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News
Trains
Planes
Roads
Ships

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# Contents

**Top stories:**
Medvedev approves creation of A Russian Road Fund
Russian Railways follow new route to $20 billion high speed rail link
Aeroflot claims more than 700,000 euros lost due to Moscow jams
Driving down new roads
Moscow traffic jams the longest on the planet

**Russia infrastructure news:**
Boeing to assemble An-124 transport planes
Moscow mayor accused of blocking international airport
Renaissance Capital's 14th Annual Investor Conference: Highlights of the Russian infrastructure panel
Sberbank to finance 100 bln rbl of St Pete transport projects
Publication: Prime-TASS Business Newswire
St Pete govt inks concession deal to build automobile tunnel

**Russia infrastructure finance & statistics:**
Globaltrans sets coupon guidance at 9.5-10% on debut rouble bond: Attractive, even at lower end of the range
NCSP cargo turnover down 2.6% to 42.1mn tonnes – crude oil affected by one-offs – margin enhancing cargoes picking up
Railway cargo turnover- summer relaxation
Russian rail cargo loading data for June: Sustained recovery in volumes
Russian rail cargo loading data for May; sustained recovery in volumes
Sheremetyevo Airport passenger traffic up 32.3% on year in January -June
TransContainer places RUB3bnl bond issue
UAC to offer debut RUB46bn bond issue October-December

**Russia roads:**
Moscow drivers have longest commute
Media reports that Igor Linshits still controls Mosinzhstroy and wants to nominate its CEO.
Moscow government to ban trucks below Euro-4 standards in 2012
Mostotrest shareholders approve 1:200 share split
Mostotrest takes controlling stake in Inzhtransstroy

**Russia trains:**
Germany's Siemens to expand cooperation with Russian Railways
Russian Railways applies for 12.1% YoY regulated railway tariff increase
High-speed railway to link Minsk and Moscow
Exec confirms Russian Railways to up 2011 invest to RUB315bn
Exec sees tender for Moscow-St Pete high-speed railroad in 2011
Moscow to assist Vietnam in building subway
NLMK adds to its rail-car fleet NLMK
Railcar prices jump by 22-53%; MIXED for Globaltrans
Railroad giant to launch Moscow-N Novgorod high-speed train July 30
Russia, Ukraine agree on organizing high-speed rail services
Russian rail operators announce new orders for Ukrainian railcar makers
Russian Railways may pay 25% of net profit for 2009 dividends
Russian Railways needs over $800 million in state subsidies
Russian Railways passenger transportation down 12% in January-June
Russian Railways plans to launch Moscow-Sochi fast train
Russian Railways suggests tariff discounts for modern fleet
Russian, French, Kazakh cos start building locomotive plant
RZD may loose RUB68bn if no state support
RZD expects over RUB900bn in revenue from cargo in 2011
RZD wants Deutsche stake
Sapsan to get own rails
Transgarant to buy 15,000 railway cars

**Russia planes:**
Russian, Ukrainian aircraft builders could merge, swap assets in 2011
Boeing profits as tensions rise over state airlines
Aeroflot BoD approves plan to replace Boeing with Airbus planes
Aeroflot passenger traffic increases 45% y-o-y in June
Aeroflot to receive 22 Boeing Dreamliners in 2016
Aeroflot: Boeing 767s to be replaced with Airbus A330s
Americans interested in buying Russian airports - transport minister
Russian airport holding Novaport to sell blocking stake to strategic investor
EBRD, IFC raise 200mn euros for Pulkovo Airport upgrade
Government discusses eleminating customs duty on long-haul aircraft:
Government may sell Sheremetyevo Airport in 2010-2011
Half of Moscow Region Kubinka military airfield to go under hammer
Putin proposes canceling property tax on airports
Putin steps in to help Moscow's Sheremetyevo Airport again
Putin urges Aeroflot to add domestic aircraft to its fleet
Recession and business aviation in EU
Russia promotes An-124 airplane on the U.S. market
Russia to buy 50 Boeing planes from U.S.
St Pete's Pulkovo Airport passenger traffic up 29% in January -May
Transport Ministry wants single mgmt co for Moscow airports
Vnukovo Airport passenger traffic up 28% on year in January -June

**Russia ships:**
Medvedev limits investment in Russian shipbuilding
Russia to adopt single military/civilian shipbuilding program
NCSP: Operating stats for 1H10
Novoship buys out 9.84% of own shares
Russian agency to auction 20% in seaport in Chukotka on Aug 18
Russian govt to sell 25.5% in Yenisei River Shipping Co
Russian shipbuilding corp mulls integration with Ukrainian cos
Sovkomflot plans $280mn development for Sochi's Port
St. Petersburg to move historic 18th century shipyard from the city
Transgarant increases cargo loadings 36% in 1H10
Ukraine's Chernomorsky Shipyard to join Russian shipbuilding corporation
United Industrial Corporation sold Severnaya Verf and Baltiysky Zavod to United Shipbuilding Corporation.
Russia's United Shipbuilding Corporation declared 'strategically important' company

**CIS infrastructure:**
Ukrainian Train-maker returned to Russian company at half price
Belarus in talks with Chinese investors over road construction
Belarus to transform 13 state-owned Belarusian Railway enterprises into OAOs
Belarus, China eye joint projects with Belarusian Railway
Belarus, China mull $500mn project to develop Minsk transport infrastructure
Boryspil airport passenger transportation up by over 8% in H1, 2010
Odesa hopes to announce new tender to reconstruct airport by late 2010
Ukraine's Ukrzaliznytsya to invest $350m in rolling stock in 2010
Ukraine's passenger transportation in Ukraine 7.7% down over six months
Ukraine Seaport and industrial logistics complex to be built in Yevpatoria
Ukraine's freight transportation up 14.4% in 5M10
Ukraine's Passenger transportation up in June
EBRD to present its vision of reforms in energy, public utility and transport sectors to Ukrainian authorities
Ukrainian PM to seek Russian funds for Sevastopol infrastructure
Ukraine's Ukravtodor aims to attract $1bn of funds by September
Ukraine's freight transportation up 13.9% in 1H10

**Eurasia infrastructure:**
Armenia: New investment programmes endorsed at South Caucasus Railway
Armenia: Indices for first 5 months 2010 at South Caucasus Railway
Georgia: Truck Owners to Pay Highway User Tax
Georgia's Road Department Spends 2.9 million GEL
Georgia: Government to Discuss Issue of Privatizing Railway Telecom to Novastar Commerce Limited in Direct Sale
Georgia: Black Sea Product to Inaugurate New Seaport Construction in Supsa
Georgian Prime Minister to Draw Interest of Foreign Investors to Georgian Railway Bonds at Road Show in London
Georgian Railway Plans to Draw Financial Resources through IPO Operation
Georgian Railway: Caspian oil on the move
Georgian Railways appoints JPMorgan and Merrill Lynch for Eurobond placement
Georgian Railways to launch bond road show July 5
Almaty Airport in debt restructuring talks
Kazakhstan to open 370km of Western Europe-Western China highway in 2010
RZD, Armenia to prepare feasibility study for Iranian railway link
Tajikistan: New ADB strategy to support energy and transport sectors

**CE infrastructure:**
airBaltic passenger numbers sky high
Prague airport lands profit of EUR 38m
Czech Railways to open tender for protection of stations and trains
Estonia buys into national airline
Hungary's Malev restructuring needs clarity
Poland's Budimex signs PLN 252 mln highway contract
Polish PBG builder in consortium signs deal for A4 motorway stretch
Slovak: Financial closure of Slovak PPP D1 highway construction delayed again
New Slovak govt to slash infrastructure spending
Slovak highway agency cancels tender for Strazov-Brodno D3 highway section
Slovak Toll System Brings In 63.5 million in 1H10
Slovakia: SkyToll says its road-toll system is fully functional

**SE infrastructure:**
Bosnia: Banja Luka-Gradiska highway to be completed by September
Bulgaria back on the road
Bulgaria: Chinese Investors Interested in Operating Bulgarian Airport under Concession
Bulgaria: Holding Roads places lowest bid for 47.7km stretch of Bulgaria's Trakya Highway
Bulgaria pulls railwy tender
Bulgarian company wins tender to build Trakia IV motorway stretch
Bulgaria seeks EUR 1bn loan from WB for infrastructure projects
Bulgaria to invest EUR1bn in road construction
Macedonia builder Granit said to win EUR2.5mn tender for road construction
Romania - Japan puts money into Romanian rail
Romania: Chisinau Public Transport Project: Supply of trolleybuses
Romania minister says money from privatisation should be invested in infrastructure
Romanian civil servants sacked for AC/DC's 'Highway to Hell'
Serbia: EBRD confirms Serbian road project
Serbia reaches railway deal
Serbia: Strabag confirms talks to cancel EUR3bn road contract with Bosnian Serb Republic
Serbia to form new state airline
Serbia to invest EUR 22bn in transport infrastructure by 2027
Serbia's fast lane to development
Turkish firms to build roads in Serbia

# Top story

# Medvedev approves creation of A Russian Road Fund

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Russian president Dmitry Medvedev approved the creation of a national road fund that will finance the construction and repair of roads, reports wires.

Deputy Prime Minister and Finance Minister Alexei Kudrin said at a press conference that the fund will contain RUB377bn ($12.5bn) by next year, rising to RUB348bn in 2012 and RUB408bn ($13.6bn) in 2013.

Medvedev also approved an increase of the excise tax on fuel by 1 ruble per liter annually over 2011-2013, Kudrin said, which will bring in an estimated RUB82.9bn to the budget in 2011, RUB174bn in 2012 and RUB139.7bn in 2013. Kudrin said the fund will be largely financed by the new taxes.

The road tax will be reduced 50% in 2011 instead of being abolished, as had been expected.

The Ministry of Transport (MoT) expects that 85% of federal roads will be repaired by 2015 through the use of the new Road Fund. The Mininstry of Transport plans to spend RUB44.5bn to pave all rural roads in settlements with more than 125,000 people.

"This year, the federal budget for road construction and repairs is RUB274bn. The Road Fund and the new tax system will boost expenditures on road construction and repairs," says Mikhail Safin, an analyst at Renaissance Capital. ●

# Russian Railways follow new route to $20 billion high speed rail link

**Peter van Dyk, bne**

Vladimir Yakunin, the president of Russian Railways (RZD), says he runs the largest transport company in the world; with good reason. Russia stretches nearly half way around the globe, and the only economical way to get from one side to the other is by train. But it takes a week.

The railways are the arteries of Russia's economy, and as part of Russian President Dmitry Medvedev's modernisation programme, the Kremlin has been pouring money into the system to kick off construction on a planned series of high-speed links between the country's major cities.

The new luxurious Sapsan trains are Russia's answer to France's TGV, and the first one went into service at the end of last year. Running between Moscow and St Petersburg, they cut the journey time from about 5 hours to a mere 3 hours and 45 minutes. The cost of a return ticket is about €200, so they're not for everyone, but the four trains in service still carried over 400,000 passengers in their first four months of operation.

Yakunin is a big man with immaculate manners, a testimony to the five years he spent as a senior member of the Soviet missions to the UN in the second half of the 1980s. He'll need all his diplomatic skills to revamp a company so vital to the economy and central to the lives of the vast majority of the population in every region. That sort of reach will be of concern to every politician in the country.

Yakunin calls the high speed link a "revolutionary project," and it's Russian Railways' first foray into the world of public-private partnership (PPP), with a deal in place to finance the project through a life cycle contract or LCC.

"Whereas HSR I would upgrade the country's transport system to a new level, the LCC would ensure a high-quality level of performance, innovations, budget savings and attract private capital for tens and hundreds of major projects in the country's transport systems and infrastructure in long term," Yakunin says.

After almost two decades of neglect, the Kremlin has now started to pour money into its crumbling Soviet-era infrastructure - and the railways are the current focus of the state's attention. Last year the government spent some $32bn on upgrading the system, including $20bn for the new Moscow and St. Petersburg link.

However, RZD is going to need a lot more money. Medvedev inked a decree to promote more high speed links in the middle of May, and a string of new routes is on the drawing board. A second Sapsan service will link Moscow and Nizhny Novgorod in the north west from August, and Yakunin says there many more to come.

"We will be developing routes [from Moscow] to Sochi, Samara, and Kursk," Yakunin said, "and even further afield to Kiev [capital of Ukraine] as well as Ukraine's Crimea, peninsula on the Black Sea."

Revamping the rail system has the potential to have a dramatic effect on the economy. Yakunin says that once pipeline shipments of oil and gas are excluded, RZD moves 85% of the country's goods. "Today, we provide 2.6 percent of our country's GDP," he crows, which makes RZD the second most important company in the economy after state-owned gas monopolist Gazprom.

Despite this progress, Yakunin notes that the company still trails demand from the econonmy. "Even during the crisis, we were having serious problems delivering freight to the ports in the Far East because of a lack of capacity," he laments. ●

# Aeroflot claims more than €700,000 lost due to Moscow jams

**Ria Novosti**

Road works that snarled up Moscow traffic at the start of July cost Russia's flagship carrier Aeroflot €700,000 euros in lost business.

The decision to close all but one of the Leningradsky highway for repairs in the middle of a week day brought traffic on its way to Moscow's Sheremetyevo international airport to a halt

More than 1,300 passengers missed their flights due to the snafu.

"We've refunded our passengers 75 percent of the ticket cost," Aeroflot Deputy CEO Andrei Kalmykov told the State Duma lower house of parliament. "The first day of this disaster was deadly for us."

Construction led to severe road congestion in the area, causing pilots as well as travellers to miss their flights. The trip from the centre should take about half an hour, but the journey time was increased to 5-6 hours on average to get to Sheremetyevo.

Prime Minister Vladimir Putin ordered Deputy Prime Minister Sergei Ivanov to work with city authorities to find a way to solve the problem.

Kalmykov said that Aeroflot was not warned about the road works. Sheremetyevo head Mikhail Vasilenko accused the Moscow authorities of deliberately jeopardizing trips by passengers who had chosen his airport over the newly remodeled Vnukovo terminals, set to open on July 3.

Vnukovo belongs to the Moscow government, while Sheremetyevo is owned by federal authorities.

Moscow Region Transportation Minister Pyotr Katsev said that repairs on the Leningradsky highway would have begun earlier, but Moscow city and regional authorities could not agree on who should foot the bill.

Katsev added that the beams supporting the bridge at the centre of repairs had been severely worn out. Securing the bridge, he said, was a matter of safety for the Sapsan express train, which travels between Moscow and St. Petersburg.

Andrei Tsybin, head of Moscow's public amenities department, said that road construction leading up to the airport should be completed by Oct. 1, 2010. ●

# Driving down new roads

**Tim Gosling in Moscow**

Final documents to kick off Russia's first major private-public partnership (PPP) projects were officially signed at the end of April. The deals not only finally conclude a long and winding process to get this particular brand of investment up and running in Russia, but mark important steps in improving the country's investment climate and developing its transport infrastructure.

The first across the line was Glavnaya Doroga's agreement to build and operate the Odintsovo Bypass just outside Moscow, with North-West Concession Company's (NWCC) agreement with the Federal Road Agency on construction of a 43-kilometre section of the planned Moscow-St Petersburg toll expressway hot on its heels. Three days after that, Northern Capital Gateway (NCG) signed the financial closing on the redevelopment and operation of St Petersburg's Pulkovo airport.

On the one hand, the deals are an important step in the Kremlin strategy to improve the country's investment climate. It illustrates that the government has the will, and more importantly the ability, to negotiate complex legislative reform for this purpose - although it has taken several years. At the same time, they open an important avenue to help attract private money and resources into the massive effort needed to update the country's aging infrastructure. More specifically, two of them kick off new road building in Russia, which has been almost utterly neglected over the last decade or so.

There is one downside however, and that's the huge political support at least two of the deals needed. Russia has thrown its arms open to the private investors, hoping the deals will kick start desperately needed infrastructure development without putting further strain on the already-weakened public finances after the crisis. The danger is that the government could still end up with a huge tab, just like the one the UK had to pick up as its 1990s PPP programme (on which the Russian model is based) hit the buffers.

**Generous terms**

The Russians originally launched a wide PPP programme in 2006 and approved 20 projects intended to follow that particular route, including many highways such as the Western High Speed Diameter bypass in St Petersburg, which with a bill of RUB213bn is still stalled. However, progress was first hampered by legislative issues, and then stopped dead in its tracks by the crisis.

The road concessions just signed were the first put on the table in September 2007. With state guarantees of RUB11bn ( 290m) for the RUB25.6bn Odintsovo scheme and RUB23bn towards NWCC's RUB60bn project costs in place, legislation on further financing has finally been tweaked sufficiently to allow the deals to be signed. A central pillar is special legislation, passed on April 1, to allow project-specific government guarantees for infrastructure bonds, an interim measure whilst a federal infrastructure bond programme is being thrashed out between the ministries.

The hope is obviously that these first deals will set the model for future PPP projects - $50bn worth of which were presented in May at the Russia Strategic Infrastructure Leadership Forum, spanning sectors from highways to high-speed rail, water and waste to energy and power. Not only do they set out legislative and financial formulas, but also the likely profile of the private participants. All three consortia are built in a fashion common in the construction and development sectors in Russia: large western partners, which import expertise and technology, will link up with domestic companies with the know-how to negotiate the tricky local environment.

Three years ago, a whopping $1 trillion was earmarked to redevelop Russia's ailing Soviet-era infrastructure - with most of it set for the transport sector. However, the crisis soon put an end to that, with state resources pumped into social welfare and keeping the economy afloat. The issue remains vital though; it's no coincidence, for example, that shipping companies and ports are at the forefront of the government's new privatisation drive.

Just how keen the government is to finally get the PPP programme moving is illustrated by the financing structure of the new deals, especially the NWCC project. On top of the state guarantee, development bank Vnesheconombank (VEB) and state-controlled Sberbank opened a RUB29bn 20-year credit line for the consortium, as well as a RUB4.5bn VAT facility. The government will also fully guarantee RUB10bn in infrastructure bonds, 70% of which VEB has committed to buy.

Presumably, not every private partner in the future can expect to have the entire financing package handed to them on a plate. In the case of NWCC, it was somewhat forced by the refusal of the international financial institutions - which have been heavily involved in advising on the government's PPP programme and a couple of which had originally signed memoranda of intent - to get involved with the new stretch of road, due to public protest over its route through a forest just outside Moscow. That said, Glavnaya Doroga managed to get the government to agree to guarantee a RUB8.2bn bond issue very late in the day after it claimed concern that it wouldn't manage to raise the cash from banks.

