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Top story



The cost of roads

Ben Aris

Ria Novosti ran a comparison of how much it costs to build a road in Moscow, Russia, the EU, the US and China. The differences are pretty stark.

China has the cheapest cost at \$2.2m per kilometre, with the US and the EU coming in about the same at between \$6m and \$7m respectively. However, the Russian costs of road building are amongst the highest in Europe with a kilometre of road costing \$17.6m in Russia as a whole and a massive \$51.7m in Moscow, according to an official at the Russian Transport Ministry.

Prime Minister Vladimir Putin told delegates at a United Russia party congress in the middle of September that the state intends to build 14,000km over the next five years and that all federally

controlled roads would be repaired and upgraded to modern standards by 2020.

So why is road building in Russia so expensive? The short answer is that adding to Russia's infrastructure is still beleaguered by the legacy of the Soviet Union: while construction companies in the west are given a clean piece of land and simply have to put down gravel and asphalt to make a road, the Russian companies have to deal with getting the land in the first place, cleaning off everything that is on that land (including what is under it) and re-build some of the buildings elsewhere. And that is not mentioning the time and bureaucratic nightmare much of this involves - especially if you are in Moscow.

"Much of the cost issue reflects the historic approach used from Soviet times," says Maxim Bakshinsky, Deputy General Director for Development of OJSC Mostotrest. "In the west they calculate the cost on the cost of the materials and labour that actually goes into building the road, but in Russia the cost includes, things like buying the land, rebuilding any infrastructure or utilities items that are on that land - you have to rebuild or move these by law."

The clients that want a new road built - in Moscow this is usually the city government - hire a contractor not only to do the actual building, but pay them sort this mess out on a "turnkey" basis, says Bakshinsky.

"The contract value includes costs of land, buildings, courts, utilities, infrastructure," says Bakshinsky. "We had a contract to build part of fourth ring [road in Moscow] just 10km from the Kremlin. The general contractor, according to the contract, has to not only make the construction works, but also fully prepare the site for construction: to carry out land buyout, relocation of various communications - sewage, telephone lines and the rest. All this involves huge costs as we speak about the construction in the center of Moscow where the land value is high. And all these costs, in accordance with the Russian practice, are included in the contract value. There were dozens of owners, buildings, private garage boxes, complicated utilities, and sewage, gas and telephone lines 20m under the ground. The cost was RUB66bn (\$2.2bn) for five kilometres of road - and sometimes those who don't understand the industry specifics compare these costs to Hadron collider value".

The process is long winded and difficult. The first job is to get hold of the land over which the road will run. Moscow is a huge city, but as many of the buildings are protected and, as all construction is heavily regulated by the city government, there is a dearth of modern office and apartment space in what is the biggest city in Europe. Real estate prices took off in about 2003 rising to make Moscow one of the top three most expensive cities in the world (although it has since slipped back to number 56, according to Swiss bank UBS).

While the city government will support the contractor to keep land purchase prices reasonable, the contractor still has to do the negotiations with the owner as well as the Kafkaesque paperwork associated with transfers of ownership to City Hall.

Then there is the job of clearing off everything that is standing on the land. By law any infrastructure or utility objects have to be removed and rebuilt elsewhere (including buying more land to put it on), which is included in the price.

But maybe the most complicated problem is dealing with what is under the land. Moscow has changed out of all recognition over the last 20 years, but much of the growth has not been planned, but buildings and their supporting infrastructure have been added piecemeal as money became available. The upshot is the city is a tangle of pipes, power lines and telephone lines most of which have different owners.

The land itself could be privately owned; the sewage pipes belong to the municipal government; and if you are unlucky then there might be a federally owned telephone line (like those connecting the Kremlin to the other government buildings dotted around town) in which case the contractor has to apply to the Federal Security Service (FSB) for permission to move the lines - even if it is only a few meters. Russia's bureaucracy is never easy to manage even for the most simple projects - and it doesn't get much complicated than this.

The contractors job is to wade through this morass and the faster it can get the work down the more the company earns.

"If you compare the actual cost of just building the roads in Russia, then this cost is about the same as in Germany," says Bakshinsky. "Our labour costs are lower, but we have been investing heavily into state of the art equipment to improve our productivity." ●



Two foreign transport giants planning to expand in Romania

bne

Two transport giants Alstom from France and Bombardier from Canada are planning to expand in Romania. The companies are mostly interested in the regional train and the rail signaling market, the company representatives say according to Agerpres.

'Romania is a very important country for Alstom, which plans to become a multi-regional company. Apart from the maintenance contact we have with Metrorex for the Bucharest underground, we also operate a production unit for the group and we are also running energy business,' says Gian Luca Erbacci, Alstom Transport General Manager for South Europe, according to Actmedia.

When it comes to infrastructure and equipped rolling stock, Alstom is a leader on the European Rail Traffic Management Systems market. Erbacci says the company wants to focus on the Romanian railway signaling market in the future because it has a lot of potential.

"We will focus on the signaling market, which is highly potential. Let us also not forget the train market, where Alstom's Coradia rail car would be fit for Romania's intercity trains" he says.

The Coradia train has a maximum speed of 160 kilometers per hour, and a capacity of 70 - 810 passenger seats per train. The train can be powered by diesel or electricity.



www.bombardier.com

Alstom is also interested in tendering trams in several Romanian cities.

'We have solutions for urban transport, where we are an important presence in Europe. Let us not forget the underground, the more so as Bucharest will expand the relevant network in the coming years,' Erbacci says.

Bombardier, the company that is providing Romania with underground trains delivered to the Metrorex Company, is also planning to enter the Romanian railway signaling market. Currently Bombardier has four contracts with Metrorex and the company controls about 40 % of the European rolling stock market.

'The Romanian railway signaling market has good perspectives, although we are not one of the biggest players in this industry. We will further keep an eye on the projects to expand the Bucharest underground network,' Mircea Marian, Bombardier Romania general manager, says. Bombardier, a world leader in the manufacturing of underground trains, as well as electric multiple units, engines and trams, is also hoping to enter the Romanian train market with its AGC high-capacity train ●

2 Presidents Build Bridges – Literally

Publication: The Moscow Times

Provider: Moscow Times

President Dmitry Medvedev and his Ukrainian counterpart, Viktor Yanukovich, discussed construction of the Kerch Strait bridge on Monday and said they hope that it will be complete in time for the Sochi Winter Olympics in 2014.

The possibility of a bridge spanning the strait between the Azov and Black seas has been on the table for many years, but bumpy relations between the two countries have delayed the start of the project.

