railways (RZD) will tender a controlling stake in Freight One, reports Interfax.

Citing an unnamed source at RZD, the news agency says that the privatization will most likely take the form of a tender with investment conditions. ●

Yandex identifies Moscow's worst traffic

bne

The Yandex.Probki online traffic monitoring service identified the 30 road bottlenecks that cause the longest jams during rush hours citywide, reports The Moscow Times.

slow down the most before getting a chance to speed up for at least three kilometers afterward. Perpetually jammed lanes were not covered by the study. ●

The newspaper report says that the research, based on October data, examined spots on Moscow roads where vehicles have to

Russia infrastructure news

LSR launches new cement plant in the Leningrad region

Renaissance Capital

Event: On Saturday (27 Nov), LSR launched a new cement plant in Slantsy, in the Leningrad region. The production capacity of the plant is 1.8mn tpa of cement. The total investment in the project is EUR445mn (\$585mn).

Action: We reiterate our BUY rating and \$11/share target price on LSR.

Rationale: With the Leningrad region having a total estimated cement capacity of 2.9mn tpa, the new cement plant in Slantsy will take a major share of the market. The plant is located close to LSR's raw materials base - the Duboyom quarry, with a proven reserves of 95mnt of limestone, and the Bolshiye Polya quarry, with proven reserves of around 41mnt of cement clay - which should increase the plant's profitability. According to the company's 9M operating results, sales volumes in the building materials and aggregates division have improved, although capacity utilisation is still below 100% and prices are depressed and are unlikely to increase significantly in the near term. LSR remains our preferred stock in the sector, trading at 10.9x and 8.6x 2011E and 2012E EV/EBITDA, respectively, at a discount to PIK, which trades at 11.1x and 8.9x, respectively.

Domodedovo to land \$1Bln in 2011 listing?

bne

Domodedovo Airport is planning to raise \$1bn in an IPO next year, according to unnamed sources, reports Reuters. However, there are no details currently.

Five sources said the company, which owns Russia's biggest airport, 22km southeast of Moscow, is discussing plans for one of the first Russian IPOs of 2011. "Domodedovo had thought about an IPO before the financial crisis and now is looking again at the idea. I think the deal could be planned for April and raise close to \$1 billion," one of the sources said. A spokesman for Domodedovo declined to comment.

The report does not suggest where the airport might list, nor the size of the stake it may try to off load. Whilst Russian transport and infrastructure assets have not done well in the recent resurrection of IPOs (rail cargo operator Transcontainer saw little interest and low pricing), air transport assets are few and far between. At the same time, Domodedovo will be keeping its fingers crossed that Russia wins the right to host the World Cup, as that would offer a huge boost.

Railway sector development program '11-15 to require BR14.6 trillion

bne

The state program for the development of the railway sector for 2011-2015 will require BR14.6 trillion in financing, says Transport Minister Ivan Scherbo, reports Prime-Tass.

The news agency quoted Scherbo as saying that expected program financing will total BR14.6 trillion, which will include Belarusian Railway's own funds, at 39.4% of the total, bank loans, at 57.6%, republican and local budget funds, at 3.4%, including the innovation fund.

The total sum includes financing of purchases of traction rolling stock and multiple-unit trains, namely, 30 electric locomotives for freight transport, 24 electric locomotives and eight diesel locomotives for passenger traffic, 29 electric trains, 20 diesel trains, 182 passenger cars and 10,000 freight cars, says Prime-Tass.

RAM get extension on its Infrastructure fund

bne

At an EGM of Renaissance Asset Manager's infrastructure fund, investors overwhelming voted to prolong the fund tenure for another four years, clearing the way for the vehicle to be listed on an exchange in about six months time.

RAM CEO Ashar Queshi said: "This vote reflects the confidence of our investors in RAM and all the excellent work that is being done by the team."

The fund has been performing well and manager Takouhi Tchertchian said: "Despite the volatility on the market due to events in Europe the infrastructure stocks keep rising every day."

The fund was set up in 2006 to play on state's plans to spend up to \$1 trillion on revamping Russia's crumbling infrastructure.

RATM makes offer to Sibirsky Cement to resolve conflict over Angarsk plant

VTB Capital

News: RATM holding has made an offer to Sibirsky Cement to buy out the latter's stake in Angarsk cement plant, or sell its own stake to Sibirsky Cement or to a third party. According to Vedomosti and Kommersant, the offer values Angarsk cement at USD 141mn. RATM currently owns 51% in Angarsk cement and Sibirsky Cement holds 30% in Angarsk cement, while another 18% in Sibirsky Cement was sold for just USD 1.7mn earlier this year. RATM and Sibirsky Cement have been in a bitter conflict over control of Angarsk Cement for years.

Our View: Assuming Angarsk cement has no debt, the offer values the plant at USD 118 per tonne of capacity. Sibirsky Cement currently trades at USD 140 per tonne of capacity. RATM's IskitimCement was valued by the government (for the action to sell the government stake) at USD 88 per tonne of capacity, but taking into account its debt guarantees to third parties IskitimCement's implied valuation would increase to USD 181 per tonne of capacity. Thus, Angarsk cement's valuation might be reasonable, unless the company is seriously leveraged.

It is unclear whether Sibirsky Cement would opt to buy RATM's stake or sell its own holding in Angarsk cement. Nevertheless, we believe that the deal would be positive as it would finally resolve the long-standing conflict between the two leading cement producers in Siberia. Moreover, the offer price significantly

exceeds that which Sibirsky Cement received for 18% of the plant earlier this year.

Russia to sell Mosmetrostroy metro building company on December 23

RIA Novosti

The Russian Federal Agency for State Property Management will hold an open auction to sell 100 percent of metro-engineering company Mosmetrostroy on December 23 at an initial price of 2.199 billion rubles (\$73 million), the agency said on Monday.

Bids will be accepted until December 16, 2010, the agency said.

Mosmetrostroy, set up in 1931, specializes in construction of metro infrastructure including station and escalator tunnels, rail and road tunnels, subways, underground concourses, surface buildings, structures and other facilities for the metro of the city of Moscow.

Russian govt to spend RUB18bn on building rural roads by 2014

bne

The Russian government plans to allocate RUB18bn from the federal road fund to build rural automobile roads over the next three years, says Transportation Minister Igor Levitin, reports Prime-Tass.

The news agency quoted Levitin as saying that the government plans to allocate RUB5bn in 2011, RUB6bn in 2012, and RUB7bn in 2013 for this purpose.

Russian ministry doesn't back sale of First Cargo Co at auction

bne

Russia's Economic Development Ministry does not support a proposal to sell Russian Railways' stake in First Cargo Company at an auction, says Gamid Bulatov, a deputy head of the ministry's tariff regulation, infrastructure reform, and energy efficiency department, reports Prime-Tass.

The news agency quoted Bulatov as saying that he believed the stake was unlikely to be given a fair price in case of an auction.

The company's value is estimated at between \$5bn and \$8bn, Bulatov was quoted as saying.

Russian ministry to draft rules on private cos' rail access 2011

bne

Russia's Economic Development Ministry plans to draft regulations on private rail operators' access to railroads sometime in January-March 2011, says Gamid Bulatov, a deputy head of the ministry's tariff regulation, infrastructure reform and energy efficiency department, reports Prime-Tass.

The news agency says that state-owned Russian Railways currently holds a monopoly on rail infrastructure and also dominates the rail services market.

The news agency quoted Bulatov as saying that private operators were expected to account for 20-30% of the total demand for locomotives in Russia.

Russian Railways mulls offering Eurobonds in 2011

bne

Russian Railways President Vladimir Yakunin has said that state-owned Russian Railways is considering offering Eurobonds in 2011, reports Prime-Tass.

The news agency quoted Yakunin as saying that a decision on the issue is to be made sometime in January-March 2011.

Russian Railways, Finmeccanica to set up traffic systems JV

bne

State-owned railroad monopoly Russian Railways and Italian defense giant Finmeccanica plan to set up a joint venture to produce and introduce systems to control railway traffic in Russia, says Vladimir Yakunin, the Russian company's CEO, reports Prime-Tass.

The news agency quoted Yakunin as saying that investments in the project are estimated at 1.5bn euros.