Thankfully, sealing the €1.2bn Pulkovo deal was far easier on federal funds, with VEB - which has a special PPP department and aims for 30% of its loan portfolio go to such projects by 2012 - contributing around one-third of a total of €716m in long-term credit. The remainder will come via five international development banks, but the real bonus is that the European Bank for Reconstruction and Development (EBRD) and World Bank are sourcing €190m from commercial banks for the project, which should help expand sources of finance for future projects - and that's the main point, after all. ●

# Moscow traffic jams the longest on the planet

**bne**

It will come as no surprise to Muscovites to learn that they officially suffer the longest traffic jams in the world, nor that their horn-blasting fury has them down as the angriest drivers across the planet.

The average Moscow motorist spent a "whopping" 2.5 hours stuck in traffic at least once in the last three years, writes IBM in a global study on the "emotional and economic toll of commuting," entitled Commuter Pain, according to Bloomberg.

Conditions in the Russian capital create a "grueling" atmosphere that inhibits commerce, the report states. Over 40% of Moscow drivers say that they are used to sitting in traffic jams for three hours plus. The average for the 20 cities surveyed in the report is just one hour.

IBM concludes that "The daily commute in some of the world's most economically important international cities is longer and more grueling than before imagined, reflecting the failure of transportation infrastructure to keep pace with economic activity,"

A World Bank report published in June says that Russia's spending on transport will fall to 1.9% of GDP in 2010, from the "already low level of" 2.5%. The quality of the country's road infrastructure is ranked 111th in the world.

In particular, Russia appears to be falling behind Bric peers. Whilst traffic jams in Beijing and New Delhi are the most improved over the last three years, Moscow joins Johannesburg and Toronto in making the least headway in allieviating them. That said, Beijing joins Moscow in seeing the most journeys canceled due to anticipated traffic jams, whilst the Chinese capital's motorists have the most "onerous" commute overall. ●

# Russian Railways, Siemens to set up JV in 2011 to produce trains – Siemens

**Ria Novosti**

A joint venture to produce Desiro electric trains between Siemens and a subsidiary of Russian Railways will be set up in January-February 2011, the German giant said in a statement on Thursday.

"The document states concrete plans and steps for the establishment of a joint venture with Siemens and Aeroexpress for the participation and localization of Desiro Rus series electric trains production that should be worked out before the start of fall 2010," the company said in a statement.

The statement came following a ceremony of signing a memorandum to create the joint venture to produce, deliver and maintain the trains.

Russian Railways Senior Vice-President Valentin Gapanovich has said the companies would decide where the joint venture would be located before August 20. Components for the Russian version of the Desiro trains, called Lastochka, will be produced in Russia.

"The memorandum confirms Russian Railways' intention to place an order for 1,200 cars at the joint venture. The supply agreement will be signed in spring 2011," the company said in the statement.

In December 2009, Russian Railways and Siemens signed a contract to supply 54 Desiro trains for the 2014 Olympic Games in the southern Russian city of Sochi for a total of about 580 million euros.

Aeroexspress will be the operator of the Olympic trains. The first 38 trains will be produced in Germany, the remaining 16 will be partially produced in Russia. ●

# Russia infrastrcuture news

## Boeing to assemble An-124 transport planes

**RIA Novosti**

U.S. Boeing Co. may conduct the final assembly of Russian-Ukrainian An-124 Condor heavy-lift transport planes for the U.S. market, a Russian business daily said on Friday, citing government officials.

The Kommersant newspaper cited Alexei Fyodorov, head of Russia's United Aircraft Corporation, as saying that Russia had proposed the joint production of the plane to the U.S. government and the White House had been discussing the issue with Boeing.

Russian Foreign Minister Sergei Lavrov told Kommersant that the issue would be on the agenda of President Dmitry Medvedev's visit to the United States later in June.

The An-124 was designed by the Antonov Design Bureau in 1982, and was produced in Ukraine's Kiev and Russia's Ulyanovsk plants until 1995. Although there are no An-124s being built at present, Russia and Ukraine have reportedly agreed to resume production in the future.

The plane is similar to the American Lockheed C-5 Galaxy, but has a 25% larger payload.

The aircraft has a maximum payload of 150 metric tons with a flight range of around 3,000 kilometers (1,864 miles).

An-124s have been used extensively by several U.S. companies. The Russian cargo company Volga-Dnepr has contracts with Boeing to ship outsize aircraft components to its Everett plant.

United Launch Alliance contracts the An-124 to transport the Atlas V launch vehicle from its facilities near Denver to Cape Canaveral.

Space Systems Loral contracts the An-124 to transport satellites from Palo Alto in California to the Arianespace spaceport in Kourou, French Guiana.

The Pentagon has reportedly contracted An-124 planes for military transport purposes until 2016.

Russian experts believe that the future project could become reality only if a "political" decision is made to manufacture An-124 for the U.S. military. The civilian use of the plane is very limited, while the cost of up to $250 mln would require the production of a large number of such aircraft to make it profitable.

The Russian proposal has already drawn severe criticism from Ukrainian aircraft industry officials. The Antonov design bureau owns the rights for the design of the An-124 and the Motor Sich company builds engines for the plane and the Ukrainians do not want to lose their share of the profits to potential U.S. competitors.

## Moscow mayor accused of blocking international airport

**bne**

The director of Sheremetyevo Airport has accused Moscow mayor Yury Luzhkov of blocking access to the facility in order to stifle competition with another airport which is owned by city hall.

According to media reports, on his blog on Wednesday, Mikhail Vasilenko said the mayor had arranged for roadworks to block Leningradskoye Shosse - the main route from Moscow city center to the international airport.

Vasilenko suggests that the problem is connected with the opening of a new terminal at Vnukovo - another of the Russian capital's three airports, and the only one owned by city hall. Sheremytovo is federally controlled, although there has been discussion of privatization recently.

"I cannot explain this situation except by the fact that Vnukovo Airport, which belongs to the Moscow government, will be launching a new terminal on July 3," the director wrote, reports The Moscow Times.

Repairs to a bridge on Leningradskoye - which is the main highway between Moscow and St Petersburg - began on Saturday, reducing a stretch of the eight lane road to a single lane in each direction. Since then, traffic has been backed up for several miles, and alternative routes through satellite towns have also ground to a halt. Other bloggers have reported that they have had to walk from the airport to get to the city.

Vasilenko claims that the repair work was launched without discussion with Sheremytovo, meaning that neither the airport, nor passengers, staff or crew, were able to make alternative arrangements.

The director added in his blog that he had been advised by colleagues not to quarrel with the city authorities. However, he claims that the actions of city hall represent a "crime", and says he has written to the Federal Antimonopoly Service, asking it to look into the matter.

Andrei Tsybin, head of Moscow's housing and utilities department, told reporters Wednesday that the work on the bridge is not due to be completed until October 1.

"Creating problems for competitors ... including using political resource" is a key path to success, Vasilenko asserted in his blog.

# Renaissance Capital's 14th Annual Investor Conference: Highlights of the Russian infrastructure panel

**Renaissance Capital**

Event: Yesterday (28 June), Renaissance Capital hosted an infrastructure panel, "Infrastructure - The Key to Russian Competitiveness," as part of its 14th Annual Investor Conference in Moscow.

Action: The key conclusion was that Russian and CIS infrastructure needs substantial investment, from a balance of public and private sources.

Rationale: The main topics of the panel discussion were as follows:

•How can public and private money collaborate? The need for infrastructure investment - the basis for economic diversification and modernisation - is enormous: according to OECD studies, the gap between the amount of public investment and the actual investment requirements is growing, which is why private money will be needed. The keys to attracting private money are good regulation, state guarantees and a strong government, which would encourage the development of public-private parterships. Russian rail reform and a number of road construction concessions have generated interest from private investors.

•Where will the money come from? Although the state is still the major infrastructure investor (for infrastructure in general use), it will be important to reach a good balance between public and private money, which comes primarily from pension funds and insurance companies. Solid regulation, high standards of corporate governance and low country risk are all needed to reassure private investors. International funds, which can complement domestic sources, need to be supported by state guarantees and transparent coverage of currency and country risk.

•Seeing opportunities in China and South East Asia. It was noted that China, a swift and substantial investor, could help with infrastructure development in the CIS.

•Besides the money, better management is needed. The need for competition should be balanced with state investment guarantees - here, good management can make a major difference.

# Sberbank to finance 100 bln rbl of St Pete transport projects Publication: Prime-TASS Business Newswire

**Provider: Prime-TASS**

ST. PETERSBURG, Jun 17 (PRIME-TASS) -- Russia's largest bank Sberbank plans to provide 100 billion rubles to the government of St. Petersburg to finance transport projects, German Gref, Sberbank's CEO, said Thursday at an economic forum in St. Petersburg.

Of the total, Sberbank could provide up to 60 billion rubles to finance the construction of the Western High-Speed Diameter highway in the city; up to 25 billion rubles to finance the construction of the Orlovsky automobile tunnel under the Neva River; and around 11 billion rubles to finance the construction of an overland rapid transit system, called Nadzemny Ekspress, or the Overland Express.

(31.1566 rubles - U.S. $1)

# St Pete govt inks concession deal to build automobile tunnel

**bne**

The St. Petersburg government on June 19 signed a concession agreement with the Nevskaya Concession Company, co-owned by the French construction company Vinci, to design, build, and operate the Orlovsky toll automobile tunnel under the Neva River, reports Prime-Tass.

The news agency quoted St. Petersburg Governor Valentina Matviyenko as saying that the tunnel's throughput capacity is expected to be 60,000 vehicles per 24 hours.

# Russia infrastrcuture finance & statistics

## Globaltrans sets coupon guidance at 9.5-10% on debut rouble bond: Attractive, even at lower end of the range

**Renaissance Capital, Russia**

This week (12-16 July), we expect books to close on the debut RUB3bn domestic bond issue from Globaltrans, Russia's largest independent railfreight operator. The issue, rated B1/Stable, will have a full tenure of five years, but will start amortising six months after placement, with 5% of notional quarterly repayment and 10% final payment at maturity, effectively producing approximately 2.5-year duration. The formal issuer is OJSC New Transportation Company (NPK), Globaltrans's wholly owned gondola car/dry goods operating subsidiary, which contributes roughly half of consolidated group revenues and manages about two-thirds of the group's fleet.

Coupon guidance is 9.50-10.0%, or a 9.84-10.38% YtM (the issue will also be callable at par in 2.5 years). We like Globaltrans's risk profile, and think the issue will be cheap at these levels; we would view fair pricing closer 9.5-9.75% YtM. We believe this because in that duration bucket, Bashneft yields 9% and Evraz 10%. Given the manner in which economics is distributed thoroughout the value chain of the ferrous metals industry (leading to 2-3x higher profitability for Globaltrans vs Evraz) and comparing leverage metrics of these issuers, we think Globaltrans merits tighter spreads vs Evraz. Globaltrans is a well-researched, publicly traded name listed in London; we therefore provide only two credit-relevant comments on the name:

Globaltrans is more resilient than specialised operators. Its fleet is roughly equally split between gondola (open-top) cars and tank railcars. Gondolas are the most versatile dry cargo wagons, offering: 1) in a strong economic environment, a greater likelihood of finding return cargoes; hence outperforming specialised railcars in terms of empty-run ratio where the geography of flows rarely provides a chance to pick a return cargo; and 2) in a poor economic environment, the ability to quickly switch between customers and types of cargo. In 1H08, Globaltrans posted a 19% empty-run ratio in the gondola car segment, a record for the industry. In 2009, when import flows, as well as traffic of scrap metal, cement and other construction materials faded away, the group's fleet was able to turn more to iron ore and ferrous metals. Although empty runs in the gondola segment grew very materially (up to 46% for 2009), Globaltrans was able to post a 3% YoY increase in volumes and a 12% increase in adjusted revenues in 2009 (recalculated to rouble terms), while Transcontainer, for example, lost 19% in volumes and 26% in adjusted revenues (click here to view Transcontainer's 2009 and 1Q10 results in our 31 May 2010 Fixed Income Daily Snapshot). Even excluding the effect of BTS (see below), the average price per shipment for Globaltrans remained flat in RUB terms in 2009. Globaltrans is one of the key players in Russian railfreight: its large fleet allows it to guarantee availability of railcars for loading to its customers where and when, for one reason or another, railcar shortages develop. In such situations, customers are not infrequently ready to share empty-run costs with Globaltrans, and in 2009 the group only paid 83% of its empty-run costs, with the remainder covered by customers.

A conservative funding structure. Globaltrans undertook an IPO in early 2008, raising $209mn (net fresh equity to the company), and subsequently conducted an SPO in late 2009, attracting net $96mn in cash and 50% of BTS, the tankrailcar operator previously 100% held by Globaltrans' controlling shareholders (N-trans, previously known to bond market investors as Transportation Investment Holding Limited), in an all-share transaction (another half of BTS continues to be held by N-trans). That acquisition effectively boosted Globaltrans' consolidated adjusted revenue by 78%, and was positive in valuation terms (click here to view Globaltrans - New share issue: Clearly positive released on 15 Dec 2009). The group's debt metrics are reasonably strong (see the figure below), and its financial debt - finance leases included - is mostly long term (roughly one-third is short term, which w ill be further reduced by the upcoming placement). For 2010 and 2011, debt maturities (including leases) run at about $150-$160mn annually, against a $270mn net operating cash flow in 2009 and not taking into account either cash ($160mn as of YE09) or the value of liquid assets (net of finance-leased and encumbered under bank loans, we estimate net carrying value of available-for-sale rolling stock at $210mn as of YE09). In an industry where asset trading (railcar purchase and sale decisions) and the corresponding funding structure are as important for business viability as operational expertise, Globaltrans seems much better positioned to us than nearly all its peers. As with any operator, we can only assess Globaltrans's performance in terms of timing of railcar purchases on a backward-looking basis; in any case, it seems Globaltrans, prudently, avoided buying railcars in the peak pricing environment of late 2007-early 2008.

Globaltrans key IFRS financials, $mn Petr Grishin

# NCSP cargo turnover down 2.6% to 42.1mn tonnes – crude oil affected by one-offs – margin enhancing cargoes picking up

**VTB Capital, Russia**

News: NCSP's cargo turnover declined 2.6% to 42.1mn tonnes.

**Our View:** The fall in volumes is unpleasant, but the changing product structure is margin supportive. This is because the drop has been in less profitable cargos (such as oil and iron ore) while high margin products are demonstrating strong growth, supporting NCSP's margins (as seen in the 1Q10 IFRS results).

Crude oil was the main factor behind the drop: handling started to lag in January-February due to the weather-sensitivity of oil loading. In the second quarter, an increase in export duties on oil, which reached a maximum in June, forced exporters to hold back volumes in anticipation of duties decreasing in July (down USD 43/t). Hence, July is likely to see exports being maximised. That said, there is also a long-term factor affecting oil volumes: the launch of the ESPO pipeline, which is redistributing oil exports to the Russian Far East.

On the other hand NCSP took full advantage of the economic upturn, increasing its margin-driving handling of containers 68.2%. Among other recovering cargoes, we note more high margin cargoes: mineral fertilisers (+47.2%), sugar (+38.9%), timber (+33.7%), oil products (+2.4%). In our view, this will help NCSP to maintain its profitability, despite the rouble being stronger than last year.

# Railway cargo turnover – summer relaxation

**VTB Capital**

The extremely hot June melted Russian Railways' cargo turnover growth to 7% YoY (-5% MoM) from 14% YoY in the previous months. However, for 1H10 it was almost unchanged from 5mo10 (13% and 14%, respectively). This confirms that the transportation sector, and the Russian economy as a whole, continues to follow a recovery track. The slight deceleration in the rate at which turnover is expanding did not come as a surprise and gives us no cause for concern. In our view, the receding low base effect (railway cargo turnover started its gradual recovery from April 2009) and seasonal drop in turnover (which this year was less than the historical 6% MoM correction) were the main reasons behind the decrease in growth rates.
Our view that the Russian economy continued to grow in June is supported by the Russian Manufacturing PMI printing 52.6, its highest in two years. Indeed, this shows that the improvement in the manufacturing sector is even accelerating (see our Russian Macro: Russian Manufacturing PMI, of 1 July).

The steel industry, which had been driving rail cargo turnover growth, saw its increase slow down. The correction in ferrous metals prices undermined demand, with many buyers waiting for prices to drop further before making purchases. Metallurgical companies responded by reducing capacity utilisation, as reflected by the MoM drops in traffic for ferrous metals (11%), scrap (10%), coke (17%) and iron ore (6%), although they were all up YoY. The drops in the transportation of the largest cargo items (both coal and oil & oil products fell 5% MoM (up 2% and 8% YoY, respectively) can be explained by seasonal factors (both remained above historical levels). The volumes were primarily supported by cargoes related to private consumption: containers (mainly imported goods) were flat MoM, but rose 21% YoY, while building materials were up 13% MoM (14% YoY) and cement was up 9% MoM (16% YoY), showing a solid improvement for the second month in a row and hinting that the construction sector might finally be switching away from the crisis-induced downtrend.

# Russian rail cargo loading data for June: Sustained recovery in volumes

**Renaissance Capital, Russia**

**Event:** Yesterday (1 July), Russian Railways said Russian cargo loadings added 9.4% YoY, to 101.3mnt in June 2010, vs a 13% YoY increase in May 2010 and 12% in 1H10. The MoM decline was 2% in June 2010.

**Action:** We see a sustained recovery in rail volumes so far, which is positive for Globaltrans and the Russian economy overall, in our view.

**Rationale:** Robust YoY rail cargo volume dynamics seem to reflect the relatively healthy state of the Russian economy, in our view. June 2009 was the first month to show a pick-up in volumes after a severe decline, so we view the June 2010 dynamics as solid. Russian Railways expects 3.7-5% volume growth in 2010, and we think Globaltrans is likely to be ahead of the market (its major categories - ferrous metals and oil - were up 20% and 10% in 1H10, respectively). We think Globaltrans's gondola empty-run ratio has likely improved YtD vs 2H09, contingent upon recovery in the SME segment. We note, however, that construction cargo loadings (an important factor for empty-run ratio improvement) were up 5% YoY from an already low base, and have not yet recovered.