"It would be nice [to finish the construction of the bridge] by the football championship, but it is clear that this is not realistic, so at least by the Sochi Olympics," Medvedev said during their talks at Gelendzhik, a Krasnodar region resort town on the Black Sea.

Yanukovich said he agreed but still hoped that there was a chance to complete it by the UEFA Euro Cup in 2012.

"This is a very important, momentous project," Medvedev said.

The subject „is worth presidential attention because it unites the two countries and creates the best possibilities for the citizens to cross borders," he said.

The bridge and infrastructure will cost an estimated \$1.4 billion to \$1.7 billion. Medvedev said several banks would be selected to take part, and a working group would be created to oversee the design phase, which will take a year.

"It is unrealistic to expect the project to be completed by 2012, but finishing it by 2014 seems quite doable," said Sergei Mozalyov, an official with AMOST Foundation, an association of bridge engineers. „But completion of this project by 2014 will probably not happen without a big push, given that the project is now in its initial stage."

Calculating possible environmental risks is also of paramount importance, Mozalyov said, adding, „Sometimes this assessment may take years." ●

First train from Russia in nearly 100 years to arrive in Nice

Ria Novosti

The first train from Moscow to be solemnly met in Nice on Saturday, it will restore regular railway communication with Russia after nearly a century's break.

This route was in operation from the late nineteenth century until the outbreak of World War II. Its resumption marks the Russia-France exchange year, and was another indication of the newly established partnership between the two countries.

The passenger train, made up of 12 carriages will pull into the station in Nice on Saturday night, after having travelled over 3 thousand miles in 50 hours.

There are currently plans being looked at for one round trip per week, but the Russian and French partners are ready to respond

positively to public interest in this route if more are in demand.

Trains from Russia, arriving in Nice for the first time after nearly a century's break, will be a celebration of the life and of the project of Russian industrialist Paul von Derviz. Builder of railroads and philanthropist, he tried in every way to strengthen the friendship between Russia and France. A graduate of the St. Petersburg School of Jurisprudence and a contemporary of Leo Tolstoy and Ivan Turgenev, Baron von Derviz then enlisted in the Crimean campaign. Returning to civilian affairs, he was soon invited to join the Society of the Moscow-Saratov railway. He was an energetic entrepreneur who was involved in a deal which was considered, at that time, unprofitable and risky. The scale of his projects, according to experts, is truly being appreciated only now. ●

Kudrin urges Moscow govt to double spending on roads

bne

Russian Deputy Prime Minister and Finance Minister Alexei Kudrin has urged the Moscow city government to double spending on roads, reports Prime-Tass.

The news agency quoted Kudrin as saying that the Moscow city government's spending on roads fell to 8% of total spending in 2008 and is planned at 4.4% in 2010 from 26.8% in 2000. ●

Road builder Mostotrest to IPO next year

bne

Marc O'Polo Investments, the majority shareholder of OAO Mostotrest, says it plans to float up to 25% of the company's shares next year, reports Prime Tass.

The money will be used in part to buy out Mostotrest's shares during an additional issue. ●

Putin stays up late for Amur highway opening

bne

Russian Prime Minister Vladimir Putin held a videoconference in the early hours of Friday morning to congratulate Transportation Minister Igor Levitin and a group of workers on the completion of the Amur highway, reports The Moscow Times.

The newspaper report says that the prime minister discussed the further development of the highway with Levitin, then watched as Oleg Trushin, a heavy machinery operator who worked on the highway. ●

Russia infrastructure news

Government develops consolidation scenarios for Sheremetyevo terminals

VTB Capital

News: Government consultants have developed three scenarios for the potential merger between state-controlled International Airport Sheremetyevo (IAS) and Aeroflot-controlled Terminal-D (based at the airport). According to Vedomosti, the airport's assets might be consolidated on the basis of IAS, Terminal-D or in a specially created entity. The government, the Bank for Development (VEB), VTB and Aeroflot will have 92%, 2%, 2% and 4% stakes in the merged company. Were VEB to agree to convert the USD 894mn debt of Terminal-D into shares, the stakes would be 70%, 25%, 2% and 3% respectively.

Our View: The details of the merger are generally in line with the preliminary estimates disclosed when the process of analysing the potential opportunities started this spring. However, Aeroflot expected to get a larger stake (around 20- 25%) in the united Sheremetyevo airport, providing it with the opportunity to influence its hub operations. Thus, the scenarios which have been released are slightly disappointing for Aeroflot from the operating point of view.

On balance, it looks like the deal will go through on time and Aeroflot will be able to spin off the Terminal-D debt burden which has been spoiling its liabilities profile in 2011 (this is important in order to finance the consolidation of Rosavia's airlines normally, and is in line with our expectations). We see this news as neutral for the company.

Levitin says deal to move transport control to outer border of CU to cut delivery cost, time

bne

Russian Transport Minister Igor Levitin has said that the deal to transfer transport control to the outer border of the Customs Union of Belarus, Kazakhstan and Russia will reduce delivery time and cost, reports Prime-Tass.

The news agency quoted Levitin as saying that they have signed a milestone document to abolish transport control on the Belarusian-Russian border and transfer it to the outer border of the Customs Union.

Russian Railways' Second Cargo Co starts operating September 30

bne

Second Cargo Company, a cargo transportation subsidiary of state-owned Russian Railways, started operating on September 30, RUB5bn

Citing a statement issued by Russian Railways, the news agency says that Russian Railways planned to transfer 156,414 cargo rail cars to Second Cargo Company.

EBRD to invest EUR 1bn in Ukraine in 2010, co-investors may add EUR 1-2bn annually

Dragon Capital

The EBRD confirms plans to invest about EUR 1bn (\$1.35bn) in Ukraine this year, while its co- investors may add EUR 1-2bn annually, according to Vassili Lelakis, head of a visiting EBRD Board of Directors delegation. (Interfax)

The EBRD invested about \$1.5bn in Ukraine in 2009, mostly in the financial sector to help local banks cope with the financial turmoil. Its priorities this year have shifted to infrastructure and energy projects. Lelakis said the Bank had invested EUR 350m YTD and would increase total investments to about EUR 1bn by year-end after completing three large infrastructure projects including construction of a high voltage power line (EUR 175m), modernization of hydro power plants (EUR 200m) and construction of a trans-European transport link (EUR 450m). The EBRD plans to continue focusing on energy safety and efficiency as well as infrastructure and transportation projects next year. Its co-investors such as the European Investment Bank may add EUR 1-2bn of investments annually, Lelakis said. The above EBRD-supported projects will help improve Ukraine's infrastructure, boding well for its long-term growth prospects. Moreover, EBRD loans are supportive of capital inflows to the private sector and thus of the currency.