The companies signed a memorandum of understanding that envisages setting up the joint venture in Russia by the middle of 2011, reports Prime-Tass.

Sobyanin removes transport chief, prefect

bne

The Moscow city government saw more major reshuffles as a reported Kremlin protege became head of the City Hall transportation department Friday and the lone female prefect resigned, citing her age, reports The Moscow Times.

The newspaper report says that helping Mayor Sergei Sobyanin in his crusade against traffic will be Nikolai Godunov, 57.

Uralkali: Bypassing the Hole

VTB Capital

We believe that the recent land subsidence at Uralkali's home town of Berezniki will not have any political consequences and that the financial risks for the company (if any) will be manageable. Given the improving fundamentals and the potential benefits were Uralkali to acquire Silvinit, we would be buyers of the stock on any current weakness.

Last Thursday, land subsided within 200 metres of Berezniki railway station, after a freight train with potash had passed through. Over the weekend, the affected area widened and is now reportedly 100 metres long, 50 metres wide and 20 metres deep. No one was hurt.

Uralkali issued a statement saying that the subsidence occurred under the train tracks of the 6km bypass railway near Berezniki. This is the line which is used to transport potash from Uralkali's Mine Group 1 (annual capacity of 0.3mn tonnes, vs. the company's total capacity of 5.5mn tonnes). Production plans are not going to be altered, with the potash from Mine Group 1 being loaded onto motor vehicles.

In our view, this incident will not have any political consequences. The 6km bypass was created after the mine flooding and the first land subsidence. However, all transfers have already been re-routed to other railways (and also to some roads), including via the 53km bypass, as the 6km one was considered unsafe (as shown by the recent accident).

As the crater has increased, the railway station was closed. The only passenger train that used to arrive at this station (Yekaterinburg - Berezniki) is now arriving at another station. So, the recent land subsidence is not a particular problem for Uralkali: with no effect on volumes delivered and no political consequences, it hardly justifies a correction of the stock. Indeed, the risks of land subsidence in the area were identified by geologists. They also believe that the current subsidence is due to the riverbed drying up after ground waters flooded Mine One, rather than because the mine areas were not filled in properly. The main problem is that the subsidence has happened too close to the station (200 metres) and it might require the station to be relocated.

Figure 1: Solikamsk-Berezniki railway junction



Source: VTB Capital Research

Figure 2: Locations of the land subsidences



Source: Google maps

The worst case scenario is that Uralkali has to pay for relocating the station, which might amount to some USD 50-100mn at most (the station plus the railway line to the new station). This amount, though, is manageable as far as the company is concerned, as in 1H10 it generated USD 422mn of EBITDA and USD 280mn of net profit. We note that the company has already voluntarily provided RUB 6bn (USD 192mn) to Russian Railways for the construction of the 53km bypass.

Elena Sakhnova

World Cup 2018: A Potential Catalyst for Modernization

UralSib

Russia is the marginal favourite.

A great deal of attention will be focused on FIFA's decision as to which country will host the 2018 World Cup. That decision will be announced in Zurich on Thursday. Russia is now considered the favourite, albeit slight.. Still, the vote will be tight. Winning the

right to stage the World Cup would provide a major boost to both the Russian economy and also would provide a huge incentive for the government to push ahead with plans to rebuild the country's infrastructure. The total cost to South Africa, the most recent host, is estimated to have been \$ 4bn but franchise fees, etc can be a multiple of that if handled correctly.

World Cup success would set a timeline for modernization. Importantly the 2018 World Cup would dominate the agenda of the next government (2012-2018) and, and to a much greater extent than the Sochi Winter Olympics, would impose a strict deadline for modernization plans. Several million foreign tourists would turn up in June 2018 and would expect international standard facilities and services. Several billion people would watch on live TV. The government would have to ensure not only modern stadiums but hotels, roads, airports, communications and a reliable power supply. No doubt about it, while the cost would likely run into the tens of billions, World Cup 2018 would inject a great deal more urgency - and a stricter timeline - into the government's modernization programme. And Russia wouldn't have to worry about qualifying as the host country.

Specifically, Russia success would be very positive for stocks such as Aeroflot, the steel companies, media companies and the banks (as a Russia proxy).

Chris Weafer

Russia infrastructure finance & statistics

Aeroflot sees passenger traffic up 28% on year in 2011

bne

Flag carrier Aeroflot Russian Airlines expects its passenger traffic to increase 27.7% on the year in 2011, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Aeroflot's passenger transportation is expected to increase 23% on the year in 2011, while the seat occupancy rate is expected to remain at 76%.

Air passengers rise 27.1%

bne

Airlines led by Aeroflot carried 27.1 percent more passengers in January to October than in the same period last year, reports The Moscow Times.

Citing the Federal Air Transportation Agency, the newspaper report says that passenger numbers rose to 48.7 million in the period from 38.3 million.

Brunswick Rail gets \$125mn financing from IFC

bne

Russian railroad car leasing company Brunswick Rail has received \$125mn worth of financing from the International Finance Corporation (IFC), reports Prime-Tass.

Citing a statement issued by the IFC, the news agency says that the investment, \$25mn of equity in Brunswick Rail and \$100mn of debt finance, including a \$50mn syndicated loan to its Brunswick Wagon Leasing subsidiary, is expected to allow the group to expand its fleet of railcars and meet the growing demand for rail transport.

Domodedovo mulls \$1bn IPO in 2011

bne

Domodedovo Airport is putting together plans for a stock market float in 2011 and could raise up to \$1bn, reports The Moscow Times.

Citing financial market sources, the newspaper report says that the company, which owns Russia's biggest airport, 22 kilometers southeast of Moscow, was discussing plans for one of the first Russian IPOs of 2011.

Russian Railways' cargo shipments up 9.2% on year in January-November

bne

Railroad monopoly Russian Railways' cargo shipments rose 9.2% on the year to 1.106 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 262.185 million tonnes in this period, up 4.9% on the year; coke shipments were at over 1.151 million tonnes, up 21.2% on the year; shipments of oil and oil products were at 230.665 million tonnes, up 11.2% on the year; shipments of ferrous and manganese ore were at 93.395 million tonnes, up 7.0% on the year; and shipments of ferrous metals were at 66.235 million tonnes, up 12.9% on the year.

Three Russian companies buy 26.5% of TransContainer at IPO

Alfa Bank

VTB Capital acquired 8.75% of TransContainer at its IPO on November 10, becoming the third known major buyer of its shares after FESCO (which bought 12.5%) and Blagosostoyanie pension fund (5.2%).

Although VTB Capital reportedly bought the shares on behalf of a client, we consider the news slightly NEGATIVE for TransContainer, as it means three quarters of the shares placed at its IPO were acquired by Russian institutional investors. This further confirms that overall demand at the IPO was weaker than expected, as investors were cautious regarding the company's valuation at placement. Now, we estimate TransContainer's free float at around 8.5%, which is rather low by international standards and will limit investor interest in the stock.

Nevertheless, we believe TransContainer's story has only just begun, and the company could benefit from cooperation with FESCO. As we have previously mentioned, FESCO's acquisition of TransContainer shares may be not just a financial investment, but a strategic one, as well. FESCO believes the container rail transportation sector has solid growth prospects and intends to increase its exposure to this market. The company may have reached an agreement with Russian Railways to increase its stake in TransContainer to a controlling one, which could serve as a potential catalyst for the stock.

Russia roads

Hundreds of violations exposed on Moscow Ring Road

RIA Novosti

A working group comprising representatives of Moscow, the Moscow Region and the Russian Transportation Ministry has exposed more than 900 violations of construction regulations along the Moscow Ring Road (MKAD).

Deputy Moscow Mayor Nikolai Lyamov, in charge of transport and road construction issues, told government daily Rossiiskaya Gazeta that the city needs new roads that will lead to shopping malls built along MKAD to reduce the enormous traffic load on the city's key beltway.

Lyamov said the owners of shopping malls and stores located near MKAD will have to pay for the construction of new local roads from their own pocket.

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

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

Lyamov said the owners of stores located near MKAD will have to pay for the construction of new roads from their own pockets. He did not rule out that access lanes leading to shopping malls along MKAD could be closed for traffic if no additional roads are built to ensure access to the trade centers.

"We fully support the Moscow authorities' initiative," IKEA said, adding that over 100 million people visit its shopping malls around Moscow annually.