# Russian rail cargo loading data for May; sustained recovery in volumes

**Renaissance Capital**

**Event:** Yesterday (1 June), Russian Railways said Russian cargo loadings were up 13% YoY to 103.2mnt in May 2010, similar to a 13% YoY increase in Apr 2010 and YtD. MoM growth was 2% in May 2010.

**Action:** We see a sustained recovery in rail volumes so far, which is positive for Globaltrans and the Russian economy overall, in our view.

Rationale: Apparent robust YoY rail cargo volume dynamics reflect the relatively healthy state of the Russian economy. Russian Railways expects approximately 4% volume growth in 2010, and we think Globaltrans is likely to be ahead of the market (its major categories, ferrous metals and oil were up 22% and 10% in May, respectively). We think Globaltrans's gondola empty-run ratio has likely improved YtD vs 2H10, contingent upon the recovery in the SME segment. We note, however, that construction cargo loadings (another important factor for empty-run ratio improvement) were down 0.5% YoY, and have not yet recovered.

# Sheremetyevo Airport passenger traffic up 32.3% on year in January -June

**bne**

The passenger traffic of Moscow's Sheremetyevo Airport increased 32.3% on the year to 8.499 million people in January-June, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that of the total, international passenger traffic through the airport was at 5.411 million people in January-June, up 25.2% on the year.

# TransContainer places RUB3bnl bond issue

**bne**

Russian container shipping company TransContainer has placed its second, RUB3bn 5-year bond issue with the rate of the first coupon set at 8.8%, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the bonds were offered in 1,000-ruble denominations and carry six semiannual coupons.

In the meantime, since June 1, 2010, JP Morgan Investment Bank included Eurobonds of Russian Railways in EMBI Global and EMBI Diversified, reports local media.

Reports suggest that Eurobonds of Russia and Russian Agricultural Bank are included into these indices as well.

In another development, the supervisory board of state-owned Russian Agricultural Bank has approved offering seven exchange bond issues worth a total of RUB50bn, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that each bond issue has a maturity of three years.

In another development, Russian automaker IzhAvto has entered a technical default on a sixth coupon payment of RUB168.962mn on a 4-year RUB2bn bond, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company attributed its failure to make the coupon payment to an absence of funds.

# UAC to offer debut RUB46bn bond issue October-December

**bne**

The board of directors of Russia's United Aircraft Corporation (UAC) has decided to offer a debut, RUB46.28bn 9-year bond issue sometime in October-December, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the bonds are expected to be offered in 1,000-ruble denominations and to be secured by the government's guarantees.

In the meantime, Russian container shipping company TransContainer has set the first coupon rates for its second, RUB3bn 5-year bond issue at 8.8%, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the bonds are to be offered publicly in 1,000-ruble denominations and carry six semiannual coupons.

In another development, Russia's SKB-Bank has fully placed a RUB2bn 3-year exchange bond issue, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the bank set the first coupon rate at 9.8%.

In another development, Russian power producer Enel Wholesale Generating Company-5 (Enel WGC-5) plans to offer a RUB4bn

3-year exchange bond issue on June 22, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the bonds are expected to be offered in 1,000-ruble denominations.

In another development, Russia's uncut diamond monopoly Alrosa plans to start offering two 5-year bond issues worth a total of RUB15bn on June 24, reports Prime-Tass.

The news agency says that the company plans to offer an RUB8bn bond issue and a RUB7bn bond issue publicly in 1,000-ruble denominations.

In another development, the company's CEO Yevgeny Fyodorov, the CEO of Russian electric power producer Irkutskenergo, has said that the company board is expected to decide by the end of June whether to offer an exchange bond issue, reports Prime-Tass.

The news agency quoted Fyodorov as saying that the board of directors would also define the size of the proposed bond offering.

# Russia roads

## Moscow drivers have longest commute

**bne**

Moscow drivers suffer the longest traffic jams of major cities, making for a ,,grueling" atmosphere that inhibits commerce, says IBM in a report Thursday, reports The Moscow Times.

Citing IBM's first global study on the ,,emotional and economic toll of commuting, the newspaper report says that the average Muscovite motorist spent a ,,whopping" 2 1/2 hours stuck in traffic at least once in the last three years.

## Media reports that Igor Linshits still controls Mosinzhstroy and wants to nominate its CEO.

**Metropol**

Although the news is neutral to the stock, we can see two scenarios which would be beneficial for minorities.

According to media reports, Igor Linshits, a founder of Neftyanoy Bank, still controls Mosinzhstroy and plans to nominate a candidate for CEO of the company. In 2009, the media reported that Linshits sold his 85% common shares stake in the company to ZAO Infrastruktura, controlled by Valeriy Abramson and Roman Abramovich. However, later sources said that the deal was not completed. Nevertheless, the company is currently managed by a CEO appointed by ZAO Infrastructura.

We believe that the news is not currently a trigger for Mosinzhstroy stock. Nevertheless, we think that following the closure of a criminal case against Linshits in May 2010, he could take a more energetic role in company management. At the same time Linshits could still be interested in selling his stake in the company. Both scenarios would be beneficial for minorities, in our view.

## Moscow government to ban trucks below Euro-4 standards in 2012

**bne**

The city government plans to prohibit trucks that do not meet Euro-4 emission standards from entering downtown Moscow starting from 2012, reports Prime-Tass.

Citing a city hall spokesperson, the news agency says that starting from 2011, trucks with standards below Euro-3 will be prohibited.

## Mostotrest shareholders approve 1:200 share split

**Renaissance Capital**

**Event:** Shareholders of Mostotrest, the Russian road and bridge construction company, have approved a 1:200 share split. After the split, the company will have 248.24mn shares, with a par value of RUB0.14/share. The purpose of the split is to increase share liquidity. Mostotrest plans to raise $500mn via an IPO, planned for 2H10 or 1H11. Shareholders at the company's AGM also approved a dividend of RUB645/share. Mostotrest will pay RUB800.6mn to shareholders, or 23.7% of its net income under Russian Accounting Standards (RAS). In 2009 the company's revenues increased 16% to RUB33.2bn. Net income rose 6.7x to RUB3.37bn. The company is planning to report IFRS results. Mostotrest's major shareholders are Marc O'Polo Investments (approximately 50.3%) and the Russian Railways Pension Fund. We estimate the free float is less than 5%.

**Action:** The news is positive for Mostotrest; however, the low liquidity of the stock restricts investment. We are keeping the company Under Review.

**Rationale:** Mostotrest is one of the leading construction companies in Russia, with approximately 30% of the bridge construction market. In 2009, the company demonstrated good operational performance, due to a full order book and a pipeline project in Sochi. The company has expertise in the bridge construction market and might be a strong consolidator of the sector, in our view. This year, the company acquired 25% of Mostootryad 11 (2009 revenues of RUB5.4bn), 51% in Inzhtransstroi Corporation (2009 revenues of RUB49.9bn) and 50.1% of Transstroimachanizatsia (2009 revenues of RUB12.8bn).

## Mostotrest takes controlling stake in Inzhtransstroy

**Renaissance Capital**

**Event:** On Wednesday (29 June), Russian bridgebuilder, Mostotrest (MSTT), said it had bought a 1% stake in Inzhtransstroy, bringing its total stake to 51%. Inzhtranstroy is one of the largest design and engineering companies in the infrastructure sector in Russia, and specialises in building and rebuilding roads, railways, airports, bridges, sea and river hydro technical constructions. In 2009, the company's revenue was RUB49.9bn ($1.6bn), and its order book includes reconstruction at airports in Moscow (Sheremetevo), Sochi and Vladivostok; the construction of a ski resort in Sochi; and building hydro technical constructions in the port of Ust-Luga, in Leningrad region.

**Action:** Positive for Mostotrest, in our view.

Rationale: Russia's Federal Antimonopoly Service recently approved MSTT's proposed purchase of a 75% stake in Inzhtransstoy, and on 10 May MSTT acquired a 50% stake in Inzhtranstroy. The acquisition of Inzhtransstoy will allow MSTT to strengthen its positions in Sochi, Russia's Far East and other regions of Russia, in our view. During Renaissance Capital's 14th Annual Investor Conference, earlier this week, MSTT's major shareholder, Mikhail Abyzov, said the company plans a $500mn IPO in autumn 2010 or early 2011, adding that the company has prepared IFRS financial statements.

# Russia trains

## Germany's Siemens to expand cooperation with Russian Railways

**bne**

Siemens' chief executive officer Peter Loscher has said that German engineering giant Siemens AG is planning a major expansion of its cooperation with Russian Railways (RZD) in the nearest future, reports local media.

Loscher was quoted as saying that let me first speak about a new project, we are working out with Russian Railways President Vladimir Yakunin.

Peter Loscher announced the plans to Russian Prime Minister Vladimir Putin during the Engineering Technologies International Forum 2010 in Zhukovsky, Moscow region.

"Let me first speak about a new project, we are working out with Russian Railways President Vladimir Yakunin," Loscher said. "Actually we are speaking about broadening strategic cooperation between the two companies. Our plans are very interesting and we'll soon disclose them." Production of locomotives for Russia began at

Siemens' Krefeld plant in 2007, where Yakunin personally opened the production line. The first train was presented to the Russian public in St. Petersburg in December 2008 in the presence of Putin, Yakunin and Loscher. The fifth train was delivered in August 2009.

Siemens has been working in Russia for 157 years, Loscher said, and hoped it would work for another 157 years thanks to its strategic bilateral projects with Russian companies.

Peter Ramsauer, Germany's minister of transport, building and urban affairs, has said that German companies are prepared to help Russia expand its railway network, reports Prime-Tass.

The news agency quoted Ramsauer as saying that German businesses could participate in Russian infrastructure projects, including those connected with preparation for the 2014 Winter Olympics in the city of Sochi.

# Russian Railways applies for 12.1% YoY regulated railway tariff increase

**VTB Capital**

**News:** According to Kommersant, Russian Railways has applied for a 12.1% YoY increase in the regulated railway tariff in 2011 (it had previously planned a 9.2% YoY increase). Moreover, the increase might be as much as 17.8%, if the government does not provide an additional subsidy of RUB 50bn (USD 1.7bn) to the company.

**Our View:** Russian Railways' capex programme has suffered from regular underinvestment, so every year the company tries to get approval for a higher than planned tariff increase. However, this announcement is only the first step in the six-month negotiations with the Ministry for the Economy and the Ministry of Finance (which try to limit tariff increase as they are fighting inflation). Were the higher than expected tariff increase to be approved in December, it would be positive for Globaltrans and private railways operators. However, at the moment (with negotiations only beginning) we see this news as neutral for the sector.

# High-speed railway to link Minsk and Moscow

**bne**

A joint venture between Belarus, Russia and China will build a high speed rail link between Moscow and Minsk, says the head of Belarus Railways (BZD), Anatoly Sivak.

"We have started preliminary work on building a high-speed railway line between Minsk and Moscow. We are working with partners, Russian Railways (RZD)," Sivak said at the end of July. "A separate railway [will be built]". The locomotives will be able to reach 300 kilometers an hour," reports newswires.

All sides have formed a working group, which is slated to meet on August 20. "China's Minister of Railways is expected to visit at the end of August," Sivak said.

# Exec confirms Russian Railways to up 2011 invest to RUB315bn

**bne**

Russian Railways Vice President Vadim Morozov confirmed that the company was considering increasing its 2011 investment program to RUB315bn from the initially planned RUB285bn, reports Prime-Tass.

The news agency says that the company was preparing two versions of its investment program for 2011.

# Exec sees tender for Moscow-St Pete high-speed railroad in 2011

**bne**

Valentin Gapanovich, the  Senior Vice President of Railroad monopoly Russian Railways, says that the company may hold a tender to attract partners for the construction of a high-speed railroad between Moscow and St. Petersburg in 2011, reports Prime-Tass.

The news agency quoted Gapanovich as saying that construction of the railroad is estimated to cost RUB1 trillion.

# Moscow to assist Vietnam in building subway

**RIA Novosti**

Moscow will assist Vietnam in building a subway in the country's capital Hanoi, the chief of the Moscow metro said Saturday.

"The issue is being considered and discussed," Dmitry Gayev said.

Gayev said the agreement on metro construction was reached in February, when a Moscow government delegation visited Vietnam.

"They need it. And we will do it with pleasure," he said, adding that no timeframes have been set yet.

The subway in the Russian capital is one of the world's largest, with over 180 stations and a total length of more than 300 km (187 miles).

Meanwhile, Moscow mayor Yury Luzhkov on Saturday praised cooperation with Vietnam.

"For Moscow, Vietnam is the first priority compared to any other countries in terms of cooperation," Yury Luzhkov said at a meeting with a Vietnamese delegation led by Vietnamese Communist Party General Secretary Nong Duc Manh, adding that cooperation develops well in trade and tourism.

# NLMK adds to its rail-car fleet NLMK

**Renaissance Capital**

**Event:** According to Prime-TASS yesterday (5 July), NTK, the wholly-owned transportation-logistic subsidiary of NLMK, has acquired 10,000 gondola wagons at the Russian Railways (RZhD) auction. NLMK paid RUB300,000 ($9,600) per wagon, exceeding the initial price by 2.6x. Four major bidders took part in the auction.

**Action:** The news is positive for NLMK, in our view.

**Rationale:** NTK owns 5,000 rail-cars, including 3,267 gondola wagons. Thus, the deal significantly enhances NLMK's rail-car fleet. NLMK is currently implementing phase 2 of its technical upgrade programme, which should bring NLMK's steelmaking capacity to over 17mnt per annum compared with the current 12.4mnt per annum. NLMK's key projects include the construction of blast furnace #7 (with a capacity of 3.4mnt per annum of pig iron) and a mini-mill in the Kaluga region (with a capacity of 1.5mnt per annum of crude steel). NLMK also plans to make a significant investment in its mining segment. During a site visit last week, NLMK told us its growth capex programme envisages a 30% increase of mining capacity at Stoilensky GOK in order to maintain 100% self-sufficiency in iron ore concentrate and the construction of 6mnt per annum pelletising plant. NLMK also said it is committed to building efficient vertical-integration in its coking coal segment. Total capex for phase 2 of the technical upgrade programme may reach $4.4bn, according to the company. According to the company, the purchase of the 10,000 rail-cars is an essential step in implementing its development plans. NLMK has a very strong balance sheet with less than $1bn of net debt and 0.58 Net debt/EBITDA as at 31 Mar 2010, which should provide the company with the ability to finance its growth capex at very competitive interest rates.

# Railcar prices jump by 22-53%; MIXED for Globaltrans

**Alfa Bank**

Kommersant reports that railcar production in Russia for January-May increased by 135.5% y-o-y due to strong demand. At the same time, car prices jumped 22-53% in ruble terms, depending on the type of car.

According to Kommersant, citing research agency Infoline-Analitica, the manufacture of cars in January-May 2010 reached 17,700 units and even exceeded the pre-crisis level by 1.33%. The price of the most popular open- top car increased by 22.6% to RUB1.63 mln, and for rail tank cars by 36% to RUB1.87 mln. Prices for more specific types of cars increased by 22% to 53%.

In our view, this news has both positive and negative implications for Globaltrans. On the one hand, Globaltrans's plan to order 5,000 open-top cars at the end of 2009 was a good move, as the company managed to fix the cost of its expansion program at an average level of RUB1.3 mln per open-top car, 21% below the current price. In addition, strong demand for cars, as well as their price growth, is likely to result in higher transportation tariffs. On the negative side, the cost of further CAPEX will be higher than we expected (RUB1.525 mln per car).

# Railroad giant to launch Moscow-N Novgorod high-speed train July 30

**bne**

Sergei Kalinin, deputy head of the Gorkovskaya Railroad, a branch of Russian Railways, has said that State-owned railroad monopoly Russian Railways plans to launch a high-speed rail service between the cities of Moscow and Nizhny Novgorod on July 30, reports Prime-Tass.

The news agency quoted Kalinin as saying that the Gorkovskaya Railroad also plans to consider launching two more Sapsan trains to carry passengers between the cities in September depending on demand.

# Russia, Ukraine agree on organizing high-speed rail services

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**Provider: Prime-TASS**

State-owned railroad monopoly Russian Railways has signed an agreement with Ukrainian Railroads to organize high-speed rail services between the two countries, Russian Railways said in a statement Monday.

Under the agreement, the companies plan to develop high-speed rail services on routes from Moscow to Kiev, as well as to Adler, Simferopol, Sevastopol, and Feodosia.

Ukrainian Railroads also plans to consider purchasing rail cars produced in Russia.

# Russian rail operators announce new orders for Ukrainian railcar makers

**Dragon Capital**

Russian rail operator Brunswick Rail announced plans to buy 7,000 freight cars from Ukrainian producers over the next 1.5-2 years to increase its current 12,500 railcar fleet. (Interfax) The announced order volume is valuated at $350-385m at current prices. Brunswick Rail said it preferred Ukrainian-made railcars due to their better quality and lower prices compared to what Russian producers offered. The Russian company said Stakhaniv Rail Car was likely to win its tender since Brunswick had already ordered 2,000 cars from the Ukrainian producer in 4Q09. Kryukiv Rail Car [Buy, FV $4.88] also plans to participate in the tender. The news confirms the positive outlook for the Ukrainian railcar sector and is especially positive for SVGZ.

# Russian Railways may pay 25% of net profit for 2009 dividends

**bne**

State-owned railroad monopoly Russian Railways could pay 25% of its 2009 net profit in dividends,

Vladimir Yakunin, the president of Russian Railways, says that the company could pay 25% of its 2009 net profit in dividends, reports Prime-Tass.

The news agency quoted Yakunin as saying that the Russian government is expected to make a decision on paying dividends.

# Russian Railways needs over $800 million in state subsidies

**Ria Novosti**

Russia's rail monopoly Russian Railways (RZD) needs state subsidies of 25 billion rubles (almost $807 million), the company's head Vladimir Yakunin said in an interview with the Russia Today TV channel.

"Speaking about the possible rise in tariffs- the only opportunity for us - we need at least 35% reimbursement of our losses due to the state regulation in the region of our passenger operations. In such circumstances we need to have subsidies of at least 25 billion rubles for infrastructure," he said.

He said that the company's profits dropped 14% in June, year-on-year.