Olena Bilan

Ukraine, Russia to build high-speed railroad link

bne

Russian President Dmitry Medvedev and Ukrainian president Viktor Yanukovich agreed in principle to build a high speed rail link between their countries, reports Interfax.

"We have crossed the border recently by car so now it should be by train: let us see whether we will need to hide anything," Medvedev said.

In that case a high-speed railway should be built, Yanukovich said. The idea of building such a high-speed railway is "very interesting," Medvedev said at the end of the press conference.

Yakunin says deal to change control in NCSP is untransparent

VTB Capital

News: President of Russian Railways Vladimir Yakunin has said that the company will not participate in the privatisation

of the state's 20% stake in NCSP as it views the deal under which Transneft and Summa Capital will become controlling shareholders in the port as untransparent. In separate news, the government said that the privatisation would happen in 1Q11.

Our View: NCSP's stock dropped 8% after Yakunin's statement, which seems an overreaction. In essence, Yakunin was simply saying that nothing is known about the deal as its terms have not yet been published. Disclosing the details would remove the uncertainty which has surrounded the stock over the past few weeks.

We cannot rule out that Russian Railways, being a 5% shareholder of NCSP, will ultimately vote for the deal. As the size of the deal would exceed 50% of NCSP's asset value, the acquisition of Primorsk Trade Port has to be approved by a supermajority and NCSP will probably seek the support of the holders of the blocking stake: the government and Russian Railways.

The price of the deal remains the major factor that might change or support the current negative sentiment on the stock. We are reiterating our view that at USD 1.5-2bn the acquisition of the second largest port in Russia (which is modern, efficient, has clear growth prospects, no debt and 2011F EBITDA in excess of USD 200mn) would be value-accretive for NCSP. Were it to be priced above this range, we would view the deal negatively.

Russia infrastructure finance & statistics

Mostotrest reported unaudited consolidated IFRS results for 2009 and 1H 10

Metropol

On Wednesday morning Mostotrest posted consolidated revenues, including the acquired companies Corporation Engtransstroy and Transstroymekhanisatsiya, at RUB 78.97bn for 2009 and RUB

31.36bn for 1H 10. EBITDA margin was 10% and 18% for 2009 and 1H 10 respectively, while net margin was 2% and 3% respectively for the same periods respectively. Total debt was RUB 10.4bn, while net debt was (2.3bn) for the end 2009. Mostotrest did not publish a pro forma financial statement for 1H 10.

We believe the reported figures could have a positive impact on the stock due to healthy EBITDA margin and low debt position.

Mostotrest plans to hold conference call later on Wednesday, October 6.

Russia's non-CIS imports up 35.4% January-September

bne

Russia's imports from outside the Commonwealth of Independent States (CIS) rose 35.4% on the year to \$135.51bn in January-September, reports Prime-Tass.

Citing the Federal Customs Service, the news agency says that in September, non-CIS imports fell 2.9% on the month to \$18.80bn.

Russia roads

Mostotrest, on brink of an IPO, issues strong 1H10 IFRS results

Renaissance Capital

Mostotrest (MSTT) has announced its intention to launch an offering of 25% of outstanding shares, which majority shareholder Marc O'Polo (owns 50.3%) plans to sell to the market. At the same time, MSTT registered an additional share issue equivalent to 25% of outstanding shares, part of which Marc O'Polo intends to purchase using the proceeds from its share sale. The proceeds from the additional share issue are planned for use for general purposes, including for the purchase of equipment and a plant. The company expects to complete the deal in 4Q10.

MSTT has a strong position in the Russian market. Its infrastructure construction market share is 7.8% and its bridge construction market share is 25%. The company's business is now well diversified geographically and by segment, after the acquisition of Transstroy Mekhanizatsiya (TSM) and Engtransstroy (ETS). MSTT's portfolio of orders for projects in 2010-2015 is RUB201bn (\$6.5bn), 70% of which will be realised by 2013. The company is also participating in tenders for construction of the Kurortny Prospekt bypass in Sochi, for RUB60bn (\$2bn). We believe the company will play a major role in the sector's consolidation in the future; however, management does not expect any M&A activity in the next 12 months.

On 6 Oct, MSTT released positive 1H10 IFRS results. Revenue and EBITDA rose 23% YoY to RUB16,433mn (\$546mn) and RUB3,481mn (\$116mn), respectively, in 1H10. Net debt was \$347mn at the end of 1H10. The 1H10 IFRS figures consolidate ETS and TSM from 28 June and 13 May, respectively. The company also published

pro forma financials recalculated as if these acquisitions had taken place on 1 Jan 2009, according to which 1H10 revenue was RUB31,361mn (\$1,042mn), vs RUB78,971mn (\$2,499mn) in 2009, and EBITDA was RUB5,540mn (\$184mn) in 1H10, vs RUB8,157mn (\$258mn) in 2009. The EBITDA margin rose to 17.7% in 1H10 from 10.3% in 2009, mainly due to growth of high-margin bridge and highway construction work at the acquired companies, and a reduction in subcontractor services. Management expects gross and EBITDA margins of 14-15% and 10-11%, respectively, in the future. MSTT's dividend policy stipulates at least a 30% dividend payout ratio based on IFRS results. We plan to adjust our model to incorporate the IFRS results. We estimate that EBITDA could be at least \$300mn in 2011, and that MSTT trades at about 6.5x EV/EBITDA 2011E, a 15% discount to its international peers. Currently, we are keeping MSTT Under Review.

NPO Mostovik inks RUB13bn deal to build auto roads in Sochi

bne

Russian construction company NPO Mostovik has signed a RUB13bn agreement with Russian state-owned property developer Olimpstroy to build automobile roads in the Imeretinskaya Valley in the vicinity of Sochi, reports Prime-Tass.

Citing a spokesperson for NPO Mostovik, the news agency says that NPO Mostovik was chosen at a tender for which six other companies had submitted bids.

Yekaterinburg to spend \$19m on roads

bne

Yekaterinburg is to spend \$38.8m on developing its road network, building new roads and fixing old ones through to 2011, city officials report.

The funds are reportedly to be allocated from the federal and regional budgets.

Russia trains

Antitrust fines Russian Railways for imposing unfavorable terms

bne

The Kemerovo Region branch of Russia's Federal Antimonopoly Service has fined state-owned Russian Railways RUB7mn for imposing unfavorable contract terms on freight company Prokopyevskoye Transportnoye Upravleniye, reports Prime-Tass.

Citing the watchdog, the news agency says that Yelena Kloster, a deputy head of the branch, called for reforms aimed at putting Russian Railways, which has a monopoly on railway infrastructure, and private freight companies on an equal footing.