This is not the first time IKEA has to construct roads in Moscow. It was earlier forced to twice build a bridge above the Leningradskoye Highway, near its Khimki shopping mall, due to disputes between Moscow and the Moscow Region over who owned that section of the road.

IKEA is currently involved in a tax dispute with the authorities over the incident. The company claims that it should not have to pay one billion rubles in taxes for the construction of the first road.

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

IKEA may build new roads near Moscow branch

RIA Novosti

IKEA may build new speed change lanes on the Moscow Ring Road (MKAD) near its shopping mall in the southwest of the Russian capital to reduce traffic congestion, the Swedish company said Friday.

Deputy Moscow Mayor Nikolai Lyamov, in charge of transport and road construction issues, said Thursday the city needs new roads leading to shopping malls built along MKAD to reduce the enormous strain on the city's key beltway.

Nizhny Novgorod to get \$32m on roads construction

Marchmont

Authorities in Nizhny Novgorod are to get \$32m from the federal budget in 2011 on roads construction and yard territories development, city officials report.

Under plans, two-thirds of the amount is to be spent on restoration of yard territories.

St Pete govt launches overland part of ring

bne

Russia's St. Petersburg city government on Wednesday held a ceremony to launch the overland part of a ring automobile road, reports Prime-Tass.

The news agency quoted Deputy Prime Minister Sergei Ivanov as saying that the undersea part of the road is scheduled to be built in 2011.

The undersea part is projected to be 22 kilometers long, says Prime-Tass.

Tomsk region to spend \$55m on roads maintenance in 2011-2013

Marchmont

Tomsk region road department Tomskavtodor has announced an open tender for a contract to maintain roads in 2011-2013.

The starting price for the contract is set at \$55m, the officials said.

The auction is reportedly to include 20 lots for maintenance of a total of 4,342 kilometers of roads.

Volgomost to build \$154m bypass road around Beslan

Marchmont

Saratov-based road building company Volgomost has signed a \$154m state contract for construction of a bypass road around the city of Beslan in the Republic of Northern Ossetia, the company reports.

The road is reportedly a part of M-29 Caucasus federal highway.

Construction is scheduled to be completed by November 30, 2015.

Yaroslavl eyes \$368m bridge over the Volga river

Marchmont

Total investment into construction of Yuzhny (Southern) bridge over the Volga river in Yaroslavl is to come in at \$368m, Yaroslavl regional officials report.

A partner in the project is Chinese Roads and Bridges Building Corporation, the officials said.

Construction of the toll four-lane bridge is scheduled to be completed in 2014.

Yoshkar-Ola to get \$6.15m RF aid on roads repairs

Marchmont

A total of \$6.15m is to be allocated from the federal budget on roads repairs in the city of Yoshkar-Ola, Republic of Mary El, Kommersant reports.

Under plans, \$2.05m is to be spent on repairs of roads network in the city, and \$4.1m is to be invested in reconstruction of inter-block and yard territories.

Yuzhno-Sakhalinsk to get \$17m on roads development in 2011

Marchmont

The city of Yuzhno-Sakhalinsk, Sakhalin region, is to receive \$16.7m in 2011 on roads reconstruction and maintenance, city officials report.

Of the total funding, \$7.2m is reportedly to be allocated from the federal budget, and \$9.5m is to be put up by regional authorities.

Russia trains

Brunswick Rail gets \$125mn financing from IFC

bne

Russian railroad car leasing company Brunswick Rail has received \$125mn worth of financing from the International Finance Corporation (IFC), reports Prime-Tass.

Citing a statement issued by the IFC, the news agency says that the investment, \$25mn of equity in Brunswick Rail and \$100mn of debt finance, including a \$50mn syndicated loan to its Brunswick Wagon Leasing subsidiary, is expected to allow the group to expand its fleet of railcars and meet the growing demand for rail transport.

Federal Tariff Service proposes discount for rail potash transportation to China

UralSib

16.4% discount may be given ... Interfax yesterday reported that the Federal Tariff Service (FTS) had proposed a 16.4% discount for rail tariffs on potash transportation to China and Mongolia in 2011. Similar discounts have and do exist: a 17% discount in 2008; a 9% discount in 1H09 on rail tariffs for exported potash, and a 22% discount for rail tariffs on potash transportation to Nahodka port this year.

... leading to 0.7% and 1.2% higher EBITDA for Uralkali and Silvinit. We expect Uralkali (URKA LI - Buy) to supply nearly 0.95 tons (19% of the company's total) to China in 2010 and 1 mln tons (19% in 2011, close to the 2007-08 levels. Pre-crisis, nearly half of all potash supplied to China was transported by rail, and we estimate that a similar share is likely in 2010-11. Given that the railway tariff from plant to China border is nearly \$65/ton in 2011E (versus \$60/ton in 2010E), we believe that Ural-kali's rail transportation costs to China could be 16% lower than our current projections for 2011 if the discount is approved. We expect rail transportation costs to China to constitute nearly 7% of total transportation costs in 2011, and we therefore believe that if a 16.4% discount is approved, it may lead to a 0.7% higher 2011 EBITDA projection for Uralkali.

For Silvinit (SILV RX - Buy), such a discount might lead to 1.2% higher 2011 EBITDA projections (a higher effect on EBITDA than for Uralkali due to higher volumes to China supplied by rail).

Marginally positive for potash producers if approved. We view the news as marginally positive (given the limited effect on their financials) for potash producers if the FTS recommendation is approved. We reiterate our Buy recommendations on both Uralkali and Silvinit.

Anna Kupriyanova

High-speed St Petersburg-Helsinki rail service to start December 12

bne

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

The news agency says that Russian Prime Minister Vladimir Putin and Finnish President Tarja Halonen are to take part in the ceremony to launch the rail service.

Italian Rail seeks to take part in Russian rail stations upgrade

bne

Italian Railways, or Trenitalia, are interested in taking part in the reconstruction of some of the largest railway stations in Russia, says Giovanni Rocca, the company's director for international development, reports Prime-Tass.

The news agency quoted Rocca as saying that the company is interested in the reconstruction of the Moskovsky Vokzal railway station in St. Petersburg and the Leningradsky Vokzal railway station in Moscow.

The implementation of the projects is expected to be carried by Grandi Stazioni, one of the company's units, Rocca was quoted as saying.

KCBW, FTD DESSAU to supply 1,000 high-sided wagons to Donetsk railways in joint project with EBRD

bne

Kriukov Car Building Works (KCBW, Kremenchuk, Poltava region) and FTD Dessau (Germany) are to supply 1,035 high-sided wagons to Donetsk Railways using credit funds from the European Bank for Reconstruction and Development (EBRD), reports Interfax.

Citing state railways administration Ukrzaliznytsia, the news agency says that in particular, KCBW plans to produce 460 high-sided wagons for the railways, and FTD Dessau 575.

Moscow city govt to ban entry of heavy-duty trucks January 2011

bne

The Moscow city government plans to ban the entry of heavy-duty trucks into the city between 7 a.m. and 10 p.m. Moscow time starting from January 15, 2011, reports Prime-Tass.

Citing the city government's transportation department, the news agency says that the ban is set to apply to trucks with a capacity of over 1.5 tonnes.

The measure is part of the city hall's efforts to solve the problem of congestion in Moscow, says Prime-Tass.

Purchase of Gazprom's railroad unfeasible

bne

State-owned railroad monopoly Russian Railways believes that it is unfeasible to purchase natural gas giant Gazprom's Obskaya-Bovanenkovo railroad, says Russian Railways President Vladimir Yakunin, reports Prime-Tass.

The news agency quoted Yakunin as saying that after consideration, the Economic Development Ministry and Transportation Ministry have decided that the deal has no economic feasibility.

Rail Cargo Turnover: A Warm Surprise

VTB Capital

Russian railways has released its operating figures, which confirmed that railway transportation, and the economy overall, continue to steam along the rails of recovery. Turnover expanded 7% YoY (2% MoM), bringing YTD growth to 9%.