"This is big, but I suppose we will overcome this," Yakunin added.

# Russian Railways passenger transportation down 12% in January-June

**bne**

Russian Railways' passenger transportation dropped 12.1% on the year to 58.6 billion passenger-kilometers in January-June, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that in June, the company's passenger transportation fell 9.5% on the year to 13.7 billion passenger-kilometers.

## Russian Railways plans to launch Moscow-Sochi fast train

**bne**

Valentin Gapanovich, the Vice President, says that the company plans to launch a high-speed train called Lastochka, or Swallow, between Moscow and Sochi ahead of the 2014 Winter Olympics in Sochi, reports Prime-Tass.

The news agency quoted Gapanovich as saying that the project is being implemented with Germany's Siemens.

## Russian Railways suggests tariff discounts for modern fleet

**VTB Capital**

**News:** According to Interfax, Russian Railways CEO Vladimir Yakunin has suggested introducing discounts on the infrastructure & locomotive tariffs paid by railway operators to Russian Railways for cargo deliveries made using modern railcars. He expects this to be an incentive for private operators to upgrade their fleet, while Russian Railways will save on infrastructure maintenance.

**Our View:** Were this initiative to be approved, it would probably be positive for Globaltrans, which has one of the youngest fleets in the industry (its railcars are, on average, about six years old and the company is expanding primarily through acquiring new railcars). However, given that there are no details on either the initiative or the terms of its implementation, we see the news as neutral at the moment and suggest waiting until an official proposal has been released before coming to any judgement.

## Russian, French, Kazakh cos start building locomotive plant

**bne**

Russia's Transmashholding, France's Alstom, and Kazakhstan's national railroad operator Kazakhstan Temir Zholy have broken ground for a plant to produce electric locomotives in Kazakhstan, reports Prime-Tass.

Citing Alstom, the news agency says that construction of the plant is slated to be completed in 2012.

## RZD may loose RUB68bn if no state support

**bne**

State-owned Russian Railways (RZD) could end this year with losses of RUB68bn ($2.27bn) if the state doesn't support the company, said RZD's president, Vladimir Yakunin in the middle of July.

"There would be a sharp decrease in the investment program and modernization operations [for infrastructure] will contract substantially," he said.

## RZD expects over RUB900bn in revenue from cargo in 2011

**bne**

Vadim Morozov, the First Vice President of Russian Railways (RZD), says that RZD plans to earn over RUB900bn in revenues from cargo-hauling in 2011, reports Interfax.

The news agency quoted Morozov as saying that they are putting together a financial plan for 2011 today, figuring revenues of more than RUB900bn from carrying cargo.

## RZD wants Deutsche stake

**bne**

Vladimir Yakunin, the president of Russian Railways, or RZD, says that RZD still wants to acquire a stake in Deutsche Bahn when the company is up for sale again, reports The Moscow Times.

The newspaper report says that Yakunin also plans to speed up cargo trains so that by 2012 they will take seven days to cross from the Far East to Russia's western border and by 2015 to the Belarussian-Polish border in that time.

## Sapsan to get own rails

**bne**

Russian Railways will hold a tender to build a separate Moscow-St. Petersburg railroad for the high-speed Sapsan train, reports The Moscow Times.

The newspaper report quoted vice president Valentin Gapanovich as saying that the project may cost up to RUB1 trillion ($32bn) and will be developed as a public-private partnership.

## Transgarant to buy 15,000 railway cars

**Renaissance Capital**

**Event:** According to a report by Prime-TASS yesterday (7 June), Transgarant (a railway car operator owned by FESCO) has concluded an agreement of intent to purchase 15,000 cargo railway cars from Tikhvin Railway Car Building Plant. The financial details of the deal were not provided. Transgarant plans to receive 2,000 railway cars in 2011; 3,000 units in 2012; 5,000 units in 2013; and 5,000 units in 2014.

**Action:** Positive for FESCO, in our view.

**Rationale:** The addition of 15,000 railway cars would allow Transgarant to almost double its operated railway car fleet. The purchase of railway cars is one of FESCO's capex priorities, as management thinks the need for fleet replacement would create opportunities for alternative operators. Indeed, the Second Freight Company, once created, would have to replace 150,000 railway cars out of its total fleet of 208,000 railway cars, we estimate. So, the structural growth story for Transgarant is in place, we believe. We think the deal with the Tikhvin plant also reflects management's confidence in the business environment - and in FESCO's business model, in particular - in the mid-term. The Tikhvin plant is a state-of- the-art facility that will be launched at the beginning of 2011, which should provide Transgarant with modern railway cars.

# Russia planes

## Russian, Ukrainian aircraft builders could merge, swap assets in 2011

**Ria Novosti**

Russian and Ukrainian aircraft building corporations could unite or swap assets as early as 2011, the head of Russia's United Aircraft Corporation (UAC) said Thursday.

"We believe merging or swapping assets is quite real already in 2011," Alexei Fyodorov told journalists in Zhukovsky in the Moscow Region.

Asked when a joint venture between UAC and Ukraine's Antonov design bureau will be established, Fyodorov said the likely period could constitute "two-three months."

Fyodorov said the shares and form of assets will be defined by the aircraft builders' owners - the Russian and Ukrainian governments.

The UAC head said in May that Russia and Ukraine are setting up a joint venture on the sales and post-sales servicing of transport and passenger planes designed by the Antonov design bureau.

He said the joint venture will "fulfill coordinating functions," adding that "assets will not be transferred" at first.

"The movement of assets will start only when real integration begins between the Russian and Ukrainian aircraft builders," Fyodorov said.

## Boeing profits as tensions rise over state airlines

**bne**

Russia's state-controlled airlines, managed by Aeroflot, will buy up to 65 new mid-range 737 planes from Boeing, after the US manufacturer beat off competition from Europe's Airbus and Russia's UAC in a tender.

The selection was made by state holding Rostekhnologii, which received the right to run tenders for the flag carrier in April in return for allowing Aeroflot to manage its airline assets. Rostekhnologii credited Boeing's offer as the best in technological, operational, and financial terms, reports Prime Tass.

First announced in August, the terms of the tender stipulate the purchase of 50 aircraft, with the option of a further 15. According to the Moscow Times, Boeing beat Airbus to the contract on price, whilst UAC - via its holding in Sukhoi - was offering the wrong size plane for its mid-range flights.

However, it may not be game over for the two manufacturers beaten by Boeing to the tender contract, with tension between Aeroflot and Rostekhnologii appearing to bubble to the surface as they go through the early stages of a cooperation forced upon them. Aeroflot agreed to purchase 30 Sukhoi Superjet 100s in December, before the deal for Rostekhnologii to manage its equipment needs was established, whilst according to Reuters, a source at Aeroflot said it may yet lease 15 Airbus 320s, to add to the 16 it has already agreed to operate over the next three years.

Granting Aeroflot management of Rostekhnologii's airline assets - Vladivostok Avia, Saratov Airlines, Sakhalin Airways, Rossia, Orenavia and Kavminvodyavia, according to the Moscow Times - is the first step towards the state's plan to merge all of its airline assets. Aeroflot is then likely to receive the assets in return for an additional share issue.

That plan, from the Ministry of Transportation, did little to delight Rostekhnologii head Sergei Chemezov, who appears to now be losing his grip on many of the countries aviation and technology assets. Up to 2008 or so, Chemezov had seen great success in appropriating state assets for management by Rostekhnologii.

However, by securing the right to organize the supply of aircraft and parts to the state's airline assets, Rostekhnologii can realize lucrative contracts for titanium supplier VSMPO-Avisma, in which it holds a 66% stake. When announcing another successful tender for Boeing in April - this time to replenish Rosavia's fleet - Chemezov told media "it's convenient to work with them, because they are also dependent on us: without our production, titanium and composite materials, they wouldn't be able to manufacture the new Boeing 787."

# Aeroflot BoD approves plan to replace Boeing with Airbus planes

**Alfa Bank**

Aeroflot's BoD has approved the purchase of 11 Airbus-330-300 planes under finance-lease terms with delivery in 2011-13. The catalogue price of each plane is approximately $200 mln. The new Airbuses will replace the company's 11 Boeing 767s. The lease for the Boeings expires over the same period when the company will receive the Airbuses.

Overall, we welcome the deal, as it will allow Russia's flag carrier to unify its fleet. However, it does not mean that Aeroflot Group will not have Boeings in the longer-term. Rostekhnologii has an option to deliver 50 Boeings to Aeroflot Group in the near term. Boeings will also be purchased for Rostekhnologii's former airline assets (Rosavia), which Aeroflot is to acquire. We therefore qualify the news as slightly POSITIVE for the stock, as the synergy with Aeroflot's future subsidiaries will be limited. We do not have a recommendation on Aeroflot, though we note that the company trades at a 20% discount to EM peers.

Georgy Ivanin

# Aeroflot passenger traffic increases 45% y-o-y in June

**Alfa Bank**

Aeroflot airlines increased the number of passengers in June by 45% y-o-y to 1.05 mln people.

Even though passenger traffic fell 5% m-o-m in April owing to the volcanic eruptions in Iceland, the company managed to post growth of 15% m-o-m in June for the second month in a row, mainly owing to the start of the summer holiday season. We expect the airline will maintain passenger traffic at above 1 mln. Aeroflot's June operational statistics significantly exceeded the pre- crisis 2008 level by 23%. This indicates that the company has completely recovered its operations following the financial crisis.

Georgy Ivanin

# Aeroflot to receive 22 Boeing Dreamliners in 2016

**RIA Novosti**

Aeroflot will receive 22 Boeing-787s Dreamliner in 2016, in line with its fleet renewal program, CEO Vitaly Savelyev said on Saturday.

"We are expecting to receive 22 Boeing-787 Dreamliners in 2016, and an additional 22 Airbus-350 jetliners, that are being developed, will be delivered in 2016 as well," Savelyev said at the meeting with Russian Prime Minister Vladimir Putin.

Savelyev also said Aeroflot had signed the contracts on the delivery of Russia's new Superjet 100 airliner. "We are looking forward to [receiving] this aircraft. The contract is for 30 jets, we have already signed the agreement with a leasing company," Savelyev said.

The Superjet-100 project is a family of medium-haul passenger aircraft developed in cooperation with U.S. and European aviation corporations. Boeing launched the Dreamliner program in 2004. According to its website, 55 customers worldwide have ordered 840 787s, including Russia's Aeroflot.

Dreamliner can carry up to 330 passengers to distances of up to 16,000 kilometers (10,000 miles) and is expected to be some 20% more fuel-efficient than similarly sized airplanes.

# Aeroflot: Boeing 767s to be replaced with Airbus A330s

**UralSib**

Aeroflot to purchase 11 A330s by 2013. Interfax reported that Aero- flot (AFLT RX - Buy) plans to purchase 11 Airbus A330 200 or 300s, with deliveries between 2Q11 and 1Q13. The A330 200 costs up to $84 mln, and the A330 300 up to $92 mln. According to Interfax, the total value of the deal will not exceed $1 bln. The aircraft are to be pur- chased via lease, though no exact terms are available.

Debt to increase, higher interest payments may affect net margins.

The new aircraft should replace the 11 Boeing-767s, which are to be disposed of in the next two years. This disposal is incorporated into our model. Depending on the lease terms, the acquisition of the Airbuses should increase Aeroflot's net debt in 2010-13 by $1 bln. Its current net debt is $1.6 bln (of which 46% is lease obligations). Leasing will also increase the company's interest payments and pressure its net margins, though this should partially be countered by the positive affect of the A330's better fuel efficiency versus the 767, thus improving operating income.

News should be considered positive in context of expansion program. We are not currently incorporating the lease into our model, as we are waiting for exact deal terms. If incorporated, the acquisition would increase Aeroflot's debt and thus bring its target price down by up to 10%, though this excludes the positive effect of the A330's superior fuel efficiency as well as its 17% higher passenger capacity. Overall, Aeroflot's current debt load is significantly below the industry average (2010E net debt/ EBITDA of 2.7 versus 4.8). We expect its debt load to increase as a result of its aggressive expansion plans, which require fleet modernization, including at its newly acquired/yet-to-be acquired subsidiaries. The positive effect of expansion should out- weigh any negative effect from increasing lease obligations, in our view. We reiterate our Buy recommendation on the stock.

Anna Kupriyanova

# Americans interested in buying Russian airports – transport minister

**Ria Novosti**

.S. businessmen would like to buy Russian airports and seaports, Russian Transport Minister Igor Levitin said Thursday.

"American investors have a very big interest in purchasing Russian ports and airports now that the list of Russia's strategic enterprises has been changed," Levitin said at a meeting with U.S. entrepreneurs.

On June 18, Russian President Dmitry Medvedev signed a decree reducing the number of strategic companies which enjoy privileged state support fivefold.

Medvedev told the St. Petersburg Economic Forum that "the number of strategic joint-stock companies will be decreased from 208 to 41, the number of federal enterprises from 230 to 159." The companies apparently included some sea- and airports.

Levitin also said: "I met with a group of investor companies to discuss the opportunities to attract investment into Russia's transport infrastructure. American businessmen are very much interested in it. They are particularly attracted by big Russian airports and seaports."

He said, however, that overseas investors have yet no full information on making such investments.

Levitin also said his ministry is familiarizing itself with U.S. systems ensuring transport security. He said Russia could use the technology on the subway and railroads and in airports.

WASHINGTON, June 25 (RIA Novosti)

# Russian airport holding Novaport to sell blocking stake to strategic investor

**bne**

Russian airport holding Novaport says it would be willing to sell a blocking stake of 25% to a strategic investor, the company's CEO Mikhail Smirnov told reporters in the middle of July.

Novaport's assets at over $200m. The company plans to use the funds raised to buy new airports, Smirnov also said without naming the targeted airports.

At present, Novaport holds a 38% stake in Novosibirsk's Tolmachevo Airport, 48% in Barnaul Airport, 68% in Chelyabinsk's Balandino Airport, 74.9% in Tomsk Airport, and 100% in Chita Airport.

# EBRD, IFC raise 200mn euros for Pulkovo Airport upgrade

**bne**

The International Finance Corporation (IFC), a member of the World Bank Group, and the European Bank for Reconstruction and Development (EBRD) have jointly raised 200mn euros to finance the reconstruction and expansion of St. Petersburg's Pulkovo Airport, reports Prime-Tass.

Citing a statement issued by the IFC, the news agency says that the tranche was raised from a group of eight commercial banks.

# Government discusses eleminating customs duty on long-haul aircraft:

**UralSib, Russia**

Customs duty on aircraft with 250-300 seats could be eliminated.

Yesterday Vedomosti reported that the government could eliminate the customs duty on imported passenger aircraft with a capacity of 250- 300 seats (long-haul). A final decision is expected to be reached on 18 June by the Ministry of Economic Development when it meets to discuss the terms for the creation of a customs union between Russia, Belarus and Kazakhstan. Currently in Russia there are no customs duties on aircraft with a capacity of less than 50 seats and more than 300 seats. For all others there is a 20% customs duty.

Aeroflot has no plans to supplement its fleet with long-haul aircraft in the mid-term. The list of long-haul passenger planes with a capacity of 250-300 seats includes the Airbus 310, 330, 340, and some modifications of the Airbus 350, Boeing-767 and 787. Aeroflot (AFLT RX - Buy) has no plans to expand its long-haul fleet in the medium-term, with the first deliveries of the Boeing-787 and Airbus 350 starting only in 2016.

Neutral for Aeroflot stock. If the customs duty is eliminated, we view it as positive for the Russian airline industry. At the same time, we see this as neutral for Aeroflot, as the company has no plans to supplement its fleet with long-haul aircraft in the medium- term. We reiterate our Buy recommendation for Aeroflot with a target price of $3.30/share.

# Government may sell Sheremetyevo Airport in 2010-2011

**bne**

The Russian government may sell its 100% stake in Moscow's Sheremetyevo airport at the end of this year or the start of next year, First Deputy Prime Minister Igor Shuvalov said on Tuesday reports Interfax.

The government is also mulling leasing the airport out on a long-term basis.

Transportation Minister Igor Levitin said earlier the government planned to select a management company for Sheremetyevo Airport by the end of this year.

A consortium of Credit Suisse and Troika Dialog are investment consultants for the consolidation of its assets and the process of attracting a management company since April.

# Half of Moscow Region Kubinka military airfield to go under hammer

**RIA Novosti**

The Russian Defense Ministry will auction part of the Moscow Region Kubinka military aerodrome in July for 212 million rubles ($8.6 million), a statement published on the ministry's website said.

A runway divides the aerodrome into two parts. One side contains an aircraft display center and the other side is being cleared ahead of the auction, a source from the defense ministry told Kommersant business daily.

The source said the decision was made around a year ago and that the runway will still be used by both private investors and servicemen.

Investment group Nafta Moskva, which owns Russia's luxurious Rublyovka real estate project, has been engaged in developing a private airport at the Kubinka airfield for more than 18 months.

On June 22, 2009, Russian Prime Minister Vladimir Putin signed a decree, excluding Kubinka airfield from a list of objects used jointly by military and civilian organizations. At the same time, a source from the defense ministry told Kommersant that "the airfield would be operated by the Russian Air Force and private investor would not be considered." Later, a source close to Nafta-

Moskva told Kommersant that the project of establishing a private airport based at Kubinka airport was underway. According to the source, investment in the project totals $20-30 million.

# Putin proposes canceling property tax on airports

**Aton**

Vedomosti and RBC Daily report today (8 July) that Prime Minister Vladimir Putin has proposed setting a 0% property tax rate on airports to encourage investments and further modernise airport equipment on the state's account. The Ministry of Transportation has also suggested that airports should be sold to private investors after modernisation. These suggestions may have a strong positive impact in the medium term on domestic passenger turnover, which has been lagging behind international turnover lately, particularly as a result of regional airport limitations. In our view, UTair and Sibir airlines will be the major beneficiaries.

# Putin steps in to help Moscow's Sheremetyevo Airport again

**RIA Novosti**

Prime Minister Vladimir Putin has once again come to the rescue of Sheremetyevo Airport, ordering Moscow Region authorities to remove an illegal garbage dump, a respected business daily reported Friday.

Last week Putin got personally involved in the partial closure of Leningradskoye Highway, ordering that more lanes be opened after road works led to six-hour tailbacks on the main road to Moscow's largest airport.