Freight Two seeks IPO in two years

RIA Novosti

Freight Two, the newly established rail cargo subsidiary of state-run monopoly Russian Railways (RZhD), has the strategic goal of holding an Initial Public Offering (IPO) in two years' time, RZhD said on Wednesday.

"The strategic goals of the company are to join the group of Russia's top three operators, ensure the growth of the company's value and be prepared for an IPO in two years," RZhD said.

RZhD CEO Vladimir Yakunin has said that Freight Two, which launched operations on September 30, 2010, intended to work for at least two years before the railroad monopoly could raise the issue of its partial privatization.

A decision on the sale of Freight Two shares "will be made pursuant to decisions by federal authorities on the methods and forms of foreign investors' participation in the company's capital," RZhD said.

Govt clears Russian Railways to sell up to 35% in TransContainer

bne

The Russian government has authorized state-owned railroad monopoly Russian Railways to sell up to 35% in container shipping company TransContainer, reports Prime-Tass.

Citing a government ruling, the news agency says that the stake cannot be sold at below the market price.

North-Caucasus Railways spent \$58m on track structure

bne

The North-Caucasus Railways company that operates over the federal district says it has spent over \$8m on reconstruction and repair of tracks over the first eight months of this year.

The funds were reportedly used to overhaul track structure of a 17-kilometer rail section between stations Kursavka and Nagutskaya.

Russian pres ratifies accord on rail transit via customs union

bne

Russian President Dmitry Medvedev has ratified an agreement on the transit of goods by rail through the territory of the customs union of Russia, Kazakhstan, and Belarus, reports Prime-Tass.

Citing the presidential press service, the news agency says that the agreement, signed in May in St. Petersburg, was ratified by the State Duma, the Russian parliament's lower house, on September 24 and by the Federation Council, the parliament's upper house, on September 29.

Russian Railways confirms willingness to sell its stake in TGK-14

Alfa Bank

According to Interfax, Russian Railways (RZhD), which holds a controlling stake in TGK-14 jointly with ESN Group, has confirmed its willingness to sell its stake, as TGK-14 is not part of RZhD's core business. The sale is expected to result in a transparent and fair price for the asset. However, no new details have been released of the deal. We believe Inter RAO will be the only bidder for the asset and the company has reportedly shown interest in a share swap mechanism (i.e. using its newly issued shares to obtain the two companies' stakes in TGK-14), and we therefore do not expect the auction to bring any positive surprises to the market. Though we do not rule out that market speculation may affect TGK-14's low share liquidity in the short term, we consider the news as NEUTRAL for TGK-14 shares.

TGK-14 operates in two remote Siberian regions, the Buryatia Republic and the Zabaikalie region, and is the smallest (639 MW) and poorest efficient Russian TGK spun off from UES. There have been a number of accidents at its assets over the past two years, as the company's power plants are old and will therefore require substantial investments.

We do not currently cover TGK-14.

Alexander Kornilov

Russian Railways' cargo turnover increased 4% in September

VTB Capital

News: Russian Railways has reported highlights of its September operating statistics. Cargo turnover for the month was up 4% YoY to 168bn tonne-km, bringing YTD growth to 10% YoY.

Our View: The recovery in railway cargo turnover is still on track and in the last three months has remained stable of 4-5%. The stabilisation in turnover growth dynamics can, to a significant extent, be explained by the robust volumes of metallurgical cargo transported. Iron ore and coke were flat YoY (-2% MoM and 0% MoM, respectively), while the 4% YoY expansion (-3% MoM) in ferrous metals and 5% YoY (10% MoM) in scrap was balanced by the 7% YoY (-0.4%) drop in the transportation of coal, the most important cargo (22% of total portfolio) to below 2007 levels as a result of the Rapsadskaya accident. However, the flat dynamics of metals cargoes were offset by the strong 15% YoY (-4% MoM) growth in oil&oil products (20% of the total) helped by the increase of oil transportation after the launch of ESPO in late 2009. There was also a strong increase in volumes in construction materials 17% YoY (1% MoM) and cement 14% YoY (-4% MoM) that delayed the seasonal volumes correction. While containerised cargo continue demonstrating robust double-digit expansion of volumes. These confirm that internal private consumption remains one of the key drivers of the ongoing recovery in the Russian economy.

RZD ups 2010 net profit forecast to RUB40bn

bne

Vladimir Yakunin, the president of Russian Railways (RZD) says that the company has more than doubled its forecast of this year's net profits to RUB40bn, reports Interfax.

The news agency quoted Yakunin as saying that they've virtually gone to twice the amount of cargo-hauling that was predicted together with governmental agencies.

Top 500 take a hit in crisis

bne

Russian Railways is among the few corporations that prospered during the crisis, rising a notch to fourth place, reports The Moscow Times.

Citing an annual rating published by Finans magazine, the newspaper report says that cumulative revenue for Russia's biggest 500 companies in 2009 fell by 3 percent over the previous year.

Viking container train route may be extended to Turkey

bne

Pavel Bozhanov, the head of the strategic development department with the Transport Ministry, says that the route of the container train Viking may be extended to Turkey and Syria, reports Prime-Tass.

The news agency quoted Bozhanov as saying that it is a complicated project, and many things need to be considered and negotiated: somewhere we will have to use multimodal transport, and somewhere we will have to use ferries, so economic benefits and demand must be analyzed.

Russia planes

Aeroflot develops ambitious strategy 2025

VTB Capital

News: Aeroflot has developed an ambitious strategy through 2025. According to Vedomosti, the company plans to increase its annual passenger traffic to 79.5mn by 2025 and to account for 66% of the Russian market. The key driver for this expansion will be transit passengers between the Middle East and Europe, and between Europe and Asia, through four hubs in Moscow, St Petersburg, the South region (likely Rostov on Don) and the Russian Far East (likely Vladivostok). Leadership on the domestic market is to be attained by creating several subsidiaries on the basis of Rosavia working in different market segments (such as charter and low-cost).

Our View: Creating subsidiaries and developing hubs is the logical outcome of the merger with Rosavia and in line with our expectations (see Aeroflot-Rosavia Merger: All of Russia Under Its Wings, of 4 February). However, integrating and simultaneously developing several businesses would be difficult for a company that has little experience in M&A and specific market segments such as low-cost.

In our view, it would be possible to achieve the planned, impressive 2010-25 CAGR of 10% in revenues but not in traffic. The latter looks

extremely ambitious, as it is almost twice as fast as the global market and Russian industry. Nor does it take into consideration such factors as competition (especially on the global market), regulative constraints and hubs-bottlenecks. Moreover, increasing traffic rapidly or entering new segments is likely to result in profitability deteriorating in the mid-term.