We note that rail cargo turnover growth unexpectedly accelerated in November from the 4% YoY in three previous months and transported cargo volumes increased 9% YoY (up from 7% YoY growth in October 2010). This surprise can be explained by the abnormally warm weather (the average temperature in the country was 2.6 degrees higher than year ago), which helped to extend the favourable working conditions for the metals & mining and construction industries for several more weeks. The most impressive YoY growth dynamics were in metallurgical raw cargo, scrap (+56% YoY) and iron ore (+8% YoY), as well as construction industry cargo, where cement was up 38% YoY, while building materials volumes increased 23% YoY.

Among other cargos contributing to the acceleration in growth were fertilizers (the 14% YoY increase in their transportation volumes reflects the positive global markets environment) and oil & oil products. The volumes of the latter increased 9% YoY on the seasonal strengthening in demand and the ongoing expansion of Vankor's oil transportation through the Skovorodino-Kozmino rail link. The transportation of containerised cargo also continued to exhibit a robust 18% YoY expansion in volumes, reflecting that the recovery of consumer demand is still strong.

The warm weather and seasonal restocking of thermal coal inventories helped to decrease the YoY gap created by the fall in deliveries after the blast at Raspadskaya, from 7% in September to 1% in November, implying that FY10 coal volumes will still likely demonstrate a good 5% YoY growth.

We have not noted any serious distortions in the MoM transportation dynamics. The seasonal reduction in cargo volumes was only broken by a few cargos [all key beneficiaries of the warm weather].

Elena Sakhnova

Russia, Poland agree on cooperation in high-speed rail services

bne

Russian Transportation Minister Igor Levitin has said that Russia and Poland have reached an agreement on cooperation in the sphere of high-speed rail services, reports Prime-Tass.

Citing Russia's Transportation Ministry, the news agency says that the countries have not planned any specific projects in the sphere yet.

Russian govt mulls high-speed rail links with Ukraine, Germany

bne

The Russian government is considering launching high-speed rail links with Ukraine and Germany, says Deputy Prime Minister Sergei Ivanov, reports Prime-Tass.

The news agency quoted Ivanov as saying that the government is considering links between Moscow and the Ukrainian cities of Kiev, Kharkiv, and Simferopol, as well as with Berlin, Germany.

Russian metro systems

RIA Novosti

See below



Russian ministry to draft rules on private cos' rail access 2011

bne

Russia's Economic Development Ministry plans to draft regulations on private rail operators' access to railroads sometime in January-March 2011, says Gamid Bulatov, a deputy head of the ministry's tariff regulation, infrastructure reform and energy efficiency department, reports Prime-Tass.

The news agency says that state-owned Russian Railways currently holds a monopoly on rail infrastructure and also dominates the rail services market.

The news agency quoted Bulatov as saying that private operators were expected to account for 20-30% of the total demand for locomotives in Russia.

Russian Railways and Italian Finmeccanica to create a joint venture to develop Russian rail infrastructure

Metropol

Russian Railways and Italian conglomerate Finmeccanica plans to create a joint venture to develop signaling, telecommunications, automation and safety technology for the Russian rail system. The joint venture will develop the ITARUS-ATC safety and signaling system, which the Italian and Russian companies introduced last year, so that Russian trains entering Finland would meet European standards. New traffic management and centralized dispatching components planned to be created. The latter will use microprocessor and satellite technology.

We note that the Transsignalstroy, the leading Russian engineering company in the field of signaling, telecommunications, automation for Russian Railways, could lose its position on the Russian market since it could face greater competition with foreign companies, which could enter to the Russian market to set up the new equipment, produced by Russian-Italian joint venture. At the same time, we expect that Transsignalstroy could increase its CAPEX to meet technical requirements for modern signaling equipment.

Andrey Rozhkov

Russian Railways signs \$2bn Italian venture

bne

Russian Railways and Italian conglomerate Finmeccanica has signed a memorandum of understanding on the creation of a joint venture to develop signaling, telecommunications, automation and safety technology for the Russian rail system, reports The Moscow Times.

The newspaper report says that the joint venture will develop and produce equipment for 100 stations, 100 vehicles and 50 railway lines by 2020.

Russian Railways to set up JV with Chinese and German partners – company CEO

RIA Novosti

State-controlled monopoly Russian Railways has agreed with Chinese and German partners to set up a joint venture to handle container carriage, the company's President Vladimir Yakunin said on Wednesday.

"We have agreed with China's transport minister to set up a three-party joint venture, in which German partners will also take part, in the field of container shipments," he said on the fringes of the Russian-Chinese economic forum.

TransContainer, a cargo division of Russian Railways, will participate in the joint venture on Russia's behalf, he said.

Yakunin said the most promising business areas for the joint venture involved container shipments from China's northeastern provinces, which had no direct access to the sea, across Russia's Far Eastern ports to China's south, Japan, South Korea and other countries.

"We also discussed with China's transport minister the possibility of cooperation to develop the Khasan port-Rajin rail section and the construction of a 160-kilometer track," Yakunin said.

The Khasan port-Rajin railway link connects Khasan, a Russian settlement on the border with North Korea, with North Korean's Rajin port.

Russian Railways to spend RUB112bn on locomotives in 2011-2013

bne

State-owned railroad monopoly Russian Railways plans to purchase 1,250 locomotives costing over RUB112bn in 2011-2013, says the company's President Vladimir Yakunin, reports Prime-Tass.

The news agency says that at present, Russian Railways has over 13,000 locomotives.

Russian Railways, Finland's VR Group ink cooperation memo

bne

State-owned railroad monopoly Russian Railways and Finnish rail operator VR Group have signed a memorandum to cooperate in intermodal freight transport services between the cities of Moscow and Helsinki, reports Prime-Tass.

Citing Russian Railways, the news agency says that the companies agreed to set up a working group before December 15.

Uralkali: Sink hole near Mine-1 should not affect shipment volumes

UralSib

Sink-hole is not near the company's operations, and no injuries were reported. Yesterday Uralkali (URKA LI - Buy) announced a sink hole on the six-km railway connection to Mine-1 (which was flooded in 2006). The sink hole did not occur near the company's operations, and did not cause any injuries. As far as we understand this area has a high risk for sink holes (according to Russian Railways, the accident happened as a result of collapse in the soil near a carnallite course), and thus the accident came as no big surprise. In 2009, to avoid the risk of sink holes near Mine-1, Uralkali transferred its main freight flows to a new, 53-km railway connection (with Uralkali financing \$200 mln, nearly half of the total cost).

No material effect on sales. The six-km railway connection where the accident occurred was used to transport potash products from Uralkali's processing plant. The plant's annual capacity is about 300,000 tons of potash product, which is only 5% of the company's total production capacity (5.5 mln tons). The company said it does not expect any changes to its production/shipment plan, as it will replace the damaged railway by transporting potash supplies by road to its primary distribution facilities.

News might provide a buying opportunity. We view the news as fundamentally neutral for the stock as (1) the company's shipment plan and financials have not been affected, and (2) its new owners guarantee against any potential political aspects of the accident. Therefore, we recommend using any weakness in the name as a buying opportunity.

Anna Kupriyanova

Uralvagonzavod buys France's Sambre et Meuse, says to invest 6 mln euros

RIA Novosti

One of the world's largest railway car and tank makers, Russia's Uralvagonzavod, has bought a controlling stake in France's Sambre et Meuse, a maker of parts for wagons and locomotives and plans to invest up to 6 million euros in Sambre et Meuse before 2012, it said on Thursday.

It did not disclose the sum of the deal but Kommersant business daily quoted market sources as estimating it at \$20-30 million.

"The plant lacks cast parts, exports from France is to cover our needs," Kommersant quoted a source at Uralvagonzavod as saying. In 2010, Uralvagonzavod will produce 19,000 carriages instead of planned 24,000.

Uralvagonzavod said it would invest in the construction of areas of rod installation in a cast form, bead-blast processing and cutting by a robot.

Kommersant quoted Brunswick Rail analytical department director Dmitry Bovikin as saying that Russia's needs in cast parts was severe due to rising demand and carriage auctions held by Russian Railways state monopoly.

He said that imports even from the U.S. were profitable as a set of American cast parts cost up to \$5,000 compared to Russia's \$25,000.

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VEB, Russian Railways to cooperate in upgrading rail stations

bne

Russia's state-owned Vnesheconombank, or VEB, and state-owned railroad monopoly Russian Railways have signed a memorandum on cooperation in the reconstruction of railway stations, reports Prime-Tass.