And now, Vedomosti reported that the powerful prime minister had told Moscow Region Governor Boris Gromov to close an illegal garbage dump that the airport had been fighting with little effect for four years.

The paper wrote that Sheremetyevo general director Mikhail Vasilenko informed Putin of the problem at a Wednesday conference on the reconstruction of airports, in particular saying that there were numerous occasions when aircraft collided with birds, attracted to the airport territory by the food garbage dump.

Putin's spokesman Dmitry Peskov told Vedomosti that following the conference, Putin spoke by phone to Gromov several times, and shortly afterwards the governor issued a resolution to remove the dump.

The site has now been cordoned off by special purpose OMON police units who are turning away all trucks carrying garbage, Sheremetyevo spokeswoman Anna Zakharenkova said.

The dump appeared in 2000, in violation of official regulations that prohibit such dumps within 15 km (9.3 miles) of an airport. Sheremetyevo had appealed to the prosecutor's office, police and watchdogs in the past four years but to no avail.

Putin helped the airport resolve the issue of severe road congestion near the airport due to repairs that began on June 26 on the Leningradskoye Highway and caused pilots and travelers to miss their flights.

The highway was narrowed to one lane in each direction and it took Muscovites five or six hours to get to Sheremetyevo, but the situation considerably improved on July 2, when two additional lanes were opened following Putin's demand that the situation be resolved.

# Putin urges Aeroflot to add domestic aircraft to its fleet

**Renaissance Capital**

**Event:** Prime-TASS reported yesterday (12 July) that Prime Minister Vladimir Putin has charged Aeroflot with increasing the number of Russian aircraft in its fleet. Currently, the fleet includes approximately 115 aircraft, only six of which (all IL- 96) are produced domestically. According to Prime-TASS, Aeroflot has already negotiated a contract for 30 Sukhoi Superjet 100s.

**Action:** The news is positive for United Aircraft Corporation (UAC), in our view.

**Rationale:** We expect additional orders from Aeroflot to increase demand for and production of civil aircraft at UAC. In 2009, UAC produced only 12 civil aircraft, vs 84 military aircraft. In 2010 the company plans to deliver the first three Sukhoi Superjet 100s, including two aircraft to Aeroflot. Deliveries of its other new regional airplane - the MC-21 - are planned to start in 2016.

# Recession and business aviation in EU

**BizAv News Central Europe**

Eurocontrol analysis shows that, in spite of a significant short-term reduction in the demand for business jets, business aviation proved the most stable market segment during the recession period.

From the graph below, it is obvious that business aviation in Europe was the most stable aviation market segment during the recession, even during the worst period of 2009.

This is a positive achievement, given that the significant economic downturn of 2008-09 resulted in a major short-term reduction in the demand for business jets. In the longer term, resumption of global economic growth is expected to result in a strong recovery in the demand for business jets. The strong fundamentals of the business jet industry are expected to remain unchanged.

## Russia promotes An-124 airplane on the U.S. market

**Astrum**

According to the head of the Russian United Aircraft Corporation (UAC), Alexei Fyodorov, Russia had put forward a proposal to the U.S. government regarding the joint production of the worlds largest airplane, the An-124 Ruslan, for the U.S. market. It was suggested that the final assembly of the plane should take place at one of Boeings plants. At the same time, the press service of Antonov ASTC (Ukraine), which owns the rights for the design of the An-124, announced that the company is not currently participating in these negotiations.

Astrums perspective: The realization of the joint An-124 production with the U.S is more a political than business issue. In any case, if the project does start, the U.S would most probably supply its avionics and engines for the plane. Thus, Motor Sich is unlikely to become of supplier of engines for the An-124s that will be sold on the U.S. market. Thus, we believe that this news is NEUTRAL for Motor Sich (MSICH: BUY), which is the producer of D-18 engines originally designed for the An-124.

## Russia to buy 50 Boeing planes from U.S.

**bne**

U.S. President Barack Obama has said that Russia will purchase 50 Boeing 737 planes from the United States, reports local media.

Reports quoted Obama as saying that U.S. and Russian business leaders are moving forward with their "serious and major trade and investment deals... in many sectors - from aerospace and other modern engineering to the financial sector and high technology .

## St Pete's Pulkovo Airport passenger traffic up 29% in January - May

**bne**

The passenger traffic through St. Petersburg's Pulkovo Airport rose 28.8% on the year to 2.689 million people in January-May, reports Prime-Tass.

Citing the press office of Northern Capital Gateway, the airport's management company, the news agency says that of the total, international passenger traffic outside the Commonwealth of Independent States (CIS) rose 24.8% on the year to 1.091 million people in the period, while CIS passenger traffic increased 24.4% on the year to 214,929 people, and domestic passenger traffic increased 32.9% on the year to 1.383 million people.

## Transport Ministry wants single mgmt co for Moscow airports

**bne**

Russian Transportation Minister Igor Leviton says that Transportation Ministry plans to arrange talks soon with owners of Moscow airports Vnukovo, Sheremetyevo, and Domodedovo to create a single management company for the airports, reports Prime-Tass.

The news agency says that Vnukovo Airport is owned by the Moscow city government and Sheremetyevo Airport is owned by the federal government.

## Vnukovo Airport passenger traffic up 28% on year in January -June

**bne**

Passenger traffic through Moscow's Vnukovo Airport increased 28% on the year to 4.21 million people in January-June, reports Prime-Tass.

Citing a statement issued by the airport, the news agency says that of the total, international passenger traffic increased 20.4% on the year to 1.269 million people in this period, while domestic traffic amounted to 2.941 million people, up 31.7% on the year.

# Russia ships

## Medvedev limits investment in Russian shipbuilding

**bne**

President Medvedev signed off on an order to develop the United Shipbuilding Company (USC) yesterday, opening the way for the new state holding to start gathering together state-owned shipbuilding assets to form the third of four planned state giants dominating the space where transport meets the defence industry.

At the same time, Medvedev added USC to the list of 'strategic industries' in which foreign investment is limited. Reducing the list is a central task in improving the country's investment climate - which the Kremlin says is vital for Medvedev's grand mission to modernize the economy. However, after several months, the president is yet to strike from the list a number of companies - including shipyards - that have been identified as privatization targets for this year.

The order means that USC will now oversee foreign trade deals and leasing for export and import of vessels, ships and other equipment, according to Prime-Tass. USC was first created 2007, under the order of then-President Putin, and joins a list of state-owned military and civilian holdings amalgamating aviation (UAC) and helicopters (Russian Helicopters). A jet engine holding (UEC) is yet to be developed.

The president warned, according to Itar-Itass, that USC would need to control Russia's shipbuilding industry entirely in order to make it competitive: "This program must cover the whole range of factors influencing the industry's development, including the context of international competition. We shall have no chance of hiding anywhere. Everything that we may be doing will encounter harsh market competition."

Medvedev also singled out the growing struggle for Arctic resources as an example of Russia's strategic aims that USC will support, explaining that for such reasons, "the program must be strategic and encompass both military and civilian segments of the shipbuilding industry."

## Russia to adopt single military/civilian shipbuilding program

**RIA Novosti**

An integrated military and civilian shipbuilding program will soon be adopted in Russia, President Dmitry Medvedev said on Tuesday.

"Last week...I ordered a single program for the development of military and civilian shipbuilding to be drawn up. It will be approved soon," he said during the floating-out ceremony for a new nuclear-powered multipurpose attack submarine.

Medvedev said one of the program's priorities will be the development of a series of Severodvinsk-class submarines.

He added that most world powers were investing significant resources in offensive and defensive systems.

"We should do the same. Russia simply must carry out an effective modernization of its Navy. We should build the most advanced ships [in the world]," Medvedev said.

He stressed that Russia had developed a serious lag in shipbuilding in the 1990s and must deal with it as soon as possible.

"It is impossible to wait any longer. Despite economic development problems, despite the financial crisis. These programs must be carried out," he said, adding it was critical to make them more competitive.

The construction of the Severodvinsk, the first Project 885 Yasen (Graney) class submarine, began in 1993 at the Sevmash shipyard in the northern Russian city of Severodvinsk but has since been dogged by financial setbacks.

Russia planned to take it out of dry dock on May 7 this year to coincide with the 65th anniversary of the victory over Nazi Germany in May 1945.

Last year, work started on the second sub in the series, the Kazan, which will feature more advanced equipment and weaponry.

Russian experts expect Graney-class submarines to boost the Navy's operational effectiveness and combat capabilities.

Graney-class nuclear submarines are designed to launch a variety of long-range cruise missiles (up to 3,100 miles or 5,000 km), with conventional or nuclear warheads, and effectively engage submarines, surface warships and land-based targets.

The submarine's armament includes 24 cruise missiles, including the 3M51 Alfa SLCM, the SS-NX-26 Oniks SLCM or the SS-N-21 Granat/Sampson SLCM. It has eight torpedo launchers, as well as mines and anti-ship missiles such as SS-N-16 Stallion.

# NCSP: Operating stats for 1H10

**Renaissance Capital, Russia**

Event: Novorossiysk Commercial Sea Port (NCSP) has released an operating update for 1H10. Total cargo turnover decreased 2.6% YoY, primarily due to a 7% YoY decline in crude oil volumes (volumes ex crude oil were up 2%). Last year, NCSP's volumes were nearly flat YoY, and we do not expect substantial volume growth this year. Although NCSP's volumes fell in 1H10, Russian ports overall saw almost 10% volume growth.

Action: In general, we regard NCSP's volume dynamics as solid, but we will see how crude-oil and ferrous-metal volumes evolve over the next couple of months.

Rationale: We observe a fairly strong recovery in the container segment. NCSP was permitted to raise tariffs for iron ore and ferrous metals in 1H10, and is expanding its grain terminal, which should help the top line and margins, we think.

After a Moscow Arbitration Court struck down a Federal Antimonopoly Service resolution convicting NCSP's grain terminal of breaching antimonopoly regulations, we see less downside risk for the stock. The recent 1Q10 results showed that the top line is driven by changes in mix (volumes were up less than 3% in 1Q10, while stevedoring revenues were up 17%), which continued into 2Q10. In our view, the major catalyst for the stock will be the use of excess cash. We see several opportunities for NCSP here, including the payment of a higher dividend, the acquisition of stevedoring assets, or the purchase of the 20% stake the government currently holds in the company. The stock trades at 6.1x 2010E EV/EBITDA and 10.4x 2010E P/E, which is a 45-50% discount to EM and DM peers, we estimate.

# Novoship buys out 9.84% of own shares

**bne**

Russia's Novorossiisk Shipping Company, or Novoship, has bought out 9.84% of its own shares, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company's board of directors approved on March 1 a buyout of up to 41,266,042 of the company's shares, or up to 10% of its charter capital, at a price of 80 rubles a share as part of charter capital optimization efforts.

In the meantime, Russia's Federal Antimonopoly Service has cleared petrochemical company Sibur Holding to acquire 50% in polypropylene maker NPP Neftekhimiya, reports Prime-Tass.

Citing a document issued by the antitrust watchdog, the news agency says that Sibur Holding is expected to buy a NPP Neftekhimiya share issue.

In another development, Shamil Kurmashov, Aeroflot's deputy CEO for finance and investment, says that Russian industrial conglomerate Rostekhnologii is not expected to become a shareholder of Aeroflot Russian Airlines after Rostekhnologii's airline assets are merged with Aeroflot, reports Prime-Tass.

The news agency quoted Kurmashov as saying that the government, which owns Rostekhnologii, may increase its stake in Aeroflot.

# Russian agency to auction 20% in seaport in Chukotka on Aug 18

**Publication: Prime-TASS Business Newswire**

**Provider: Prime-TASS**

MOSCOW, Jun 10 (PRIME-TASS) -- Russia's Federal State Property Management Agency plans to auction 20% in the Anadyr Seaport in the Chukotka Autonomous District on August 18, the agency said in a report seen by PRIME-TASS Thursday.

The starting price was set at 22.894 million rubles, while the bid increment amounts to 500,000 rubles.

Bids are to be accepted from Friday until August 11.

(31.7302

# Russian govt to sell 25.5% in Yenisei River Shipping Co

**bne**

Alexander Ivanov, the CEO of Yenisei River Shipping Company, says that the Russian government plans to sell its 25.5% stake in Yenisei River Shipping Company, reports Prime-Tass.

The news agency quoted Ivanov as saying that Russian metals giant Norilsk Nickel and an unspecified foreign company are interested in purchasing the stake in the shipping company, which has been recently excluded from a list of strategic state companies.

# Russian shipbuilding corp mulls integration with Ukrainian cos

**bne**

Russian Deputy Prime Minister Igor Sechin has said that Russia's United Shipbuilding Corporation (OSK) is considering integration with Ukrainian shipbuilders, reports Prime-Tass.

The news agency quoted Sechin as saying that they aren't ruling out integration but we should negotiate that with our partners.

# Sovkomflot plans $280mn development for Sochi's Port

**bne**

State-owned shipping company Sovkomflot is getting into the real estate business, investing as much as RUB9bn ($280mn) into the construction of a marina and coastal infrastructure in the port of Sochi, reports The Moscow Times.

Citing the company, the newspaper report says that Sovkomflot's project includes a marina for 250 yachts, reconstruction of the historical terminal building, a four-star hotel with a convention center, a shopping center and an office building and a RUB2bn investment to be completed by March 2013.

In the meantime, Russian President Dmitry Medvedev has called for cutting costs in the shipbuilding industry, reports Prime-Tass.

The news agency quoted Medvedev as saying that stimulus efforts should be supported by growth in labor productivity, a more efficient use of assets and a drop in costs.

# Transgarant increases cargo loadings 36% in 1H10

**Renaissance Capital, Russia**

**Event:** According to AK&M yesterday (15 July), Transgarant, FESCO's rail subsidiary, registered a 36% YoY increase in cargo loadings, to 12.3mnt, in 1H10. Coal volumes added 57%, to 5.85mnt; iron ore volumes were up 21.5%, to 3mnt; ferrous metal volumes advanced 28%, to 563kt; and container volumes climbed 150%, to 52.4k TEU.

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

**Rationale:** Transgarant's volume dynamics were ahead of cargo loadings at Russian Railways, which increased 9.4% YoY in 1H10. We understand the number of idle railway cars continues to fall (having dropped to less than 400 at YE09, vs 2,000 at YE08), and the economics continue to improve (tariffs are higher, the utilisation of the specialised fleet is increasing and Transgarant is carrying more return cargos).

Ivan Kim

# St. Petersburg to move historic 18th century shipyard from the city

**Ria Novosti**

The Admiralty Shipyard, where the first Russian Navy ships were built at the beginning of the 18th century, will be moved from St. Petersburg to the island city of Kronshtadt in the Gulf of Finland, the head of Russia's United Shipbuilding Corporation said on Thursday.

The Admiralty Shipyard, one of the oldest and largest in Russia, was opened in 1705, two years after Peter the Great founded his new capital on the Neva River. Peter, who became the first Russian emperor in 1721, received training in Holland as a shipbuilder and made the creation of a powerful navy and commercial fleet part of his drive to integrate Russia into Europe.

The Admiralty Shipyard company, the United Shipbuilding Corporation and the St. Petersburg government signed an agreement to relocate the shipyard on the fringes of the International Economic Forum, which started in St. Petersburg on Thursday.

"We are planning to conclude the relocation in eight years, but probably we will manage earlier - in six years," Roman Trotsenko said.

He said the Admiralty Shipyard was "100% loaded" with contracts, but was using obsolete shipbuilding technologies. The relocation will allow to modernize the company, Trotsenko said.

The Admiralty Shipyard will be relocated to a new dockyard to be built in Kronshtadt, the governor said. Offices and residential houses will be built in the 17-hectare area, where the shipyard is currently located, she said.

ST. PETERSBURG, June 17 (RIA Novosti)

Zavod (88%) to state-owned United Shipbuilding Corporation (USC). The company did not disclose the deal valuation, but according to a USC official, the company paid RUB 23-25bn for both stakes. The transaction is scheduled to close by June 20 2010.

Since USC has acquired more than 30% of common shares outstanding, the company is required to extend a voluntary buyout offer to minority shareholders. Our preliminary calculations indicate that both Severnaya Verf and Baltiysky Zavod shares would have more than 100% upside potential (based on the RTS offer) to the buyout offer price if the deal is valued at RUB 25bn. Consequently, we see a speculative opportunity.

# Ukraine's Chernomorsky Shipyard to join Russian shipbuilding corporation

**bne**

Roman Trotsenko, the CEO of Russia's United Shipbuilding Corporation, has said that Ukraine's Chernomorsky Shipyard and several other Ukrainian companies are to become part of the Russian state-controlled corporation, reports Prime-Tass.

The news agency quoted Trotsenko as saying that 50% of Chernomorsky Shipyard and several unspecified companies would be transferred to the United Shipbuilding Corporation in 2010.

In the meantime, gas imports to Ukraine in May were paid for under two different prices: $232.86 per 1,000 cubic meters and $246 per 1,000 cubic meters, reports Interfax.

Citing a statement on the Economy Ministry's official Web site, the news agency says that the customs prices of natural gas imported in May announced by customs applicants were $232.86 and $246 per 1,000 cubic meters.

# United Industrial Corporation sold Severnaya Verf and Baltiysky Zavod to United Shipbuilding Corporation.

**Metropol**

United Industrial Corporation, controlled by Senator Sergei Pugachev, sold its stakes in Severnaya Verf (72%) and Baltiysky

# Russia's United Shipbuilding Corporation declared 'strategically important' company

**Ria Novosti**

Russian President Dmitry Medvedev has signed a decree to include the United Shipbuilding Corporation, which owns shipbuilding assets in Russia's Far East and northern Russia, in the list of strategically important open joint-stock companies, the Kremlin said.

The state-owned United Shipbuilding Corporation, created in 2007, has a charter capital accounting for 117 billion rubles ($3.7 billion). The company exports about 30% of its production.

The decree stipulates that state-owned assets of a number of Russia's shipbuilding companies will be passed to the United Shipbuilding Corporation.

Late last year, Russian Prime Minister Vladimir Putin said the program of civilian shipbuilding development in the Russian Far East .

He said the government's goal was to "help create a plan to release civilian maritime equipment over the next few years and until 2020."

# CIS infrastructure

## Ukrainian Train-maker returned to Russian company at half price

**bne**

The privatization auction for Ukraine's largest train-maker has seen it bought at a knock down price by its former Russian owner.