Overall, the strategy looks unduly optimistic. However, while we think that it is probably not achievable, it supports our positive view on Aeroflot as a centre for industry consolidation so we see it as neutral for the stock at the moment.

Aeroflot to increase sales

bne

Aeroflot plans to quadruple passenger traffic and revenue by 2025 to \$18bn, taking advantage of the growing market, reports The Moscow Times.

The newspaper report says that sales this year are about \$4.5bn.

Aeroflot traffic up by a third over 8M10

bne

Russian national aviation carrier Aeroflot said that its passenger traffic was up by 31.7% over the first eight months of this year to 7.461 million people reports Prime-Tass.

In August, Aeroflot's passenger traffic rose 27.4% on the year to 1.175 million people.

Krasnoyarsk's Dikson airport reconstruction to cost \$8.2m

bne

The reconstruction of Krasnoyarsk region airport Dikson will cost \$8.2m and take two years to complete, regional officials report.

Omsk Airport sees passenger traffic up 33% by 2016

bne

Omsk Airport, the second-largest airport in Russia's West Siberia, plans to increase passenger traffic 32.8% to 676,000 people by 2016 as compared to 2009, according to its development strategy for 2010-2015, reports Prime-Tass.

Citing a spokesperson for the airport, the news agency says that cargo traffic through the airport is expected to increase to 6,300 tonnes in 2015 from 5,000 tonnes in 2009.

Russian airlines' passenger traffic up 28.1% on year January-August

bne

The total passenger traffic of all Russian airlines rose 28.1% on the year to 37.898 million people in January-August, reports Prime-Tass.

Citing a report issued by the Federal Air Transport Agency, the news agency says that passenger transportation rose 32.7% on the year to 97.154 billion passenger-kilometers in this period.

Tolmachevo Airport passenger traffic up 25.1% on year in January-September

bne

The passenger traffic of Tolmachevo Airport near the Siberian city of Novosibirsk increased 25.1% on the year to 1.711 million people in January-September, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that the airport's throughput capacity had increased after the launch of a second runway in late September.

Transaero IFRS net loss narrows 36.5% on year in 2009

bne

The net loss of Russian airline Transaero narrowed 36.5% on the year to RUB1.973bn in 2009, as calculated under International Financial Reporting Standards (IFRS), reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company attributed the net loss to revaluation of foreign currency-denominated liabilities and assets, among other factors.

Russia ships

CEO sees freight traffic via Russia's Ust-Luga up 56% in 2010

bne

Freight traffic through the Baltic Sea port of Ust-Luga is projected to rise about 56% on the year to around 15 million tonnes in 2010, says Maxim Shirokov, CEO of the port, reports Prime-Tass.

The news agency quoted Shirokov as saying that the port's traffic is expected to double or more than double in 2011.

New Seaport to turn Murmansk into hub

bne

Russian Deputy Prime Minister Sergei Ivanov has said that a new seaport may be built in Murmansk as part of a government initiative to develop the northern city as a key transportation hub, reports The Moscow Times.

The newspaper report quoted Ivanov as saying that Murmansk represents one of the country's most promising transportation hubs because its waters do not freeze in the winter and provide ships with direct access to the ocean.

Norilsk invests in port

bne

Norilsk Nickel plans to invest RUB600mn (\$19.3mn) in the first phase of the construction of a loading terminal at Murmansk Port, says company official Alexei Tyukavin, reports The Moscow Times.

The newspaper report quoted Tyukavin as saying that total investment in the first phase would eventually double, and handling capacity at the terminal will reach 650,000 metric tons per annum.

Russian min sees Northern route shipments up to 30 million tonnes in future

bne

Russian Regional Development Minister Viktor Basargin has said that cargo shipments via the Northern Sea Route could rise to 30 million tonnes per year in the coming years from less than 3 million tonnes of shipments via the Arctic currently, reports Prime-Tass.

The news agency quoted Basargin as saying that it is necessary to upgrade the current transport system, build several powerful nuclear and diesel icebreakers, as well as ice-class tankers and dry-cargo vessels to reach the targeted volume of cargo shipments.

Russian official sees ruling on port zone in Murmansk signed soon

bne

Deputy Prime Minister Sergei Ivanov has said that a draft ruling on creating a special economic port zone in the Russian city of Murmansk has been submitted to the government and is expected to be signed within the next couple of days, reports Prime-Tass.

The news agency says that a proposal to create a port zone in Murmansk was put forward by Dmitry Dmitriyenko, the governor of the Murmansk Region, in August 2009.

Russian regulator raises maximum tariffs at Sochi seaport by 15%

bne

Russia's Federal Tariff Service has approved increasing the upper limit for tariffs at Port Sochi Imeretinsky by 15%, reports Prime-Tass.

Citing a statement issued by the service, the news agency says that the port handles cargo for the 2014 Winter Olympics in the city of Sochi.

Russian ship repair co Zvyozdochka seen implementing RUB5bn projects

bne

Russia's Ship Repairing Center Zvyozdochka is expected to implement investment projects worth over RUB5bn, reports Prime-Tass.

Citing the press service of the Murmansk Region government, the news agency says that Zvyozdochka plans to develop an onshore base to provide comprehensive maintenance services for drilling rigs and offshore oil and gas production platforms, as well as to develop a base for servicing Arctic oil and gas fields in the Murmansk Region, under an agreement signed by Zvyozdochka's Murmansk-based unit Ship Repairs Plant 35 with the Murmansk Region government.

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RZD will not be involved in privatization of Novorossiysk Seaport

bne

Vladimir Yakunin, the President of Russian Railways (RZD) says that RZD will not be involved in the privatization of Novorossiysk Commercial Sea Port (NCSP), reports Interfax.

The news agency quoted Yakunin as saying that they will refrain from taking part in the procedure [of privatization].

CIS infrastructure

Finnish Septem Partners Oy interested in Belarusian agribusiness, road construction

bne

Finnish investment bank Septem Partners Oy is interested in Belarusian agribusiness, road construction and pharmaceutical sector, reports Prime-Tass.

Citing the press service of the Committee, the news agency says that a delegation of the Finnish bank and the Belarusian State Property Committee addressed privatization processes in Belarus and outlook for Finnish business at a meeting in Minsk on Wednesday.

Foreign ministers of Ukraine, Turkey mull over transport projects

UKRINFORM

Ukrainian Foreign Minister Kostiantyn Hryshchenko, in the frames of his participation in the general debate of the 65th UN General Assembly session in New York, held a meeting with Minister of Foreign Affairs of the Republic of Turkey Ahmet Davutoglu.