Citing a joint statement issued by the two sides, the news agency says that at the first stage, VEB and Russian Railways plan to cooperate in the upgrade of railway stations in the cities of Sochi and Tuapse, as well as the towns of Hosta and Lazarevskoye, and the village of Loo in the Krasnodar Region.

The first stage also envisages upgrading railway stations in the cities of Vladimir, Murmansk, and Yekaterinburg, reports Prime-Tass.

Yakunin sees 10% sale cap

bne

Russian Railways president Vladimir Yakunin has said that he does not think the privatization of more than 10 percent of his company's stock is justifiable, reports The Moscow Times.

The newspaper report quoted Yakunin as saying that RZD can be privatized after the completion of the current phase of reforms.

RZD is also discussing future privatization with the government and pertinent ministries, reports The Moscow Times.

Russia planes

Aeroflot fined RUB200m

Alfa Bank

At a retrial, the Arbitration Court of Krasnoyarsk has upheld the decision to fine Aeroflot-Russian Airlines. The airline has to pay over RUB200m (\$6.4m) to the state for setting overly high fares on the Krasnoyarsk-Norilsk- Krasnoyarsk route in 2008, where it was the key regional player. FAS investigations discovered that the airline had hiked tariffs to RUB36,000, 4.2 times higher than the effective highest tariff on this route set by the regional department for economic planning and industrial policy.

The fine totals just 1.2% of our 2010 EBITDA forecast and 5.8% of expected net income and therefore will not have a significant impact on the company from a financial viewpoint. The company could face some negative pressure, as the same violations were discovered on the Kaliningrad-Moscow route; however, the announcement that Russia will host the 2018 soccer World Cup, of which Aeroflot is a direct beneficiary, should offset the negative sentiment. As a result, we view the news as NEUTRAL for the carrier.

Aeroflot: Royalty-payment elimination discussed with Russia joining WTO

UralSib

Royalties may be eliminated after Russia joins WTO. Interfax yesterday quoted Fernando Valenzuela, head of the EU's representation in Russia, as saying that Russia and the EU had agreed on eliminating royalties after Russia joins the WTO. However, this has not been confirmed by Russian authorities, nor has any specific timing been mentioned. According to RBC Daily, a final decision on Russia joining the WTO should be made on 7 December during the Russia - EU summit.

Effect of royalties to diminish significantly. Aeroflot (AFLT RX - Buy) is a major beneficiary of royalty payments in Russia (others include Transaero and Volga-Dnepr). We estimate that royalties made up 6% of Aeroflot's revenues (\$194 mln) and 46% of its EBITDA in 2009. Our current model implies royalties making up a respective 5% and 36% of the top line and EBITDA in 2010 and 4% and 30% in 2011. However, this excludes the positive effects of (1) consolidation with six of Rostechologies' carriers (in 2011), which should boost Aeroflot's financials and bring its market

share up from 25% to over 40%; (2) cost cutting by the new management; and (3) restructuring of subsidiaries and the spinoff of Terminal 3 (D), which currently generates an operating loss.

Negative sentiment around stock may be good buying opportunity. Although this news may generate negative sentiment around Aeroflot stock, we would use it as buying opportunity, as (1) we consider it as a speculation rather than a final decision, and expect a number of statements to follow; (2) if agreed, we do not expect a loss of royalty payments in the short term, and believe that a transition period of at least a year would be necessary (even if Russia joins the WTO in 2011); and (3) we believe that even a loss of royalties would not pose a serious threat to Aeroflot's financials. We therefore reiterate our Buy recommendation on Aeroflot shares.

Anna Kupriyanova

New customs rules force Russian airline to remove seats

RIA Novosti

Avianova, Russia's low-cost airline, will have to modify the layout of its aircraft and reduce the number of seats from 180 to 159 to comply with new customs regulations on imported aircraft.

The airline's fleet consists of five modern Airbus A320 in a single-class layout of 180 seats, which is now subject to 20% customs duty and 18% VAT.

"The unintended consequence of Russia's recent changes to the customs regime is to favor high fare, full service, carriers over low cost airlines: if you import Boeing 737s or Airbus 320s in a dual class configuration you avoid Duty and VAT," Avianova CEO Andrew Pyne said.

"If you import as we do in a single class configuration in order to reduce costs and hence fares, you are obliged to pay a punitively high amount of Duty and VAT." This approach creates further inequality in the local air transport market and undermines the Government's stated policy of reducing Russia's high air fares, he said.

"We hope for further changes to create a level playing field for all airlines to compete on but in the interim we have no option - sadly - but to reduce seat numbers on our aircraft if we are to remain competitive," Pyne said.

Russian Airlines' Operating Results for 10M10: Supportive of Aeroflot and UTair

Aton

On Wednesday (1 Dec), Rosaviation published operating statistics for physical turnover of Russian airlines in 10M10 and Oct 2010. The data for 10M10 showed strong 31% YoY growth (32% in 9M10) despite a gradually diminishing low_base effect. The numbers are better than we estimated and encourage us to expect up to 30% YoY turnover growth in 2010.

The current standing of companies in terms of market shares and growth rates remained generally stable. The market leaders (as given in the table below) lost 1 ppt of growth in 10M10 in comparison to 9M10. Aeroflot continues to show marginally above_market growth, with Transaero and UTair maintaining their strong above_market rates. Rosavia airlines, which will be consolidated into Aeroflot, again showed results that were below market with the exception of Orenburg Airlines (the largest airline in the holding), which not only enjoyed growth rates above market, but also managed to improve its growth rate by 1 ppt vs 9M10.

Bottom line

Strong industry and company results for 10M10 underline our BUY ratings for Aeroflot and UTair.

Russian watchdog to finish studying airline ticket pricing early 2011

bne

Russia's Federal Antimonopoly Service plans to complete an analysis of airline ticket pricing in January-March 2011, says the service's head Igor Artemyev, reports Prime-Tass.

The news agency quoted Artemyev as saying that an inspection conducted by the antimonopoly service has uncovered a number of possible violations in the formation of prices for airline tickets.

S7 Group passenger traffic up 7.5% on year in January-October

bne

The passenger traffic of Russia's S7 Group increased 7.5% on the year to 5.068 million people in January-October, reports Prime-Tass.

Citing the group, the news agency says that of the total, domestic passenger traffic amounted to 3.834 million people, up 11% on the year.

In October, the group's passenger traffic amounted to 514,821 people, says Prime-Tass.

Sukhoi to ink deal to supply Superjets to UTair January-June 2011

bne

Russian aircraft manufacturer Sukhoi Civil Aircraft plans to sign a contract sometime in January-June 2011 to supply 24 Sukhoi Superjet 100 passenger aircraft to Russian airline UTair, says Mikhail Pogosyan, CEO of the manufacturer's parent company Sukhoi, reports Prime-Tass.

The news agency quoted Pogosyan as saying that Sukhoi Civil Aircraft plans to supply the airplanes in 2013.

Sheremetyevo Airport plans to up passenger traffic 29% in 2010

bne

Moscow's Sheremetyevo Airport plans to increase its passenger traffic 29% on the year to over 19 million people in 2010, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that the airport's passenger traffic rose 32.1% on the year to 16.453 million people in January-October.

Superjet passenger debut set for early 2011

bne

The Superjet 100 aircraft is expected to make its debut passenger flight early in 2011 before launching a major promotion drive in overseas markets, says the head of its Russian parent, reports The Moscow Times.

The newspaper report says that the much-delayed plane will be the first newly designed civilian aircraft built by Russia since the fall of the Soviet Union, and will try to challenge Canada's Bombardier and Brazil's Embraer in the regional carrier sector.

Sheremetyevo Airport, Rosneft set up jet fueling JV

bne

Moscow's Sheremetyevo Airport and Russian oil major Rosneft have set up a plane fueling joint venture called RN-Sheremetyevo, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that Sheremetyevo Airport owns a 49% stake in the joint venture and Rosneft-Aero, a subsidiary of Rosneft, owns a 51% stake.