The state property fund sold the 76% stake in Luhanskteplovoz to Bryansky Mashinostroitelny Zavod - a subsidiary of Transmashholding - for UAH410m ($51.8m), only just above the starting price of UAH400m. Implying a market capitalization of $68m, the price paid for the asset is around 50% below current market rates.

The buyer originally purchased the company in 2007, but was forced to return it to the government last year.

Renaissance Capital writes: The market's initial reaction to the auction's outcome was predictably negative: the stock lost 12% yesterday (15 June), as many market participants expected the sale price to be much higher. Moreover, several problems - including disagreements over the procedures for settlements between the SPFU and Transmashholding, and court appeals by a Privatbank-affiliated entity that was not allowed to participate in the auction - could significantly delay the finalising of the deal.

However, we think the return of Luganskteplovoz to Transmashholding will have a profoundly positive effect on Luganskteplovoz's long-term outlook. The Bloomberg consensus expectations for Luganskteplovoz - 2010 sales of $106mn and EBITDA of $8mn - are less than half of the figures reported for 2008, when Luganskteplovoz was controlled by Transmashholding. In the future, we expect the Russian owner will help the company to rebuild its order book to much higher levels than those seen in 2009 and early 2010, though it will probably take some time to return to its pre-crisis output.

Dragon Capital writes: Transmasholding was widely expected to win the tender given a number of factors including its victory in the first action and ongoing projects with Luhanskteplovoz, the strongest market position in Russia, the capability to meet the strict privatization requirements, as well as a strong domestic political will to sell the company to Russia's largest railways machinery producer, partially owned (25%) by the Russian Railways state monopoly. According to the privatization conditions, Transmasholding is now required to provide investments stipulated by the company's development program, repay wage and social payments arrears, repay or restructure Luhanskteplovoz's overdue debt, and furnish new technologies for production and modernization of electric and diesel locomotives.

## Belarus in talks with Chinese investors over road construction

**bne**

Pavel Bozhanov, the head of the department for strategic development, coordination and investments with the Transport Ministry of Belarus, says that Belarus is in talks with Chinese investors over construction of roads, reports Prime-Tass.

The news agency quoted Bozhanov as saying that the framework agreement signed with the Chinese side included seven projects with the Transport Ministry, and road construction was one of them.

## Belarus to transform 13 state-owned Belarusian Railway enterprises into OAOs

**bne**

Thirteen unitary enterprises subordinate to Belarusian Railway will be transformed into open joint-stock companies (OAOs) in accordance with ordinance #331 that President Alexander Lukashenko signed on June 25, reports Prime-Tass.

The news agency says that the list of enterprises includes ballast quarry Radoshkovichi, Borisov treating plant, Brest electrotechnical plant, Gomel Kalinin car-repair plant, Gomel electrotechnical plant, Minsk Myasnikov car-repair plant, Baranovichi automatic lines plant, Dorstroymontazhtrest, procurement departments of Mogilev, Vitebsk and Gomel branches of Belarusian Railway, DORORS, and Zherldorservice of Brest branch of Belarusian Railway.

## Belarus, China eye joint projects with Belarusian Railway

**bne**

Belarusian Prime Minister Sergei Sidorsky has said that Belarus considers joint projects with China to develop Belarusian Railway, reports Prime-Tass.

The news agency quoted Sidorsky as saying that one of the projects we will take up with you is the development of Belarusian Railway.

Citing the city council's information department has reported, the news agency says that in 2009 there were no candidates to reconstruct our airport.

# Belarus, China mull $500mn project to develop Minsk transport infrastructure

**bne**

Belarusian Prime Minister Sergei Sidorsky has said that Belarus is interested in developing Minsk transport infrastructure together with China, reports Prime-Tass.

The news agency quoted Sidorsky as saying that they believe this infrastructure project must be completed with the assistance of Chinese partners by 2014, when Belarus is expected to host the world ice hockey championships.

# Boryspil airport passenger transportation up by over 8% in H1, 2010

**bne**

Boryspil International Airport State Enterprise in January-June 2010 increased passenger transportation by 8.4% year-over-year, to 2.8 million people, reports Interfax.

Citing the press service of the Ukrainian Transport and Communications Ministry, the news agency says that in June along the airport serviced 648,914 people, which is 13.53% up year-over-year.

# Odesa hopes to announce new tender to reconstruct airport by late 2010

**bne**

Odesa city council plans to announce a tender to reconstruct the Odesa international airport, The news agency says that

# Ukraine's Ukrzaliznytsya to invest $350m in rolling stock in 2010

**Dragon Capital**

Ukrzaliznytsya (UZ), Ukraine's state-owned railway monopoly, plans to spend UAH 2.8bn ($350m) on rolling stock in 2010 by purchasing 58 passenger cars worth $67m, 2,277 freight railcars worth $122m and 26 hauling units worth $152m. (Interfax)

The news bodes well for Luhanskteplovoz [Buy; FV $0.82], Ukraine's monopoly producer of mainline locomotives, with UZ earmarking $140m for LTPL machinery, as well as domestic producers of railcars, particularly Kryukiv Rail Car [Buy; FV $4.88], the monopoly manufacturer of passenger cars. We confirm our positive view on the above two companies and their listed domestic peers.

Taisiya Shepetko

# Ukraine's passenger transportation in Ukraine 7.7% down over six months

**bne**

The State Statistics Committee has reported that Ukraine's transport firms cut passenger transportation by 7.7% in January-June 2010 compared to January-June 2009, to 3.4 billion people, reports Interfax.

The news agency says that passenger turnover fell by 2.3% over the period under review, to 62.2 billion passenger-kilometers.

# Ukraine Seaport and industrial logistics complex to be built in Yevpatoria

**bne**

According to a report of the chief information policy department of the Crimean Council of Ministers, the Yevpatoria seaport and industrial logistics complex is to be built on the Donuzlav Island in Crimea to replace the old seaport, reports Interfax.

The news agency quoted Council of Ministers Chairman Vasyl Dzharty as saying that the construction of the new port was driven on the one hand by the necessity to enter the international container shipment market and realize the infrastructure potential of Ukraine, and on the other hand by the availability of skilled workforce in adjacent settlements who lost their jobs after the liquidation of the Crimean Naval Base on the Black Sea.

# Ukraine's freight transportation up 14.4% in 5M10

**Astrum**

According to the State Statistics Committee, freight transportation volumes grew by 14.4% y/y in 5M10. Freight transportation by railways increased by 14.7% y/y, while pipeline transit vol- umes rose by 15.7% y/y.

Astrum's perspective: One of the key factors behind freight transportation growth was the 41.4% y/y increase in gas transit volumes. This was largely due to an ultra-low baseline factor, as Russia cut gas supplies to Ukraine and Europe in January'09 during a gas dispute. At the same time, the reduction in the volume of grain shipments by railway accelerated from 33.2% y/y in 4M10 to 37.3% y/y in 5M10. This is another sign that grain exports are continuing to decrease rapidly, as the resource of last year's harvest is mostly depleted. At the same time, the rate of growth for railway shipments of oil and oil products decelerated from 14.6% y/y in 4M10 to 10.6% y/y in 5M10 due to the halting of operations at the Lysychansk Oil Refining Plant (see Astrum Daily of June 16, 2010).

# Ukraine's Passenger transportation up in June

**Dragon Capital, Kyiv**

Passenger transportation increased 18.5% m-o-m in June, bringing its y-o-y growth to an estimated 3.4% (vs. a 2.6% decline recorded in May) and narrowing its decline in 1H10 to 2.3% y-o-y from 3.7% y-o-y in 5M10. (SSC) The m-o-m upsurge in passenger transportation was related to the beginning of the summer vacation period. Yet, its positive y-o-y growth as well as our estimate of the underlying trend show that seasonality-adjusted passenger transportation volumes were on the rise last month.

Combined with positive retail trade statistics released last week, this points to a recovery in domestic consumer demand.

# EBRD to present its vision of reforms in energy, public utility and transport sectors to Ukrainian authorities

**bne**

Andre Kuusvek, the representative of The European Bank for Reconstruction and Development (EBRD) in Ukraine, says that EBRD is to send its recommendations on the program of the country's economic development to the Ukrainian authorities, reports Interfax.

The news agency quoted Kuusvek as saying that today I'll send a letter to the presidential administration, to [First Deputy Presidential Administration Head] Iryna Akimova and to the government, to Vice Premier Sergiy Tigipko, with our proposals on what the real steps regarding the program of the country's economic development should be.

# Ukrainian PM to seek Russian funds for Sevastopol infrastructure

**Ria Novosti**

Ukraine's prime minister said on Sunday he would ask Russia to help upgrade the infrastructure in Sevastopol, the Crimean city that hosts Russia's Black Sea Fleet, Ukrainian news website Podrobnosti reported.

Prime Minister Mykola Azarov is due in Moscow on Monday and he said during a visit to the Black Sea port that he would raise a number of issues related to the presence of the Black Sea Fleet in Sevastopol.

Kiev and Moscow agreed in April to extend Russia's lease on the Crimean naval base for 25 years, with a possible further five years.

"Given that the prospects of the Black Sea Fleet are defined, let's say, for 30 years, money must be invested," Azarov said. "These are the issues we need to discuss with the Russian leadership tomorrow."

"We will talk about the development of the city of Sevastopol, about the development of its infrastructure," he said.

"Should housing be built? It should. Should sewage treatment plants be built in Sevastopol? They should. There are a lot of problems that the government is prepared to take part in resolving, but because there are a few tens of thousands of troops, their families and retirees here, the Russian government should take on some of the problems itself," the Ukrainian prime minister said.

The agreement to extend the Black Sea Fleet lease was controversial in Ukraine, and came with improved terms on Ukraine's purchase of gas from Russia.

Azarov said the deal had had a positive impact on the Ukrainian economy.

"Of course, the issue of reducing the price of gas does not solve all the problems completely, it does not put an end to all the problems on which the development of the economy depends, but it gave a powerful impetus," he said.

## Ukraine's freight transportation up 13.9% in 1H10

**Astrum, Kyiv**

According to the State Statistics Committee, freight transportation volumes grew by 13.9% y/y in 1H10. Freight transportation by railways increased by 15.1% y/y, while pipeline transit volumes rose by 11.6% y/y.

Astrum's perspective: Transport sector statistical data for June'10 brought no surprises. We draw attention to the fact that the dynamics regarding cement shipments by railway is improving rapidly (from a decline of 30.1% y/y in 1Q10 to a decline of just 3.8% y/y in 1H10). This is yet another fact supporting our view that the construction sector in on the verge of renewed growth. At the same time, the rate of growth for railway shipments of oil and oil products decelerated from 14.6% y/y in 4M10 to 5.3% y/y in 1H10 due to the halting of operations at the Lysychansk Oil Refining Plant (see Astrum Daily of June 16, 2010).

# Eurasia infrastructure

## Armenia: New investment programmes endorsed at South Caucasus Railway

**Arminfo**

New investment programmes have been endorsed at CJSC South Caucasus Railway [SCR] to raise effectiveness of business-processes management.

As press-service of the company reported, they mean such programmes as , , , , etc. These programmes will promote improving of the company and raising effectiveness of the SCR investment activity, enhancing the control of responsibility for the targeted spending of the investment funds. Fulfillment of the mid-term investment programme of the SCR for 2010-2012 will take place according to the principle of the project management.

## Armenia: Indices for first 5 months 2010 at South Caucasus Railway

**Arminfo**

Yerevan. As the information center of CJSC "South Caucasus Railway" reported, the total of 1017,8 thsd tons of cargo were transported by the railway in Jan-May 2010 against the planned 972,1 thsd tons and against 924,5 thsd tons at the same period of 2009.

Import over the first 5 months amounted to 486,9 thsd tons. Chiefly grain crops, oil and oil products and nonferrous metals were imported. As for export, ethyl alcohol and alcohol production and salt were exported in an amount 129,7 thsd tons. The local cargo traffic was 401,2 thsd tons. The volume of the passenger traffic also grew - 328,1 thsd passenger against the planned 284,8 thsd and against - 275,2 thsd passenger at the same period of 2009.

# Georgia: Truck Owners to Pay Highway User Tax

**GBC**

Truck owners, who carry out cargo transportation on the territory of Georgia, will pay a highway user tax.

Corresponding amendments will be made to the law on motor roads. The bill was put forward by Lasha Gotsiridze, deputy minister of regional development and infrastructure, at the meeting of the parliament committee on sectoral economics and economic policy on June 10.

Truck owners, who carry out only transportation of export and import cargo, will have to pay the tax.

'The financial resources collected from the highway user tax will be entirely spent on rehabilitation of highways and damaged roads', Gotsiridze said at the meeting.

Giorgi Meladze, the committee chairman, says the bill will not make influence on the transit volume and prices of imported goods.

The Georgian parliament will discuss the bill in the near future.

# Georgia's Road Department Spends 2.9 million GEL

**bne**

Georgia's Road Department Spends 2.9 million GEL on Rehabilitation of 6-kilometer Section of Variani-Sakasheti Motorway, reports local media.

Reports suggest that the rehabilitation of a 6-kiolomter section of the Variani-Sakasheti motorway in the Shida Kartli Region has ended.

# Georgia: Government to Discuss Issue of Privatizing Railway Telecom to Novastar Commerce Limited in Direct Sale

**GBC**

On June 23 the Georgian government will discuss the issue of privatizing a 100 percent stake of Railway Telecom to Novastar Commerce Ltd in direct sale. If the government takes the decision, Railway Telecom will cease relations with the auction winner Linxtelecom.

Giorgi Gagnidze, commercial director for Georgian Railway, told GBC the relations with Linxtelecom will be ceased because of abuse of legislative requirements. Namely, having acquired Railway Telecom Linxtelecom suspended the deal conclusion twice, he added.

"Linxtelecom substantiated the decision by the process of exploring Railway Telecom, but they had to do this before the deal", he noted.

It is not ruled out the Railway Telecom price be also revised. Anyway, it is upon the government to take a decision on the issue, because the state owns a 100 percent stake in the company, Gagnidze pointed out.

As reported, on November 23, 2009 Linxtelecom, the Netherlands-based international telecommunications company, acquired a 100 percent stake of Railway Telecom, which is owned by JSC Georgian Railway.

Linxtelecom has paid USD 14 344 800 for the stake. Besides Linxtelecom, Akhali Kselebi, a Georgian communications company, also took part in the auction and increased the bid by USD 100 000, but the Dutch company increased the bid by USD 200 000 and won the tender.

Linxtelecom is the Netherlands-based international telecommunications company, which unites Russia-based Sviaz VSD and Links Telecommunications CIS. The company operates in Russia, the Baltic States, Belarus, the Caucasus, Ukraine, Hungary, Poland, Western Europe and the USA.

The starting price of Railway Telecom equaled USD 14 144 800. The Tender commission did not let United Telecom to take part in the auction to prevent the company from the monopolistic state on the Georgian market.

# Georgia: Black Sea Product to Inaugurate New Seaport Construction in Supsa

**GBC**

A new seaport will be constructed in Supsa, the Guria Region, Shalva Tsakadze, director of Black Sea Product (BSP), noted at a news conference in Baku, Azerbaijan.

'The construction works will be inaugurated in July 2010 and end in 2014. The seaport annual output will be 40 million tons and the new seaport will receive the first ship at the end of 2012', Tsakadze noted.

The new seaport will handle both oil products and liquid petroleum gas, as well as dry cargo.

The new seaport will be located in the TRACECA corridor near the main railway route.

The seaport depth will equal 18 meters and will receive ships of any tonnage, Tsakadze said.

# Georgian Prime Minister to Draw Interest of Foreign Investors to Georgian Railway Bonds at Road Show in London

**GBC**

Georgian Prime Minister Nikoloz Gilauri will hold a road show in London on July 3 to draw the interest of foreign investors to Georgian Railway bonds. Gilauri is expected to arrive in London from Ireland.

As reported, Georgian Railway plans to place its bonds at the London Stock Exchange (LSE).

The Georgian government discussed a draft resolution on issuing, placing and registering foreign currency denominated loan securities of Georgian Railway at the London Stock Exchange PLC at the June 10 meeting.

Georgian Railway has already started preparing required documentation for the IPO transaction.

On May 10 Fitch Rating, international rating agency, conferred the credit rating of B+ to Georgian Railway with the forecast of Stable.

Nikoloz Gilauri is expected to stay in London for 2 to 3 days.

The collected funds will be spent on implementing Tbilisi-Batumi fast train project.

# Georgian Railway Plans to Draw Financial Resources through IPO Operation

**GBC**

LLC Georgian Railway is preparing documentation to carry out an IPO operation.

On June 10 the Georgian Government will discuss a draft resolution, under which Georgian Railway will issue, place and register foreign currency denominated loan securities at the London Stock Exchange.

Giorgi Gagnidze, financial director of Georgian Railway, told GBC, no ultimate decision has been made on placing bonds at LSE. At the same time, it is the required procedure that the Government discuss and make a respective decision on the issue.

Gagnidze says Georgian Railway plans to carry out the IPO operation to draw required financial resources for the rehabilitation project implementation. We have made no ultimate decision on concrete sources yet. Nevertheless, we are discussing several sources bank resources, international finance institutions and placing bonds at LSE, Gagnidze noted.

Georgian Railway will develop the rehabilitation project on the ground of feasibility studies, which are being prepared by Sestra French company. The document development will end in late June.

Georgian Railway plans to issue securities worth 550 million USD, Gagnidze said.

# Georgian Railway: Caspian oil on the move

**Renaissance Capital,**

Georgian Railway (GR), the 100% state-owned national rail company of Georgia, is marketing its debut seven-year $250mn bond issue, reports Renaissance Capital.

The news agency says that the bond documentation contains typical quasi-sovereign language; there is no single financial covenant in the indenture, but there is, customarily, a change-of-control put in case the government ceases to own more than 50% of GR's shares.

## Georgian Railways appoints JPMorgan and Merrill Lynch for Eurobond placement

**bne**

Georgia's state owned rail company, Georgian Railways, has appointed JPMorgan Chase & Co. and Merrill Lynch to manage its Eurobond placement, Bloomberg reports.

The company recently announced plans to issue Eurobonds, but has not yet revealed how large the offering will be or when it will take place.

However, Georgian Prime Minister Nika Gilauri said earlier this year that Georgian Railways could issue up to $200m worth of bonds.