As the press service of the Ukrainian Foreign Ministry reported, the sides discussed the format for interdepartmental cooperation on a wide range of issues of mutual interest, and the schedule of visits at different levels.

Hryshchenko said that in the past six months, the relations between Ukraine and Turkey have acquired the character of a real strategic partnership, best evidenced by the steady growth of trade and mutual investments, support by Ankara and Kyiv for international initiatives of one another.

The ministers thoroughly discussed the prospects of joint large-scale transportation projects. In particular, Ukraine is interested in Turkey's accession to the Ukrainian-Belarusian-Lithuanian transit railway container transportation route Viking.

"Last year Ukraine managed to normalize relations and to

strengthen partnerships with all countries that are of interest in terms of creation of transport corridors in the East - West and North - South directions, which allows today to seriously consider implementing the most ambitious routes," Hryshchenko said.

For his part, the Minister for Foreign Affairs of the Republic of Turkey set forth the initiative to consider the possibility of creating a Ukraine - Turkey - Egypt transport corridor, as well as from the Baltic to the Red Sea via Lithuania, Belarus, Ukraine, Turkey, Syria and Jordan.

Davutoglu also pledged his country's support of Ukraine's application for OSCE chairmanship in 2013.

Separately, the foreign ministers discussed opportunities for economic cooperation in the Ukraine - Turkey - Russia triangle as the states spanning Europe and Asia.

Mariupol port sees cargo handling rise by 25% in first nine months of 2010

bne

Mariupol maritime merchant port (Donetsk region) in January to September 2010 increased cargo handling by 25.5% compared to 2009, to 11.774 million tonnes, reports Interfax.

Citing the port, the news agency says that Metals handling in the period grew by 25.4%, to 6.347 million tonnes, coal transshipment was up by 28.9%, to 3.465 million tonnes, while that of clay rose by 92.9%, to 1.476 million tonnes.

Passenger transportation in Ukraine almost 8% down over eight months

bne

Ukraine's transport firms cut passenger transportation by 7.7% in January-August 2010 compared to January-August 2009, to 4.5 billion people, reports Interfax.

Citing the State Statistics Committee, the news agency says that passenger turnover fell by 1.9% over the period under review, to 87.6 billion passenger-kilometers.

Road traffic on Podilsko-Voskresensky bridge in Kyiv could be launched in late 2011

bne

Anatoliy Holubchenko, Deputy Head of Kyiv City State Administration, has said that road traffic on the Podilsko-Voskresensky bridge in Kyiv could be launched in late 2011, reports Interfax.

The news agency quoted Holubchenko as saying that they have a very ambitious task, [and] we are working on it now.

Skadovsk port to construct complex for handling car ferries by 2012

bne

Skadovsk maritime merchant port (Kherson region) is intending to restart the construction of a complex for handling car ferries and complete it by 2012, reports Interfax.

Citing the press service of the Transport and Communications Ministry, the news agency says that it is planned to complete the construction of the first stage of a berth for the mooring of an additional car ferry for the Zunguldak-Skadovsk and Skadovsk-Istanbul routes in June 2011.

Transport Ministry sees '11-15 investment projects at \$6.9bn

bne

The Belarusian Transport and Communications Ministry plans to complete \$6.9bn worth of investment projects in 2011-2015, says Minister Ivan Scherbo, reports Prime-Tass.

The news agency quoted Scherbo as saying that Belarus would build 50 logistical centers with total areas of 400 hectares within five years, which will require about \$850mn in investments.

Azovmash plans to increase railcar output by 20-50% in 2011

Astrum

According to the chairman of Azovmash Group Alexander Savchuk, the Group plans to increase railcar output by 20-50% in 2010 which should be reached by launching of new railcar casting capacities.

Astrum's perspective: According to Mr. Savchuk, in 2010 to date, the Company increased its railcar output by 120% y/y to 7,200 units, while further growth is limited by railcar casting deficit. We expect that demand for freight railcars in the CIS will remain strong over next five years and launching of new railcar casting capacities at Azovmash should allow the Company to increase its railcar output. The news is POSITIVE for the enterprises that are parts of the Group, Azovzagalmarsh (AZGM: U/R) and Mariupol Heavy Machinery (MZVM: BUY).

Igor Bilyk

Five banks bid for Boryspil loans

bne

Two Russian banks, two Ukrainian subsidiaries of Russian banks and one local institution submitted bids for a tender to issue credit lines worth over \$150m to Kiev's Boryspil International Airport, reports Interfax.

The airport's press secretary Oksana Ozihova told reporters: "Alfa-Bank, VTB Bank and National Credit Bank submitted bids to participate in a hryvnia loan. VTB bank and Transcommerzbank submitted bids to participate in a foreign currency loan."

The bids will be assessed within 20 working days of the date of their disclosure - which was made on September 29, Ozihova said.

Boryspil announced tenders to select banks to open two credit lines for \$100 million and Hr 445.7 million in late August. The dollar loan will be used to finance construction of the new Terminal D, with the local currency to be used to build a car park.

Kyiv seeks EBRD loan for transport

Ukrinform

The Kyiv authorities announced plans to attract in 2011 a loan of more than UAH 530 million (USD 1 - UAH 7.91) from the European Bank for Reconstruction and Development (EBRD) to purchase 370 units of public transport - 185 trolleys and 185 buses - as part of the target program on preparations for the 2012 UEFA European Football Championship, according to Tetiana Slyshyk, chief of the Kyiv City State Administration Main Department for UEFA EURO 2012 in Ukraine.

"Today, we are planning to upgrade the fleet of trolleys and buses, including, by using the EBRD funds," she said. According to her, Oschadbank of Ukraine, in turn, will provide a loan of UAH 350 million.

Meanwhile, deputy chairman of the Kyiv City Council Standing Committee on Transport and Communications Ihor Kononenko said that three years ago the city authorities have reached an agreement with EBRD on a EUR 60 million loan to modernize the public transport fleet of the capital.

"For two years the city was agreeing with the EBRD the terms of the tender, as a result these tenders were held, and today the city can draw EUR 60 million on very favorable conditions. Both the tender conditions and the existing prices are very favorable," the official underscored.

Stakhaniv Rail Car eyed for acquisition

Dragon Capital

VTB Leasing, Russia's leading leasing company, expressed interest in buying Stakhaniv Rail Car (SVGZ), the leading domestic producer of freight rail cars. (Interfax, Kommersant)

The news is positive for the company as the potential acquisition will provide the plant with direct access to the Russian market, the largest for SVGZ products. In addition, recently VTB leasing has aggressively been increasing its railcar fleet, having acquired 9,000 railcars in 1H10 and planning to buy another 15,000 in 2H10, naming SVGZ among its major suppliers in Ukraine. Therefore, according to SVGZ management VTB leasing accounted for more than 50% of SVGZ's 9M10 orders and is planning to buy most of the plant's 2011 output.