UTair eyeing Moskva Airlines

Aton

UTair is interested in buying a controlling stake in Moskva Airlines, which is currently controlled by the Moscow city government, Vedomosti reports today (23 Nov). UTair wants to gain access to Moskva's routes to Central Asia and its fleet of new Boeing airliners. However, in our view, purchasing the stake will require extreme gearing_up by UTair. Moskva Airlines itself is heavily geared and loss_making at the moment, so the purchase could negatively affect UTair's financial position. We assess the acquisition as highly risky and potentially negative for the company.

UTair interested in Moskva Airlines' assets

bne

Russian airline UTair is interested in acquiring some assets of Moskva Airlines, previously known as Atlant-Soyuz, says UTair CEO Andrei Martirosov, reports Prime-Tass.

The news agency quoted Martirosov as saying that UTair is interested in some of Moskva Airlines' flight destinations, especially to Central Asia, and contracts for the purchase of new aircraft.

UTair to sell 4% of treasury shares

Alfa Bank

According to the company's CEO, UTair may sell its treasury shares, which account for 4% of its equity (around \$13m at yesterday's close).

We do not currently cover the stock, but we view this development as POSITIVE. The move should improve the shares' liquidity, as the company's free-float is estimated at around 15%. The increased free-float coupled with the recent news about the forthcoming change in the company's shareholders structure increases the stock's attractiveness to potential buyers. Nevertheless, given the company's significant Net Debt, which amounted to \$847m as of the end of 2009, we do not rule that the company will place additional shares in the near future.

Russia ships

NCC to open container terminal on Baltic Sea September 2011

bne

Russia's National Container Company (NCC) plans to open a container terminal at the Baltic Sea port of Ust-Luga in the Leningrad Region in September 2011, says Olga Denshchikova, NCC's marketing director, reports Prime-Tass.

The news agency says that NCC plans to launch the first stage of the terminal in September 2011 with a container handling capacity of 440,000 twenty-foot equivalent units (TEUs).

The news agency quoted Denshchikova as saying that the lengths of the piers are expected to be at 440 meters while their depth is expected to be 13.5 meters.

cancelled an auction to sell 100% in the Naryan-Mar Commercial Seaport, reports Prime-Tass.

Citing the service, the news agency says that the starting price of the port was set at RUB61.7mn, while the bid increment was set at RUB1mn.

Shipbuilding in Helsinki

bne

United Shipbuilding Corporation bought 50 percent of an STX Europe shipyard in Helsinki for 150mn euros (\$200mn), reports The Moscow Times.

The newspaper report says that United Shipbuilding put 2mn euros into a joint venture with STX Europe, a unit of South Korea's STX Group.

Russian agency cancels auction for seaport in Nenets district

bne

Russia's Federal State Property Management Agency has

CIS infrastructure

Donetsk railways repairs 508 km of track in 10 months

bne

State-run Donetsk railways January through October 2010 repaired 508 km of railway tracks, reports Interfax.

Citing a statement issued by the company, the news agency says that the company modernized 85.9 km of track, overhauled 119 km, repaired 189 km and carried out maintenance work on 114 km over the period under review.

EBRD to issue Eur450mn loan to Ukraine to reconstruct roads

bne

The Board of Directors of the European Bank for Reconstruction and Development (EBRD) has approved the issue of a EUR450mn credit to Ukraine to develop approach roads to Kyiv and complete the reconstruction of the M-06 highway (Kyiv-Chop), says EBRD Principal Advisor Anton Usov, reports Interfax.

The news agency says that a relevant agreement has to be signed on November 26.

The total cost of the project was estimated at EUR1.15bn, and along with the EBRD, the European Investment Bank intended to issue a EUR450mn loan to Ukraine, reports Interfax.

EBRD to lend EUR 450m to Ukravtodor, plans to invest EUR 3bn in Ukraine by end-2014

Dragon Capital

The European Bank for Reconstruction and Development (EBRD)

approved a EUR 450m loan for Ukravtodor, the state-owned road administrator, to help it complete reconstruction of the Kyiv-Chop road. Separately, the Bank may invest EUR 3bn in Ukraine over the next four years, Olivier Descamps, the EBRD's Managing Director for Turkey, Eastern Europe, the Caucasus and Central Asia, said yesterday. (Interfax, Bloomberg)

The EBRD loan to Ukravtodor marks the first external borrowing for the company since end- 2008 and paves the way for other external financing. Ukravtodor is expected to sign a UAH 3.5bn (\$440m) loan agreement with Russian VTB in the coming weeks and is very likely to borrow more in 2011 to improve domestic road infrastructure ahead of the Euro 2012 football championship. Infrastructure will remain one of the EBRD's key areas of financing in Ukraine, along with energy efficiency projects and the banking sector, Descamps said. Continued financial support from the Bank bodes well for Ukraine's growth prospects as well as balance of payments flows.

Olena Bilan

SPF about to sell stake in Ukraine International Airlines for at least UAH250mn

bne

The State Property Fund (SPF) plans to earn at least UAH250mn from the sale a 61.58% state stake in Kyiv-based closed joint-stock company (CJSC) Ukraine International Airlines (UIA), says SPF head Oleksandr Riabchenko, reports Interfax.

The news agency quoted Riabchenko as saying that they won't sell it if the evaluation [of UIA's assets] is less than UAH250mn.

Riabchenko was quoted as saying that the first attempt to sell the stockholding to the company's current stockholders is scheduled for December 2010.

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Olena Bilan

Kryukiv Wagon reports a deficit of railcar casting

Art Capital

Kryukiv Wagon notified the Ministry of Industrial Policy that VTB Leasing monopolized the Ukrainian railcar casting market. As a result, according to Kryukiv's CEO Evgeniy Hvorost, the company's net income can end up less than UAH 200 mln in 2010. The management also informed that Kryukiv spent UAH 49 mln in CapEX in 2010.

Oleksiy Andriychenko: The news is NEGATIVE for Kryukiv Wagon. As we mentioned in our recent report "Kryukiv Wagon: The High Speed Future of Ukraine", VTB Leasing's active position in buying out Kremenchug Steel's railcar casting posed a high risk for Kryukiv Wagon. As expected, the prices of the casting went up in 4Q and based on Hvorost's announcement, the company is unable to pass the price increase to the final buyers at the moment. On the other hand, the management's 2010 net income guidance seems overly pessimistic as the company already made almost UAH 180 mln in 1H2010, and such a low profit would imply a 6.5% EBIT margin, which is lower than in the recession 2009 and half

of the 1H2010 margin. 3Q financials, which are expected to be released shortly, will shed the light on the gravity of the problem.

Kryukiv Carriage wins EBRD tender for railcar supply to Donetsk Railways

Foyil Securities

The railcar builder Kryukiv Carriage (KVBZ) together with the German FTD Dessau will supply 1,035 gondola cars to the government-owned Donetsk Railways through a loan from the EBRD given to Ukraine for renewal of its railcar fleet. The EBRD allocated USD 62.5m with a maturity term of 10 years, but USD 11m remains to be spent. In March, three other companies were bidding for this order, including Stakhaniv Carriage (SVGZ), Azovmash (AZGM) and Dniprovahonmash (DNVM).

Our view: The news is positive for KVBZ. The new order for 460 gondolas is approximately 5% of the planned 2011 output of freight cars for the company, which alone will bring USD 27m in revenues for KVBZ. Winning the tender confirms the high quality of Kryukiv products, as it was able to compete with German manufacturers and still win one lot in the tender. The only problem remaining is the availability of casting, which is now monopolized by the Russian VTB Leasing through the buyout of all casting from Kremenchug. KVBZ managed to find suppliers from the US to fill its needs, but will have to squeeze its net margins, since it will not be able to adjust prices accordingly. Taking this into account, we maintain our positive outlook for this stock knowing that the expanding production of higher value-added passenger cars will compensate for the lower profitability in freight production. We recommend BUYING KVBZ with a target share price at UAH 40.94.

Yuliya Stelmakh

Luhanskteplovoz reschedules AGM

Dragon Capital

Luhanskteplovoz, the monopoly producer of mainline locomotives in the CIS, postponed its EGM initially scheduled for today until Mar. 25, 2011 due to unsettled post-privatization

litigation between the State Property Fund (SPF) and Russia's Transmashholding. (Interfax) The EGM agenda included a proposal to reshuffle the company's Supervisory Board, currently dominated by Transmashholding representatives. The news supports our view that the ongoing dispute between the SPF and the Russian producer will eventually be resolved through amicable settlement since Transmashholding has virtually full control of Luhanskteplovoz's order flow and operations. We maintain our Buy recommendation on Luhanskteplovoz.