## Georgian Railways to launch bond road show July 5

**bne**

Georgian Railways will launch a road show for dollar-denominated Eurobonds on July 5, reports Interfax.

Citing an unnamed banking source, the news agency says that the road show begins in Hong Kong on July 5 before moving to Singapore, London and Germany and ending on July 12 in Switzerland.

## Almaty Airport in debt restructuring talks

**bne**

Almaty International Airport is in discussion with Amsterdam Trade Bank over the restructuring of around $38m of debt.

Amsterdam Trade Bank launched a lawsuit against the airport's management company in April 2010, after it failed to repay a loan due in 2009.

Almaty International Airport said it had been unable to pay back the debt due to a lack of funds, Interfax Kazakhstan reported.

Amsterdam Trade Bank is the Netherlands-based subsidiary of Alfa Bank.

## Kazakhstan to open 370km of Western Europe-Western China highway in 2010

**bne**

Kazakhstan is to open a 370 kilometre long section of the Western Europe-Western China highway in 2010, Deputy Transport and Communications Minister Dulat Kuterbekov said June 7. "This year we are planning to open a 370-km road for traffic. Every year we will increase the pace to open the entire Kazakhstan's road section by the end of 2012,' Kuterbekov said in an interview with Kazakhstan-TV. 'In 2013 we will focus on landscaping, revegetation, restoration of topsoil and green spaces." The Kazakh section of the highway runs from the Russian border via Aktobe, Kyzylorda, Shymkent, Taraz, Kordai and Almaty to the Chinese border at Khorgos.

## RZD, Armenia to prepare feasibility study for Iranian railway link

**bne**

Russia's state-owned rail company Russian Railways (RZD) is in talks with the Armenian authorities on the possibility of building a new line to link Armenia with Iran, reports newswires.

RZD CEO Vladimir Yakunin met with Armenia's President Serzh Sargsian and Prime Minister Tigran Sarkisian in the first week of July to discuss the project to work out an estimated cost of the project.

"The feasibility study is expected to be prepared by Russian railway specialists," RZD said in a statement following the meeting. "Armenia badly needs this link, however it is a very expensive ten-year program," Armenian Minister of Transport and Communications Manuk Vardanian said earlier.

Armenia and Iran signed a memorandum of understanding to open a link in 2009, which will give Armenia access to the Persian Gulf and to Iranian ports.

The preliminary estimate for the cost of the project is $1.8bn, Vardanian said.

The funding will be raised from Russia, Iran and China, and the Asian Development Bank, which have already allocated $1m loan for preparation of the feasibility study, although no disbursements have been made yet, Vardanian said.

## Tajikistan: New ADB strategy to support energy and transport sectors

**bne**

The Asian Development Bank (ADB) has agreed a new country partnership strategy for 2010-2014 with Tajikistan.

The strategy will focus in particular on improving Tajikistan's energy and transport infrastructure, the ADB said in a press release. It will also help Dushanbe to diversify the economy and recover from the damage done by the international economic crisis.

Tajikistan's economy suffered in 2009, after several years during which GDP growth averaged 8% a year. This was due to the fall in prices for aluminium and cotton, Tajikistan's main exports and the slump in remittances sent back by migrant workers in Russia. Almost half a million migrant workers returned home, stretching Tajikistan's fragile public services to their limit.

The ADB plans to support the government's efforts to improve energy supplies, especially in rural areas. 'Currently the country suffers from electricity shortages in winter and surpluses in the summer, with just 10% of its considerable hydropower resources in use,' the bank said. 'ADB, as the largest multilateral development partner in the sector, will focus on rehabilitating existing infrastructure, as well as developing clean, sustainable energy which supports both internal and regional connectivity.'

The bank will also invest in improvements in Tajikistan's dilapidated road networks, focussing on domestic roads and regional links with China, Kyrgyzstan and Uzbekistan.

"The Country Partnership Strategy sets out a roadmap to anchor phased physical and non-physical investments to improve connectivity, energy security and private sector development, with regional cooperation as a binding theme," said the ADB's country director for Tajikistan, Makoto Ojiro.

# CE infrastructure

## airBaltic passenger numbers sky high

**bne**

Latvia's Airbaltic national airline flew more than a million passengers during the first five months of the year, reported BNS.

From Jan-May airBaltic carried 1.1 million passengers, a 19 percent rise from the same period a year ago, the airline's Janis Vanags said.

In May 2010, Airbaltic carried 295,800 passengers on its routes from Riga, Vilnius and Tallinn, which was 29 percent more than during the same month a year ago, At the airline's Riga hub, the number of passengers grew by 25 percent in May.

The Airbaltic representative said that during the five-month period this year the airline served 21,200 flights at a 23 percent increase from the same period in 2009, including 5,381 flights in May, which was a 41 percent increase on May 2009.

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

Airbaltic, established in 1995, belongs to the Latvian state, which holds 52.6 percent of shares and Baltijas Aviacijas Sistemas (Baltic Aviation Systems, BAS), which holds 47.2 percent. The sole owner of BAS is Airbaltic President and CEO Bertolt Flick.

## Prague airport lands profit of EUR 38m

**bne**

The operator of Prague's Ruzyne Airport, Letiste Praha, reported a net profit of CZK 1bn (EUR 37.8mn) in 2009, CEO Miroslav Dvorak announced Thursday, reported IntelliNews.

Revenues fell by 4% y/y and costs by 6% y/y. The number of passengers decreased by 7.8% y/y to 11.6mn. Letiste Praha plans to issue CZK 250mn (EUR 9.8mn) worth of 10-year bonds, which would be the second issue under the company's 10-year bond programme and is aimed to provide fresh funds for financing development projects, including the construction of a second runaway.

By the end of June, the environment ministry is to finalise the environment impact assessment of the runaway construction. The bonds under the second issue will not be traded on markets but offered to selected investors. Letiste Praha made its first bond issue within the programme in January and offered 2-year bonds worth CZK 800mn, higher by 23.1% (some CZK 150mn) than the original plans for CZK 650mn.

In March the parliament's lower house overrode the veto of President Vaclav Klaus on the law banning the government from selling the state-owned stake in Prague's Ruzyne Airport. The draft law stipulated that the owner of Prague Airport should be the state or a fully state-controlled company.

The former government of PM Mirek Topolanek wanted to sell the airport to a strategic investor for an expected CZK 100bn (EUR 3.6bn) with the tender to be called in the first months of 2010. Several companies have expressed interest in the airport, including Austria's Vienna Airport (Flughafen Wien), Czech investment groups PPF, Penta Investments and J&T, French Aeroport de Paris, and German Frapel and Hochtief Airport

# Czech Railways to open tender for protection of stations and trains

**bne**

Czech Railways (CD) plans to open a tender for the private security service at train station premises and in trains in the autumn, reports local media.

Radek Joklik, the spokesman for CD, was quoted as saying that the company was satisfied with services provided by security agencies and it intends to continue in the practise of using them.

# Estonia buys into national airline

**bne**

The Estonian state is to raise its holding in national airline Estonian Air from 34 to 90 per cent, Economy and Communications Minister Juhan Parts announced June 4 in Tallinn.

At the same time the share held by Scandinavian airline SAS will decline from 49 per cent to 10 per cent in a deal worth 280 million kroons (22 million dollars).

As part of a complex deal, SAS will convert into equity part of a short-term loan it had agreed to give Estonian Air, and after four years SAS will have an option to sell its remaining shares to the Estonian state.

The fate of a minority stake in the company held by an investment group remained to be decided, Parts said.

Despite large-scale cost-cutting measures in recent state budgets,
Parts said the need for the state to invest in the airline was clear.

"Basically this is a financial investment and we have enough money to make this investment. Estonian Air needs more capital to renew its fleet, which is part of our reconstruction and competitiveness plan," he said.

Parts said the deal would enable new capital of 311 million kroons to be injected into the company to develop it for the future

# Hungary's Malev restructuring needs clarity

**bne**

A decision on the financing and restructuring of Hungarian airline Malev can only be made after relationships within the ownership structure as well as rights and responsibilities are clarified, and the airline's business and financial position over the last three years is disclosed, the National Development Ministry told MTI on Tuesday.

The ministry's statement followed a report by daily Nepszabadsag in the morning citing unnamed experts who said Malev would need at least HUF 50bn over three years to make it a viable business.

Malev's 2009 annual report show it had consolidated losses of HUF 26.8bn and negative net assets of HUF 51.3bn. With the airline's re-nationalisation, it received a HUF 25.2bn capital injection, bringing negative net assets to "just" HUF 26bn, the paper said.

In its statement on Tuesday, the ministry said it is working on a solution which aims to place the least burden on the budget while still allowing the operation of Hungary's national carrier.

# Poland's Budimex signs PLN 252 mln highway contract

bne

Poland construction company Budimex signed a highway construction contract worth net PLN 252 mln with road authority GDDKiA in Lodz, Budimex informed in a market filing, PAP reported.

Budimex will build a stretch of A1 highway in the Lodz region, Budimex informed.

Construction will start within 30 days from signing the contract and is to be completed in November 2011, the filing reads.

# Polish PBG builder in consortium signs deal for A4 motorway stretch

bne

A construction consortium including listed builder PBG and its units Hydrobudowa and Apriva signed gross PLN 1.75bn contract for the construction of A4 motorway stretch with national road authority GDDKiA, reports PAP.

Citing a statement issued by the company, the news agency says that PBG, Hydrobudowa and Apriva are responsible for 50% of works, which are to be completed within two years, the filing read.

# Slovak: Financial closure of Slovak PPP D1 highway construction delayed again

bne

The financial closure of the first Slovak public-private partnership (PPP) project for highway construction, relating to building a 75km section of the main D1 highway between Martin and Presov, would be delayed again, CEO of construction company Doprastav, Dusan Smudovsky, announced, IntelliNews reported. Doprastav is part of the consortium, led by French Bouygeux Travaux Publics, which won the public tender for the project.

Smudovsky explained that the latest delay was on account of the EC-imposed environment-related conditions for the road section. He noted that negotiations with the EC on the matter would continue and the large amount of documents, which should be processed, meant that the earliest new date for financial closure could be May 27. The latest deadline for the closure of the financial part of the project was May 18 with the earlier delays being on issues with EIB financing.

# New Slovak govt to slash infrastructure spending

bne

According to new cabinet members, the return to fiscal discipline in Slovakia heralded by the centre-right government that emerged from the June 12 elections means several ambitious transport infrastructure projects could be idled or scrapped altogether, reports local media.

Reports suggest that a wide-gauge railway that the outgoing left-wing administration of Robert Fico planned to build across Slovakia to link Ukraine and Austria is almost certainly dead.

# Slovak highway agency cancels tender for Strazov-Brodno D3 highway section

bne

The National Highway Company, a.s. (NDS) has canceled the contests to select contractors to build the over 4-kilometer-long D3 section from Strazov to Brodno and to supervise the construction, as ordered by the Public Procurement Office, which found a violation of public procurement rules during the announcement of the contests in December 2009, reports SITA.

The news agency quoted NDS Director General Igor Choma, as saying that they have to respect the verdict of the Public Procurement Office.

## Slovak Toll System Brings In 63.5 million in 1H10

**bne**

Slovakia's electronic toll system collected more than 63.5 million in toll payments between January-June 2010, Skytoll, the system operator, told reporters on Thursday, adding that the payments feature 46 percent from foreign-based hauliers, TASR reported.

The toll is charged on trucks of 3.5 tonnes and more for the use of selected motorway stretches, expressways and first-class roads.

The system in the month of June brought in 7.7 million on motorways and expressways and 5.1 million on first-class roads, representing a month-on-month rise of 6 percent.

There are 182,000 vehicles subject to the system.

## Slovakia: SkyToll says its road-toll system is fully functional

**bne**

Road-toll provider SkyToll spokesperson Lenka Lendacka has said that the electronic road-toll system is fully functional and meets all the criteria stemming from the contract with the National Highway Company (NDS), reports TASR.

The news agency quoted Lendacka as saying that designated road sections are tolled in accordance with Slovakia's legislation.

# SE infrastructure

## Bosnia: Banja Luka-Gradiska highway to be completed by September

**bne**

Construction works on the Banja Luka-Gradiska highway would be finalised by September, Bosnian Serb PM Milorad Dodik said, IntelliNews reported. Thus, the motorway will be opened to traffic just before the approaching general elections, to take place in early October. In the meantime, the RS authorities are conducting preliminary talks with interested parties for the construction of the Banja Luka-Doboj motorway, Dodik added. According to him, there are at least 5 potential investors, who are interested to replace Austrian construction company Strabag in the project. We remind that the authorities and Strabag agreed earlier in the month to terminate the concession contract for the construction of a motorway network in the country. The contract termination followed the alleged problems of Strabag to finance the project implementation.

## Bulgaria back on the road

**Andrew MacDowall in Sofia**

After years of hold-ups, Bulgaria's vital motorway construction programme appears to be flowing once again.

Anyone who has travelled on one of Bulgaria's major cross-country roads will be aware of the importance of the country's position on transcontinental transportation and trade routes, as well as the need for the highways themselves to be improved. Trucks from Turkey heading west are ubiquitous, and those from a wide range of farther-flung countries are also common. As the economies of Central and Eastern Europe and the Middle East have experienced rapid growth in recent years, volumes have risen.

However, sweeping six- or four-lane motorways become two-lane affairs with little warning, with major HGV routes passing through the centres of bucolic villages or becoming trapped in suburban bottlenecks. Meanwhile, surfaces are inconsistent - much improved on some stretches, terrible on others. The variance in quality along what are actually single continuous roads is due to the incomplete nature of Bulgaria's infrastructure investment programme, which, for all its high ambitions, has been hamstrung by political disputes, corruption, funding shortages and material price volatility. In January 2008, for example, the EU suspended much-needed payments to the Bulgarian National Road Infrastructure Fund after allegations of graft. The patchy progress in such a vital area is perhaps indicative of Bulgaria's struggle to realise its economic potential.

**Nexus**
Bulgaria lies on four of the 10 Pan-European transport corridors identified by the EU as crucial transcontinental links needing substantial investment to enhance Europe's transportation infrastructure. While one, along the Danube, is largely a water-borne transit route, the three others are overland routes which cross the country, occasionally intersecting and coinciding.

Corridor IV runs from Central Europe through Romania to Istanbul and Thessaloniki, with the branches dividing at Sofia. Corridor VIII is an east-west route across the Balkans from Constanta on Romania's Black Sea cost to Durres on the Adriatic in Albania. Corridor IX, meanwhile, runs from Helsinki to Alexandropoulos on Greece's Aegean coast, cutting north-south across the heart of Bulgaria from the Danube port of Ruse.

These are far more than just theoretical lines on bureaucrats' maps. They reflect not only the recent growth of inter- and intra-continental trade, with the rise of the Middle East and emerging Europe, but age-old patterns of commerce and natural transport routes; corridor VIII, for example, broadly follows the Roman Via Egnatia. They also follow key proposed energy transit lines; the path of Corridor VIII is similar to that of the Ambo oil pipeline and IV that of the Nabucco gas pipeline. Finally, in a region that has had regular outbreaks of conflict over the past two centuries, the corridors are also strategically important for defence purposes.

The development of major roads is important both for these regional reasons and to stimulate and support Bulgaria's economic growth. Its transportation infrastructure lags behind that of most other EU members, and it has not been able to capitalise on its position as much as it should have done. Now it appears that momentum behind the motorway-building programme is being restored. The centre-right government headed by Boiko Borisov, elected last summer, has pledged to complete the Trakiya, Maritsa and Lyulin motorways by the end of its term in 2013, and make substantial progress on the Struma and Black Sea motorways.

Perhaps the most publicised of Bulgaria's troubled major road projects is the Trakiya Motorway. The route of the motorway runs from Kalotina on the Serbian border to Burgas, the country's second-largest port city, on the Black Sea, passing close to Sofia and Plovdiv, nominally the country's second city (often it is reported as running from Sofia to Burgas, but the Kalotina link will also be important). It is one of the more complete of the motorways, but it was held up in 2005-2006 by a dispute with the Portuguese contractor and has remained unfinished despite this being the main route from the capital to the country's main tourist area. The June tender for the construction of a 47.7-km stretch of the motorway, between Yambol and Karnobat in the east-centre of the route, attracted 13 bids, with Bulgaria's Holding Roads placing the lowest at BGN175m (€89.45). The same month, Greek outfit Aktor was ranked top bidder for the construction of the 35.7-km link between Nova Zagora and Yambol. In February, Unified Highway Trace, another Bulgarian firm, won the tender for a 32-km section between Stara Zagora and Nova Zagora with a BGN137.86m bid. Work is expected to start by August, and once these sections are complete, the main Sofia-Burgas stretch of the Trakiya, following Corridor VIII, will be complete.

The government has also announced that another 31 km of the Maritsa motorway, between Novo Selo and Lyubimets, will be complete by year-end. The Maritsa route runs from an interchange with the Trakiya at the village of Orizovo to the Turkish border at Kapitan Andreevo, where it links to the Turkish Avrupa Otoyolu (Europe Motorway) to Istanbul, making part of Corridor IV. Only 38 km of 117 km has been completed thus far, but Bulgarian Regional Development Minister Rosen Plevneliev has said that a central 67 km stretch from Orizovo to Harmanli will be finished by June 2013, finally linking Istanbul with Sofia and other major Bulgarian cities with an unbroken European-grade motorway.

Plevneliev has also faced down vocal opposition for a substantial cash injection for the Lyulin motorway project, which will link the western outskirts of Sofia to the nascent Struma motorway (Sofia-Greece) near the industrial city of Pernik, bypassing a notorious bottleneck at Vladaya. The project, like the Trakiya, has been hobbled by long and controversial delays, with Turkish contractor Mapa Cengiz demanding a huge price hike from an original bid of €138m to €215m for the 19-km road. A compromise total of €181m was eventually arrived at, with the Bulgarian government agreeing to stump up an additional BGN86m in June. At a time when Bulgaria is paring back its budget and under pressure to make further cuts, this has aroused some controversy, despite the expectation that much of the cost can be met by EU funds. Attempting to cool criticism, Plevneliev has stated that the motorway is "62% ready" - despite only 5 km being fully complete - after significant progress this year, and parliament has set a deadline of May 2011 for completion.