In other news, Stakhaniv increased its full-year output forecast to 7,000 railcars (up from 6,000 railcars previously), which is in line with our full-year forecast of 7,150 railcars.

Our current valuation suggests a \$319m (\$1.41/share) fair value for the company, implying a 61% upside to current market capitalization of \$199m. We maintain our positive view on the company and reiterate our Buy recommendation on the stock.

Taisiya Shepetko

State railway company announces plans to buy 50,000 freight cars

Foyil Securities

The state-run national railway company Ukrzaliznitsya (UZ) has announced its intention to buy 50,000 freight cars during 2011-2015 with a total investment of USD 3.4bn. UZ plans to realize this project through a partnership with private investors. The service life of an average freight car is 32 years, while the cost of purchase should run over five years.

Our view: Kryukiv Carriage, Stakhanov Carriage, Dnirovagomash, and Azovmash are the main freight railcar builders in Ukraine. In order to stay at full capacity, these companies have cut their prices almost by half and attracted orders from Russia, Belarus, Kazakhstan and the Baltic states. If Ukrzaliznitsya succeeds in finding investors for this massive railway renovation program, it would drive prices for freight cars back up to pre-crisis levels, as it would produce a deficit on the freight car market. The stated demand by UZ of 10,000 freight cars per year is about half of the yearly output of these four companies combined. Growing demand from the CIS and now from Ukraine confirms our bullish position on both Stakhanov and Kryukiv Carriage. We confirm our BUY recommendation for these companies.

Yuliya Stelmakh

Ukraine hopes to build trade fleet jointly with Russia

RIA Novosti

Ukraine wants to rebuild its trade fleet jointly with Russia, Prime Minister Mykola Azarov told journalists on Tuesday.

"We are ready to work together with Russia. We propose our partners to jointly rebuild our trade fleets - Russian and Ukrainian," he said.

The minister added that Ukraine's shipbuilding industry was currently experiencing "certain difficulties." Ukraine's

transportation ministry earlier said Moscow may simplify the permission procedure for Ukrainian cargo vessels wishing to navigate Russian waterways. The deal, which would allow Ukrainian ships easy access to Russia's major Don and Volga rivers via the Sea of Azov, is expected to be finalized in late October.

Container Company (Russia), in 2011 could file an international arbitration claim for \$1.4bn in compensation for the breaking of a contract on joint activity with Illichivsk maritime merchant port (Odesa region), reports Interfax.

The news agency quoted an unnamed company representative as saying that they held talks with the government of Ukraine, where we considered the option of amicably settling the situation.

Ukrtranscontainer's founders could file claim of \$1.4bn against Ukraine in 2011

bne

The founder of private enterprise Ukrtranscontainer, British company Transportation Investment Limited, part of the National

Eurasia infrastructure

Uzbek company completes construction of the first rail line in Afghanistan

East West Institute

In mid-September, Uzbekistan's state railway company finished the construction of de facto first rail line on Afghanistan's territory, running from the border to Mazar-i-Sharif, the biggest city in the north, which is 75 km away. The end of the construction work is very important as it eases transport for the US/NATO northern transport corridor (Northern Distribution Network) which runs through Russia and the Central Asian countries; around 30% of the goods used in the stabilisation mission in Afghanistan (ISAF) already run along it.

Construction began on 22 January this year. The US\$170m project was financed by the Asian Development Bank (the biggest investors in which are the USA and Japan). Linking Mazar-i-Sharif to Uzbekistan's rail network will increase ease of transit on the border (by up to four times, according to forecasts) and reduce transport costs. This will bring a further growth in this route's economic importance (it currently hosts around 50% of all Afghanistan's imports), and also an increase in the amount of cargo delivered by the northern transport corridor to coalition forces in Afghanistan. In connection with the opening of the line to Mazar-i-Sharif, the importance of the transit countries (above all Uzbekistan in Central Asia) can be expected to rise, as can the potential influence of Tashkent in the north-west part of Afghanistan, which is inhabited by ethnic Uzbeks. The line to Mazar-i-Sharif is the first in a series of planned rail projects for Afghanistan. Laying more lines, such as a route from Mazar-i-Sharif to Herat, or a north-south Chinese line, will permanently alter the geography of communication and business lines in this part of Asia, and thus the balance of powers there.

CE infrastructure

Consortium wins tender to design 41km section of Hungary's M86 motorway

bne

A consortium of UT-TESZT-UNITEF has won a public-procurement tender invited by Hungary's state-owned national infrastructure developer Nemzeti Infrastruktúra Fejlesztő (NIF) with a bid of HUF 789m, excluding VAT, to design a 41km section of the M86 motorway, the latest issue of Hungary's Public Procurement Gazette reveals, MTI reported.

The NIF received five bids to design the 2x2-lane section of motorway between Szeleste and Csorna in northwestern Hungary. The other bidders were RODEN Mernoki Iroda, FOMTERV Mernoki Tervező, a consortium of Kozlekedés-MSZC-Worner-Argon-Geo and ConstReal Mernoki Iroda.

The price contained in bids varied between HUF 639m and HUF 1.179bn. Tender results were decided in May, but were announced only after an appeal was cleared.

EuroChem buys 25% in Baltic General Cargo from Ust-Luga Co

bne

Russian mineral fertilizer holding EuroChem has bought 25% in cargo operator Baltic General Cargo in the Leningrad Region-based Ust-Luga port from Russia's Ust-Luga Company, which is currently building the port, reports Prime-Tass.

Citing a statement issued by EuroChem, the news agency says that the value of the deal was not provided.

Hungary to focus on renovating existing roads rather than new roads

bne

The government will make the renovation of existing roads, rather

than the construction of new roads, a priority in the coming years, National Development Minister Tamas Fellegi said on Monday, MTI reported.

The resources the government has "inherited" are not sufficient to build an expansive new network of roads and keep up the existing ones, Mr Fellegi said. Where economic demand is established, the construction of new roads is "not an impossibility", he added.

Public-private partnerships (PPP) used until now will be succeeded by mechanisms that ensure professionalism and transparency in road developments, he said. Speaking at a ceremony to mark the start of construction of a stretch of the M3 motorway, Mr Fellegi said the per-kilometre cost of building the M3 would be lowered from more than HUF 2bn to HUF 1bn.