Taisiya Shepetko

Railcar Manufacturers - 3Q results solid at Kryukiv but Stakhaniv disappoints

Concorde Capital

Kryukiv Wagon: Solid results despite rising costs
Kryukiv Wagon's 3Q top line was in line with our expectations, up by 21% q-o-q to USD 160.1 mln (11% of the growth was attributable to increased output and 9% to price appreciation). The 3Q EBITDA margin was surprising because of its stability: 14% (in line with 13-14% for 1Q-2Q10) despite growth in steel casting prices. However, we expect the EBITDA margin to decline temporarily to 12% for 2010E and 11% in 2011E due to cost pressure.

Stakhaniv Wagon: Mystical margin decline
Stakhaniv Wagon, meanwhile, posted a disappointing 3% EBITDA margin in 3Q10, due to 18% q-o-q growth in materials costs, which we find economically unjustified. We link the figure to profit transferring to VTB-Leasing, the plant's sole supplier of steel casting, which recently said it is ready to order all of Stakhaniv's railcars produced and acquire the whole plant.

2011 view: Cost side pressure from steel casters
With output at historical highs and anticipated strong demand in 2011-2015, we see maintaining margins as the key question for railcar producers. Railcar prices have stabilized since summer 2010 at USD 58,000-62,000 per gondola, but steel casting (1/3 of railcar costs) has continued to grow - USD 22,000 per wagon now vs. USD 15,700 this summer and USD 10,700 in the spring. This was partly due to VTB-Leasing buying all the steel casting from Kremenchug Steel Casting Plant, the largest supplier in the CIS. We expect cost pressure to continue in 2011 until new casting capacities launch in 2011-12, which should boost total CIS capacity by 50%.

Implication: Downgrade to HOLD on strong performance
We continue to value railcar manufacturers by averaging the results of a DCF analysis and a comparative valuation based on EV/EBITDA using global peers. Given the strong performance of both stocks since our last report in September and the

11%-17% downgrades in our target prices, we assign a HOLD recommendation to both stocks. We downgrade our target for Kryukiv Wagon to USD 5 per share, an 11% decrease, and for Stakhaniv Wagon to USD 1 per share, a 17% decrease.

Three subway stations to open on Dec. 15

Kyiv Post

Three new subway stations towards the Teremky housing estate will open in Kyiv on Dec. 15, the press service of Kyiv City State Administration has announced.

All work on the stations is going according to schedule: Demiivska, Vasylkivska and Holosiivska subway stations will be put into operation on the Kurenivka-Chervonoarmiyska subway line.

In addition, modernization work will be completed on Moskovska Square. On Dec. 15 a new traffic interchange will open there.

Read more: <http://www.kyivpost.com/news/city/detail/91912/#ixzz172XljWld>

Ukraine to spend \$125 mln on cargo railcars in 2011

Art Capital

According to Andrey Klyuev, the first deputy prime minister of Ukraine, the 2011 budget will include UAH 1 bln (\$125 mln) for cargo railcar purchases. The provision is aimed at covering the deficit of cargo railcars in the Ukrainian coal mining industry. Mr. Klyuev anticipates the deficit to be covered within 2 years.

Oleksiy Andriychenko: The news is NEUTRAL for the largest producers of cargo railcars in Ukraine, as the budget anticipates a purchase of only around 2000 cargo railcars at the ongoing prices, which is likely to be split among several companies. The order could be covered by Ukrzaliznytsya's own production facilities. If the government decided to hold an open tender, other contenders in the order of likelihood would include Mariupol Heavy Machinery [MZVM UK, BUY, \$4.5], Azovzagalmash [AZGM, U/R], Kryukiv Wagon [KVBZ UK, BUY, \$6.1], Dniprovagonmash [DNVM UK, N/R] and Stakhaniv Wagon [SVGZ UK, BUY, \$1.3].

Ukraine to get 24,000 transit permits for auto transportation from Russia in 2011

bne

Ukraine will receive 24,000 transit permits for automobile carriers from the Russian Federation in 2011, reports Interfax.

Citing the press service of the Transport and Communications Ministry of Ukraine, the news agency says that according to the preliminary approval of the quotas, domestic companies will also receive 10,000 permits for entering or leaving third countries.

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Ukrainian airlines boost transportation of passengers by 16.4% in 10 months

bne

Ukrainian airlines January through October 2010 boosted the transportation of passengers by 16.4% year-over-year to 5.238 million people, reports Interfax.

Citing the State Aviation Administration, the news agency says that the transportation of passengers on international flights over the ten months increased by 22%, to 4.416 million people, including a 23.2% increase on regular flights, to 2.54 million people.

ULIE says Ukraine should buy high-speed trains for Euro 2012 from KCBW instead of Hyundai

bne

The Ukrainian League of Industrialists and Entrepreneurs (ULIE) considers it necessary to review the situation with the purchase of high-speed rolling-stock for holding finals of the Euro 2012 European Football Championship and give priority to a domestic producer, reports Interfax.

Citing a statement issued by ULIE, the news agency says that the league appealed to Ukrainian President Viktor Yanukovich with its proposals.

Ukraine, to provide tourists and fans during Euro 2012 with transport, expressed the intention to buy ten interregional dual-system (alternating and direct current) electric trains produced by South Korean company Hyundai, says Prime-Tass.

CE infrastructure

Czechs railroaded by Germans

bne

Following years of Europe breaking up monopolies and privatising industry, the Czech Republic is giving serious thought to reversing this trend and reconsolidating the country's railway assets along the German Deutsche Bahn model. This has not gone down well in many quarters, including with some foreign investors.

Czech Transport Minister Vit Barta said on October 31 that his ministry is seriously considering re-merging national rail operator Ceske drahy (CD) with elements of rail track management company SZDC into a single holding company, reversing the 2003 split by the Social Democrat-led coalition government of the time. Under the plan, SZDC would be divided in two parts, with the larger part responsible for operating the rail network becoming a subsidiary or division of CD, similar to the model adopted by Deutsche Bahn in neighbouring Germany. The smaller part of SZDC, which legally owns, builds and maintains the railway tracks, could be merged with the highly controversial Road and Motorway Directorate, which performs a similar task with the Czech Republic's motorways. "The logic remains the same, we want to reduce the number of organisations which we manage at the Ministry of Transport," Barta told Czech media. "Our priority is to begin managing railway operations from one place."

Currently, SZDC pays billions of crowns to CD each year for assorted services related to rail tracks, with this year's figure expected to reach CZK5.2bn (€211m). Barta said, however, that he considers the financing "non-transparent" and difficult to control. Barta has also said that the only way for CD Cargo, the state-owned freight handler, to survive is to grow, and the only way to expand is eastward. He did not elaborate whether this would entail purchasing cargo carriers or broad gauge terminals - a transfer facility capable of receiving trains using European guage track as well as trains using the Russian guage, in effect a transfer station - in neighbouring countries such as Slovakia or Poland. This Czech version of Drang nach Osten (German 19th century phrase meaning "thrust toward the East") stems partly from a study commissioned by the Ministry of Transport from the consultants Roland Berger released in November, which bne has obtained exclusively.

The study urges a German-style centrally integrated framework based on the example set in China. "In order to compete, in order to survive, Europe must pursue a continental railway infrastructure for both high-speed passenger and cargo rail transport that makes use of economies of scale," Constantin Kinsky, Roland Berger's country manager for the Czech Republic, tells bne. Kinsky, who can trace his family's aristocratic roots back to pre-WWII Czechoslovakia, says he is convinced the Czech

Republic must adopt the necessary legal framework and get on board with the pan-European push for high-speed rail corridors for ICE trains, which will link the continent's major cities. "If the Czech Republic does not move quickly to join this trend now, the country will be bypassed," argues Kinsky. Great power, great responsibility. Although transport experts agree with the study in principle, a number have voiced concerns over its implementation in the Czech Republic, and particularly how it will affect private sector cargo and passenger operators and their access to state-owned rail tracks. "Currently, CD owns the trains stations and cargo terminals, as well as exercising control over train schedules. SZDC owns and operates the rail tracks. If these two are merged, then private carriers could find themselves on their hands and knees begging at the feet of a giant centralised entity," says one rail transport infrastructure expert who declined to be named.