**Foot on the pedal**
Despite the worsening fiscal situation, with the European Commission demanding that Bulgaria cut its deficit from 3.8% this year to 3% in 2011, some analysts argue that pushing ahead with infrastructure projects should be an absolute priority for the country, as it can help both stimulate growth in the short term and support it in the future. "Targeted investment in infrastructure represents a virtuous form of government stimulus," Paulius Kuncinas, regional editor for Eastern Europe and Asia at publishing and consultancy firm Oxford Business Group, tells bne. "While we are all aware of fiscal constraints facing EU nations, the lack of public investment could undermine a country's competitiveness and growth potential. It is, therefore, encouraging that Bulgaria is trying to balance austerity with selective investment in infrastructure that in fact has an economic multiplier."

But even if the Trakiya, Maritsa, and Lyulin projects are completed on time - and given the past, that should by no means be seen as a certainty - it won't be the end of the story. The Hemus motorway, which should run from Sofia to the growing port of Varna on the Black Sea, and the Struma, are still far from completion. And it appears the government has decided not to prioritise them, at least for the next year, and perhaps for this parliamentary term (though rehabilitation of finished stretches of both is ongoing).

A change of government in 2013 - or even before - could once again hold up progress. But after some difficult years, a concrete commitment to vital road infrastructure is at least an encouraging sign.

# Bulgaria: Holding Roads places lowest bid for 47.7km stretch of Bulgaria's Trakya Highway

**bne**

Holding Roads placed the lowest bid for the construction of a 47.7km of Trakya Highway, reports local media.

Reports suggest that Holding Roads in association with other eight Bulgarian companies offered BGN 174 million excluding VAT or BGN 3.6 million per kilometer.

# Bulgaria pulls railwy tender

**bne**

The Bulgarian National Company Railroad Infrastructure announced Monday it officially halted the public tender for the rehabilitation of the railroad between the cities of Plovdiv and Burgas, reported Novinite.

A week ago, the European Commission warned the country that if the tender went ahead in its present form it might suspend financing from the EU Transport program. The move to stop the deal came on the advice of the Bulgarian Transport Ministry, which is the beneficiary of the project.

The EC had pointed out serious suspicions of corruption and conflict of interests. The Railroad company explain their probe did not discover violations, but motivates the decision with inflated prices from the two bidders admitted to the tender's final stage.

The Interior Ministry is conducting their own probe. The results will be reported to the Minister for the EU Funds, Tomislav Donchev, who says the information on the case is still confidential.

# Bulgarian company wins tender to build Trakia IV motorway stretch

**bne**

The chairman of Bulgaria's road infrastructure agency Bozhidar Yotov has signed the decision to announce the tie-up Trakia IV, comprising local companies Holding Roads, Galchev Engineering, Moststroy and several smaller firms, as winner in the tender for the construction of the 49-km section between Yambol and Karnobat of the Trakia Motorway in southern Bulgaria, IntelliNews reported. Trakia IV filed the cheapest bid of BGN 174.7mn (EUR 89.3mn), VAT excluded. Construction works are to start in September and should be completed in 28 months. Trakia Motorway connects the capital city Sofia to the southern Black Sea city of Burgas. A total of three segments between Stara Zagora and Karnobat with a combined length of 115 km remain to be built. Meanwhile, regional development minister Rosen Plevneliev said that construction works on the 34.3km stretch of the motorway between the southern cities of Nova Zagora and Yambol will start on August 2.

# Bulgaria seeks EUR 1bn loan from WB for infrastructure projects

**bne**

The Bulgarian government has requested some EUR 1bn from the World Bank for infrastructure projects, Prime Minister Boyko Borisov told Standart daily in an interview, IntelliNews reported. The cabinet expects to sign an agreement for the loan on Aug 8 during the visit of World Bank President Robert Zoellick to Sofia, said Borisov. The World Bank's assistance program in Bulgaria to date comprises 46 IBRD operations with a total original commitment of some USD 3bn equivalent.

# Bulgaria to invest EUR1bn in road construction

**bne**

Sofia's government has requested one billion euro financing from the World Bank to construct roads and implement infrastructure projects in the country, Standart daily reported.

'World Bank Group President Robert B. Zoellick is scheduled to visit Sofia on August 8 to sign the agreement for the loan,? PM Boyko Borissov told the Standart yesterday.

He discussed Bulgaria?s stance in the agreement with Finance Minister Simeon Djankov, European Affairs Minister Tomislav Donchev, Transport Minister Alexander Tsvetkov and Regional Development Minister Rosen Plevneliev.

PM Borissov also wants to negotiate another EU financing agreement for the upgrade of Bulgaria?s electricity transmission system.

# Macedonia builder Granit said to win EUR2.5mn tender for road construction

**bne**

Macedonia builder Granit won EUR2.5mn tender of the roads agency for the construction of 17 road sections in the Polog-Humanovo region, reports Intellinews.

The news agency says that the project is part of the World Bank programme for upgrade of the local and regional road network, encompassing 28 roads countrywide.

# Romania – Japan puts money into Romanian rail

**bne**

The government adopted on Wednesday a bill that provides the raising of a EUR 300 million loan from the Japan International Cooperation Agency for the carrying out of the underground stretch connecting the Northern Railway Station with the Otopeni Airport reported Agerpress.

According to Prime Minister Emil Boc, the bill will be referred to Parliament for debate and adoption in a fast-track procedure.

"This is a major project of Romania, worth EUR 1.3 billion, of which EUR 300 million will be covered through this loan," said PM Boc.

The project of the Northern Railway Station - Otopeni underground stretch, an investment financed from the state budget, is due for completion at the end of 2019.

# Romania: Chisinau Public Transport Project: Supply of trolleybuses

**EBRD**

This Invitation for Tenders follows the General Procurement Notice for this project which was published at May 12, 2010 on the web site of the European Bank for Reconstruction and Development - www.ebrd.com._I.M. Regia Transport Electric, municipally owned trolleybus company of the City of Chisinau, hereinafter referred to as the Purchaser, intends using part of the proceeds of a loan from the European Bank for Reconstruction and Development (the Bank), European Investment Bank (EIB) and a grant from the Neighbourhood Investment Facility (NIF), towards the cost of Chisinau Public Transport Project.

The Purchaser now invites sealed tenders from suppliers for the following contract to be funded from part of the proceeds of the loan:_Package _CPTP01 - Supply of 90 low-floor trolleybus, DDU Chisinau, 33 weeks after contract signing._Tendering for contracts to be financed with the proceeds of a loan from the Bank is open to firms from any country._To be qualified for the award of a contract, Tenderers must satisfy the following minimum qualification criteria:_(a) in the case of a tenderer offering to supply goods under the Contract which the tenderer does not manufacture or otherwise produce, the tenderer has been duly authorised by the goods' manufacturer or producer to supply the goods in the Purchaser's country;_(b) the tenderer, including manufacturers of the goods and suppliers of the services, as appropriate, has the financial, technical and production capability and capacity necessary to perform the Contract and must have at least 20 mln. EURO annual turnover in average for last 3 years, as well as must have the profitable result of economic activity in each of last 3 years;_(c) the tenderer must have the successful experience of the execution of the analogous deliveries of trolleybuses with similar models (low-floor single or articulated) in a quantity not less than 3 contracts in last 3 years of commensurate by the volume with the requirements of these tender documents or with contracts for minimum of 30 units and cumulates more than 250 units in the last 3 years._(d) the tenderer or its agent will be able to carry out the supplier's maintenance, repair and spare parts stocking obligations prescribed in these tender documents._(e) the proposed model of low floor trolleybuses must be contemporary and be produced in series. The total quantity of released in series low floor trolleybuses must comprise not less than 100 pieces in last 3 years._(f) the tenderer must confirm the absence of the tendency of making judicial decisions not into his benefit in the history of arbitration and arbitration trials in the last 5 years.

Tender documents may be obtained from the office at the address below upon payment of a non-refundable fee of 300 (three hundred) EURO, including VAT, or equivalent in Moldavian leis by exchange rate of National Bank of Moldova on the date of payment.

# Romania minister says money from privatisation should be invested in infrastructure

**bne**

Romania's Minister of Economy, Trade and Business Environment Adriean Videanu on Thursday told a press conference that he proposed to the representatives of the International Monetary Fund and the European Commission that the amounts raised from privatization deals and the sale of minority stakes be used as sources to support investments, Agerpres reported.

'I raised an important issue related to revenues from privatization and the sale of minority stakes. According to Eurostat, all these revenues are 'below the line' in the budget and are not included in the current revenues at the calculation of the consolidated budget. I said, however, that given that we are in a situation of crisis and these are important sources, we could think of a way to use these amounts - outside the IMF and EC assessments - as co-financing sources forEU funding or to support strong investments in infrastructure,'said Videanu.

He added that the Eurostat registration documentation requires revenues from privatization deals to be 'below the line' and that they could be used to finance the deficit, as a non-inflationary source that does not entail costs, but 'it is highly important for Romania to benefit from additional sources.'

# Romanian civil servants sacked for AC/DC's 'Highway to Hell'

**bne**

Romania has sanctioned five civil servants after Australian rockers AC/DC got stuck on a "Highway to Hell" and were unduly asked to pay to leave the country, news agency Mediafax reported, AFP reported.

Four employees of Romania's national roads company were sacked and one was demoted following the incident, which happened after the band played a concert in front of 60,000 fans in Bucharest on May 16, it said.

The company said earlier this month that the "overzealous" employees had stopped the band's convoy at Hungarian border and demanded a total of 2,500 euros in so-called fines for allegedly failing to pay highway tolls.

AC/DC said in a letter to the company however that they had received no receipt for the fine, the company's manager Doina Tiron told AFP.

After an internal investigation, the company decided to fire four inspectors who were involved in the incident, the director of the company for the Timisoara region, Ioan Malita, told Mediafax. The local chief of the Control and Collection Agency at the border crossing of Nadlac was stripped of her managing post and will work now as a simple inspector, he added.

# Serbia: EBRD confirms Serbian road project

**bne**

The European Bank for Reconstruction and Development (EBRD) published details Tuesday for the Corridor X Highway Project in Serbia.

The proposed objective is sustainable economic development and ensuring that the country capitalizes on its geographical position to continue its development as a key transit country on the Trans-European Network as well as to increase transport efficiency and improve traffic safety.

The total cost of the Corridor X project is estimated at € 1.3 billion. The proposed part of the project financed by the EBRD, has a total estimated cost of €150 million, and will require the construction of motorway from Nis to Dimitrovgrad covering nearly 30 km.

# Serbia reaches railway deal

**bne**

Milovan Markovic, general manager of state railway company Zeleznice Srbije, has said that Serbia and Russia reached a preliminary agreement on financing two railway projects for a total of 470mn euros ($561mn), reports The Moscow Times.

The newspaper report quoted Markovic as saying that the funds will be used for the construction of the Valjevo-Loznica rail line in the west worth 260mn euros, and for a railway junction in Belgrade which is 210mn euros.

# Serbia: Strabag confirms talks to cancel EUR3bn road contract with Bosnian Serb Republic

**bne**

Austrian Strabag's spokesperson confirmed that the company is negotiating the termination of a contract to build a network of motorways in the Bosnian Serb Republic (Republika Srpska), worth 3bn Euros, reports Bosnia Daily.

Citing a statement for Austrian agency APA, the report says that Strabag expects this to happen within the next three weeks.

# Serbia to form new state airline

**bne**

Serbian Infrastructure Minister Milutin Mrkonjic announced Wednesday that a new airline, which will take over the role of Serbia's national airline from JAT, will be founded in the near future, reported Tanjug.

"We are in the final stages of establishing a new company," Mrkonjic said.

JAT has a fleet of just seven aircraft, half the number it had last year, and will not be able to hit its target of carrying 1.5 million passengers this year.

The government has tried in vain to find a buyer for JAT but is now considering the forming a new company in order to rid the airline of its debt burdens.

Last year, JAT had 1,200 employees and recorded a loss of 25 million euros.

# Serbia to invest EUR 22bn in transport infrastructure by 2027

**bne**

Serbia will invest EUR22bn in transport infrastructure by 2027, infrastructure minister Milutin Mrkonjic has stated presenting the country's transport sector strategy, reports IntelliNews.

The news agency quoted Mrkonjic as saying that the funds for transport infrastructure projects will be secured from IFIs, such as the EBRD, EIB, the World Bank, etc.

# Serbia's fast lane to development

**bne**

Stretching from Salzburg to Thessaloniki, via Ljubljana, Zagreb, Belgrade and Skopje, the construction of Corridor X - one of the EU's Pan-European transport corridors - has been promoted as a key driver of economic development in Serbia.

With 792 kilometres of highway crossing Serbia, Corridor X constitutes one of the country's biggest infrastructure projects. However, over the past 10 years, only about 150 km of the Corridor have been built, leaving around 300 km yet to be constructed.

The main priority is the construction of a number of "missing links," including a second two-lane carriageway on 118 km of highway between Horgos and Novi Sad (Corridor Xb), a motorway covering 98 km of the Corridor between Nis and the Bulgarian border at Dimitrovgrad (Corridor Xc), a motorway between Grabovnica (in the south of Serbia) and the border with the Former Yugoslav Republic of Macedonia (Corridor Xd), and Sections 1 to 6 of the Belgrade Bypass.

The economic downturn - whilst amplifying the importance of the Corridor as a means of directly and indirectly creating an estimated 100,000 jobs - has aroused concerns about Serbia's ability to finance the almost €2bn of road construction and over €4bn of rail improvements, along with other planned infrastructure projects (including investments to ensure navigable inland waterways and a developed system of ports), particularly with the country's budget arrangements being closely monitored by the International Monetary Fund (IMF).

Despite having secured loans for €275.2m from the World Bank, €600m from the European Investment Bank (EIB), €150m from the European Bank for Reconstruction and Development (EBRD), and €100m from the Hellenic Plan for the Economic Reconstruction of the Balkans (HiPERB), Serbia will still have to draw upon privatisation revenues, part of a $1bn loan from Russia and other sources to finance the remaining stretches of the Corridor.

**Road blocks**

Implementation of the various projects has been affected by a plethora of problems. A tender for the construction of the Horgos-Novi Sad stretch of the Corridor previously failed due to a lack of suitable bids, whilst incomplete documentation delayed construction of a bridge over the river Danube near Beska, in Vojvodina, and completion of the Belgrade Bypass. Serbia is also experimenting for the first time with public-private partnership (PPP) arrangements, which have provoked considerable dissent, particularly in Vojvodina, about future profits from road tolls. Concerns, therefore, persist about the timeframe for completion - currently foreseen by the end of 2012 or 2013 - with any delays carrying additional costs.

According to figures from the Serbian Ministry for Infrastructure, investments in infrastructure (including those related to Corridor X) will total between €1bn and €1.5bn per year over the course of the next 10 years. Many look apprehensively towards Croatia - whose own extensive road-building programme burdened the country with heavy debts - and wonder what economic benefits will accrue as a result of such spending.

The comparatively poor quality of Serbia's infrastructure (ranking 83rd out of 134 countries) vis-a-vis some regional competitors has long been listed as a competitive disadvantage from the perspective of foreign investors. Aside from increasing transit traffic, it is envisaged that reductions in transport costs attributable to the Corridor will help stimulate exports and entice foreign investors.

Greenfield investments, for one, will benefit, with industrial zones and technological parks increasingly being strategically located close to Corridor X. As Vladimir Markovic, promotion consultant at Beocin Business Park near Novi Sad, tells bne, "the closeness of the Corridor inputs additional value to Beocin Business Park. We've noticed growing interest from EU companies and a trend towards the relocation of production and other business to Serbia, with areas around Corridor X and even Corridor VII - the Danube - being of special interest. Locating close to both Corridors provides excellent logistics for entering local markets and, more importantly, exporting to other trade preferential markets with whom Serbia has agreements, such as Russia, CEFTA, Turkey and, of course, the EU."

In addition, the Corridor has already contributed to improving regional co-operation and trade - in particular between Serbia and Macedonia, a stretch which carries the highest amount of traffic per day - and should also benefit economically marginalized parts of Serbia, particularly the under-developed south.

As Nenad Mitrovic, major of Vladicin Han, a municipality in the southeast corner of Serbia, tells bne, "Corridor X will stimulate economic development by connecting south Serbia with the neighbourhood; it will also stimulate the development of the entire economy. The direct highway from Western Europe to Greece, Turkey and beyond will activate huge investments and have positive primary and secondary effects on economic growth and employment in this part of Serbia."

**Southern pains**

Further destabilization of the south of Serbia, however, would severely impact these envisaged gains. Having witnessed a small-scale insurgency by ethnic Albanians in 2000-2001, the Presevo Valley - as it is commonly referred to locally - remains the subject of a possible land exchange between Serbia and Kosovo, with the former receiving the predominantly ethnic Serb north of Kosovo in return. Such speculation continues to deter both domestic and foreign investment, and casts a cloud over the Corridor itself. With the Valley earmarked as a possible future route for oil or natural gas pipelines, the success of Corridor X in helping to stabilize and reintegrate the region will have important consequences for other key strategic projects.

Completing Corridor X on schedule and to budget is key to securing the benefits of sustainable economic development - derived from competitiveness gains, transit growth and greenfield investments - that will help cover the costs of these sizeable investments. Overcoming the various obstacles that lie ahead - including mitigating inter-ethnic tensions in the south - will therefore help ensure that Corridor X puts Serbia firmly on the fast road to development.

# Turkish firms to build roads in Serbia

**bne**

Serbian National Investment Plan Minister Verica Kalanovic signed on July 12 several bilateral agreements with representatives of Turkey and Turkish construction companies, which will enable cooperation in the construction of highways in Serbia, the National Investment Plan Ministry announced, Betanews reported. The agreements envisage cooperation between Serbia and Turkish companies in providing resources for building roads and the joint implementation of projects. A Memorandum of Understanding on building sections of the Belgrade-South Adriatic highway (Corridor 11) from Ljig to Cacak and from Cacak to Pozega was signed, as well as a framework agreement on the reconstruction of the M8 state road from Novi Pazar to Aljinovic. The agreements on the construction of roads in Serbia are, a statement says, one of the concrete results of the visit of a Turkish state delegation led by Turkish Prime Minister Recep Tayyip Erdogan. The Serbian and Turkish governments signed an agreement on infrastructure projects cooperation in Belgrade on Oct. 26, 2009.