Third lane planned for M1 motorway west of Budapest

bne

A third lane will need to be added to the M1 motorway west of Budapest within the next few years in order to accommodate increased traffic, the State Motorway Management Company told MTI on Tuesday. The third lane is initially planned to be built between Torokbalint and Tata, the company said.

The company ordered a feasibility study about the expansion of the M1 in 2009. This document, prepared by experts of Hungary's traffic research institute, recommends the building of the third lane and converting the road to concrete structure. Over the past decade, especially since Hungary's EU accession in 2004, traffic on Hungary's roads grew rapidly, especially on the M1 which caters for significant transit traffic.

Traffic between Batorbagy and Komárom practically doubled between 2000 and 2008, and the ratio of lorries grew from 28 percent to 36 percent.

SE infrastructure

Bosnia to build 700 million worth of roads in 2011

bne

Local daily *biznis.ba* reports that Bosnia's federal road directorate plans to build 700 million worth of roads in 2011.

The plan involves building of some 20 km of roads per year, representing a significant progress compared to the 2000-2006 period, when only three km of roads were built.

The first section to be built will be the 23-km stretch between the towns of Lasva and Travnik, it was announced at a meeting between the federal road directorate, the local constructors' association and the BiH federal chamber of commerce. The tenders to follow will include those for the sections between Tarcin-Konjic, Konjic-Jablanica and Orasje-Brcko.

EBRD investments are helping to modernise transport infrastructure in the Balkans

EBRD

EBRD investments are helping to modernise transport infrastructure in the Balkans.

The EBRD is providing a €100mn loan to support further modernisation of rail infrastructure in Serbia, in a deal that was announced, appropriately enough, on Serbia's National Rail Day, 15 September. This is the second €100mn loan offered by the Bank to Serbian Railways in the past 18 months to support its modernisation programme and is the latest in a string of key infrastructure investments across the western Balkans.

In the current economic environment, when investors and commercial lenders back away from such capital intensive projects requiring long term funding, the EBRD is leading the way in supporting infrastructure development in emerging Europe, says Thomas Maier, EBRD Managing Director for Infrastructure.

The latest loan offered to Serbian Railways will finance the renewal of over 111 km of rail track along Corridor X, one of the ten pan-European transport routes and a key transit stretch in Serbia, providing vital links to FYR Macedonia and Greece in the south and to Croatia, Hungary and Western Europe in the north. With the support of the EBRD funds Serbian railways will also acquire 15 new energy efficient locomotives to replace some of its dated freight cars.

Boosting regional integration in Western Balkans

The EBRD is also financing the construction of a new motorway section in Serbia, E-80, along the strategic Corridor X, with €150 million provided in September 2009. The modernisation of transport routes along Corridor X in Serbia will contribute to facilitating trade and boosting regional integration in Western Balkans.

Outside of Serbia, the EBRD is financing a number of crucial infrastructure projects in south-eastern Europe.

EBRD funding has been used to complete the construction of the Banja Luka Gradiska motorway in Bosnia-Herzegovina. This is the first motorway in the Republika Srpska, one of the country's two political entities, and will link it with the international transport Corridor X. The EBRD is also financing the expansion Sarajevo International Airport, helping it to address the growing passenger traffic.

In Montenegro, the EBRD is financing the upgrade of the Niksic Podgorica rail line with a €15 million loan. While in Albania, a €50 million EBRD loan is being used to modernise the country's aged road systems and so improve transport links in Albania's rural areas and bring essential products and services to the remote communities throughout the land.

Senior Banker Lin O Grady, who is the Operation Leader of the Serbian Railways project as well as for a number of the Bank's other investments in the Western Balkans transport sector, says: These projects help countries align their transport networks to EU quality and safety standards and boost cross border trade links that are key to the development of the economies in the region.

Uncovering new tourist destinations

In addition to its key transit role, the Western Balkans is becoming an increasingly important holiday destination, its countryside and coastal resorts attracting more and more tourists. EBRD investments are helping to build up the infrastructure that will support the further development of tourism in the region and putting lesser known towns on holiday-makers' maps. This is the case of Sibenik port in Croatia, an attractive mid-cruise stop for ships operating in the Adriatic area of the Mediterranean, which is being expanded with the support of EBRD funds.

All in all, since the beginning of 2010, the EBRD invested over €550 million in transport infrastructure projects in countries of its operations.

Long lasting impact

EBRD investments in recent months have helped to meet immediate financing demands stemming from a shortage of funds during the global economic crisis. But the Bank's projects bring significant long-term benefits for future potential investors and for the sustainable development of the economies in the region.

Mobilising considerable grant financing and technical assistance, every EBRD-funded project is another step towards promoting sector reforms, transforming regulatory frameworks and bringing them in line with international practice.

The modernisation of Serbian Railways is supported by donor funds from the Central European Initiative, the German government and the EBRD's Shareholder Special Fund.

By contributing to this project through the Central European Initiative, Italy is glad to support the reform process in the railway sector in Serbia. Interregional well functioning infrastructure is key for the development and regional integration of the Western Balkans countries", says Stefania Bazzoni, EBRD Board Director representing Italy.

What makes EBRD projects unique is their contribution to advancing further reforms, paving the way for private sector participation in future investments. This input has a long lasting effect that will outlive the projects themselves.

First Cargo 10 train departs Belgrade, linking the region

bne

Cargo 10, a regional railroad company described as being able to link the Balkans, sent off its first train yesterday, from Belgrade to Sezana, Slovenia.

According to B92, the train was loaded with 700 tons of wood briquettes intended for Italy.

Cargo 10 was set up jointly by Serbia, Slovenia, and Croatia. B92 reports that because of the new company Serbia's net foreign currency inflow will increase by at least 50m euros per year.

Montenegro's Port of Bar Pre-Privatization

EBRD**Project Description**

The EBRD is considering providing a €8.5mn sovereign loan to the Republic of Montenegro to finance priority capital expenditure of the AD Container Terminal and General Cargo Operator (the Company) at the Port of Bar. The proceeds of the loan will be used to purchase cranes and cargo handling equipment and to and to support the Company's voluntary redundancy programme. The Company is majority state-owned and the proposed investments will be made with a view to facilitating the Company's privatisation.

Transition Impact

Supporting the privatisation process of the container and general cargo operator would enhance the overall competitive advantage of the Port of Bar and increase its efficiency, thus allowing the Port to: a) fulfil its strategic role for the country; b) ensure its long-term viability and financial self-sustainability; and c) attract new business for the country. Having a strategic private investor operating the key terminal facilities at the Port would also foster competition and create value via enhanced transparency and increased efficiency in both operational and financial performance of the Port as a whole.