One such private logistics firm, Advanced World Transport (AWT), owned by the Czech billionaire and coal baron Zdenek Bakala, has been pursuing its own expansion drive eastward via holdings in Central and Eastern Europe and a recently acquired broad gauge cargo terminal in the Belarusian town of Brest near the Polish border. "We do not want to comment on the plans of our competitors," AWT spokesman Petr Jonak tells bne. Other private rail operators that could be potentially affected by the proposed changes include the highly successful bus carrier Student Agency and its RegioJet passenger service, which is set to compete with CD's Pendolino SuperCity trains linking Prague with Ostrava and other destinations from 2012.

Additional competition is also expected from Rapid Express owned by Czech private equity firm Aakon Capital, which plans to launch its own Leo Express service during the same timeframe as Student Agency. Another source noted that apart from the rail tracks, a reconsolidation of CD and SZDC also begs the question of how the transport ministry would dispense with third-party access to broadband data infrastructure known as dark fibre networks laid by CD during the late 1990s. Although CD uses the dark fibre networks for its own data transfer including the monitoring of train positions, the system can also be made available to third-party access to telecommunication companies seeking to compete with O2, which operates its own network. "Essentially, what is being proposed by Barta is the rail transport equivalent of what CEZ means to the energy sector," another transport expert tells bne. Critics also have concerns over how the transport minister would wield the power that a newly reconsolidated railway infrastructure would provide with respect to the private sector. Barta has a reputation as a no-nonsense hands-on manager who founded ABL, the Czech Republic's largest private security company, which has been recently implicated in a scandal over spying on rival political parties prior to the municipal elections, as well as extorting business rivals.

Poland rail firm PKP Intercity plans to buy new Alstom trains

bne

PKP Intercity, the third biggest railway carrier in Poland, is planning to buy 20 fast trains from the consortium, whose leader is Italy's Alstom, announced the Polish company on Wednesday, Polish News Bulletin reported.

The trains would be put into use no sooner than in 2013 and travel on the way from Cracow through Warsaw to Gdansk. Alstom is the only company that responded to the tender offer of PKP Intercity. The tender commission completed its work and prepared a report, according to which Alstom's offer fulfils the conditions.

The journalists were informed on Wednesday that the board accepted the commission's recommendation. The cost of one train amounts to ZL20m, while the construction and maintenance of technical infrastructure is ZL30m. At the moment, PKP Intercity does not possess these financial resources. Half of the required sum would come from the EU funds, the rest from the European Investment Bank in the form of a loan.

Poland to issue road bonds of over PLN8bn in 2011

bne

Poland plans to issue road bonds at over 8bn zlotys (\$2.7bn) next year, or at a level close to 2010 plans, Chief Executive in state-owned BGK bank Tomasz Mironczuk told TVN CNBC channel, Reuters reported

"The plan has not been sealed yet, but we're talking about similar levels (to 2010 plans), maybe even higher," he said.

Road bonds are issued by BGK. Proceeds support the National Road Fund (KFD), which gathers funds for the road-building programme aimed at upgrading infrastructure ahead of the Euro 2012 football championships Poland co-hosts with Ukraine.

Last week, the Finance Ministry's Debt Department said Poland would most likely not issue more road bonds before the end of March 2011.

Putting Polish on the roads

bne

Wroclaw has become one of Poland's primary investment destinations thanks in part to Adolf Hitler, who built the highway connecting the city before the war, when Wroclaw was called Breslau and was part of Germany. But now, rather than mustachioed dictators, Wroclaw and other Polish cities are more reliant on grey Brussels bureaucrats, who are responsible for pumping €10bn in EU structural funds into Poland that will be used for road construction.

The results can be seen all around Poland. Wroclaw is now surrounded by an enormous construction site as bulldozers and other heavy equipment move tonnes of dirt to build a ring road around the city that will finally free its cobble-stoned streets from the thousands of lorries that used to push through downtown on their way to the A4 highway connecting Poland to Germany. "It is going to make an enormous difference to the city," says Rafal Dutkiewicz, the popular mayor of Wroclaw.

In a recent ceremony summing his three years in power, Donald Tusk, the prime minister, spent much of his time boasting about his government's infrastructure programme, which he said had dramatically boosted Poland's development. Standing in front of dozens of photographs showing construction projects from around the country, Tusk said: "The symbol of this boost are Polish roads, which for decades were a symbol of what successive governments were unable to accomplish."

All boasting aside, Tusk's judgement of his predecessors' failures is fairly accurate. In the two decades since the end of communism, governments had failed to improve Poland's terrible roads. Initially, the country was bankrupt after the high borrowing and economic collapse of the final years of communism. But as the country began to recover, governments were seduced by the idea of getting private companies to build highways in return for collecting the tolls once the roads were completed. The idea seemed to be both a seductive something-for-nothing deal, as well as conforming to the liberal stereotypes of the early 1990s. But the state's failure to extend guarantees to builders meant that the concept failed. Later, the country was both short of cash, and bedevilled by an arcane bureaucracy that made construction very difficult. Going for goal Then about six years ago, things changed.

The money issue was dealt with by Poland's entry into the EU in 2004, which turned on spigots of EU cash, and the regulations have in large part been fixed by Cezary Grabarczyk, a lawyer who heads the infrastructure ministry, and who spent much of his early time in office slashing through the thickets of regulations impeding building. The 2012 European football championships, co-hosted by Poland and Ukraine, have provided a convenient target date for completing the first round of highway construction. The government vowed that by the time of the championships in June 2012, there would be 900 kilometres of new highways - for a total network of 1,600 km - and 2,100 km of new slightly lower quality four-lane express roads - for a total network of 2,500 km. The idea was to build a main north-south highway running from Gdansk, on the Baltic Sea, to the Czech border, and two east-west

highways, one along the southern border, passing by Wroclaw and Krakow, and one through the centre of the country, connecting Warsaw with Berlin.

"I guarantee you that you will be able to drive by a modern highway from Berlin to Warsaw by 2012," Grabarczyk insists during an interview with bne. But the reality looks as though it will not be as glowing as the predictions made a couple of years ago. Poland currently has only 893 km of highways, and there are 753 km under construction. There are also about 500 km of express roads, with 510 km under construction. Now there is almost no chance of the ambitious promises being fulfilled. Grabarczyk admits that the A1 north-south highway will have a big gap in the middle, other highways will be driveable but not properly completed, and the express roads network will be a pale shadow of what had been promised. One reason for the delays is that Poland simply does not have the bureaucratic and construction capacity to build as much and as fast as the government had promised. Another is that the economic crisis has made it difficult to pay out the needed funds.

In 2008, the government had planned to spend PLN21bn (€5.4bn), but actually managed to spend only two-thirds of that; last year, it was to spend PLN32bn, but spent only PLN18bn. Similar problems are likely this year. And for next year, the cash-strapped government, which is battling a high budget deficit and a rising public debt, promises to be even stingier. Still, even if the reality is a little more down-to-earth than the dreams of a couple of years ago, the improvement in roads promises to be significant. Poland's terrible roads have wreaked both an economic toll - scaring away investors - and a human one. Poland has the highest number of road deaths of all 27 EU countries - 4,572 people were killed on the roads in 2009, a death rate of 120 for every million citizens, while the EU average is 69 deaths per million. "The improvement is going to be significant. No one in Polish history has ever completed so many roads so quickly," says Magdalena Jaworska, the deputy head of the Polish road-building agency, the General Directorate for National Roads and Highways.

SE infrastructure

Croatia to invest HRK 4bn in road building next year, says PM

bne

The Croatian Newsmonitor reports that Croatia's PM Jadranka Kosor has announced that the country will invest 4bn in road infrastructure in 2011.

This will be a strong impulse to Croatia's economy for recovery from the economic crisis, she emphasized.

Kosor opened the Donja Zdencina junction at the Rijeka-Zagreb motorway on Sunday, which will connect the southern parts of the Zagreb County with the motorway.

The investment worth HRK 65.8m will provide for a connection of around 30,000 people to Croatia's motorway network, but also help economic and tourism development, the PM underlined.