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Top story



Medvedev halts highway after shock appeal from United Russia

bne

After many months of protest, out of the blue the authorities moved to put an instant stop to a controversial road building project on Thursday. United Russia shocked many when it made an appeal to President Medvedev to halt the construction of the first leg of the Moscow - St Petersburg highway through Khimki Forest. Almost as stunning was that by early evening the president had signed a decree to suspend the project.

The move has some theorizing that the authorities are increasingly concerned by protests over the issue, although other gossip suggests the roots may lie closer to self interest among party officials. The news is even more surprising given that it could disrupt Russia's nascent private-public-partnership (PPP) program, a pet project of United Russia head Prime Minister Vladimir Putin.

"United Russia has turned to the President of Russia, D.A. Medvedev, with the request to halt the construction of the highway through the Khimki forest," the ruling party said in a statement on its website, although statements later in the afternoon from the party chairman appeared to try to soften its stance on the project, which has seen protest against it growing, the last incident being a large gathering at a concert on August 21 on Pushkin Square.

"We have different opinions within United Russia about this question. But the situation does not look simple," chairman Boris Gryzlov said in a statement. "We think that it is necessary to carefully deal with the question and accordingly either change the route of the construction of the road or continue the work taking account of a deeper study of this question," he added.

The motivation behind the request from the party and decree is unclear; some suggest that it represents concern on the part of the authorities over rising protest on the issue, particularly as the country's forests have become such headline news this month after so many of them burned.

That said, protest, which appeared to be expanding in the spring, has been swiftly suppressed and continues to be so. Some note that the latest gathering on Pushkin Square - although the actual concert was stopped at the last minute - was given the go ahead by Moscow city authorities, who are noted for refusing permission for protests of practically any kind.

There are suggestions that this surprising decision was courtesy of the antipathy of Moscow Mayor Yuri Luzhkov towards the governor of the Moscow Region Boris Gromov, in its turn provoked by a 'business' disagreement on the route of the road. Its hard not to ask if others may have been drafted in at this late stage to help, although Luzhkov is hardly popular in the Kremlin right now.

Yet the comments of activists, that have been facing vicious treatment at times in their long fight opposing the route through

Khimki Forest, illustrate the mysterious timing of the intervention. Whilst conceding that the move is "better late than never," Ivan Blokov, head of Greenpeace Russia called it "incomprehensible how a party of such a size did not notice this problem earlier."

Certainly it's an issue dear to Putin's heart, given that the first stage of the highway was one of the first PPP projects to be successfully agreed, under a program he has personally been pushing for years in a bid to update Russia's crumbling infrastructure. Earlier this year, the North-Western Concession Company consortium, led by French infrastructure giant Vinci, signed off on final documents to build the stretch of road. According to The Moscow Times, the JV is linked to Putin's friend Arkady Rotenberg.

Russia is talking with investors on several other major roads that have been delayed for some time, after managing to force the bare minimum of supporting legislation for PPP through the State Duma earlier this year. Those potential investors will be alarmed that the ruling party has come out at this late stage to question a project that's been on the drawing board, and supported by the authorities, for so long. ●

Natural Resources Ministry to discuss new routes for Khimki highway

Ria Novosti

Russia's Natural Resources Ministry is to join discussions on new possible routes for a controversial highway whose construction was frozen earlier in the day by President Dmitry Medvedev.

Medvedev signed a decree earlier in the day to suspend the building of the highway north of Moscow, the Kremlin said. The highway had threatened the destruction of a section of the Khimki forest, part of the Russian capital's greenbelt, and had stirred up large-scale grassroots protest.

"We are ready to join the discussion of this issue together with the United Russia party, the Russian Transport Ministry, non-



governmental and environmental organizations and implement the Russian president's order," Natural Resources Minister Rinat Gizatulin said.

Russian environmentalists defending the forest were quick to hail the president's decision.

"We are celebrating victory...a victory for civil society... Even if the decision is not final, the fact itself that the president stopped the cutting down [of the forest] is a great victory," one of the activists who defended the forest, Alla Chernyshova, said. ●

Polish roads paved with China



bne

London's race to get ready for the 2012 Olympic Games may be the highest profile infrastructure project in Europe, but the largest is linked to another 2012 sporting event - the European football championships being co-hosted by Poland and Ukraine.

One of the conditions for Poland getting the nod from UEFA, the European football association, was that it build four world class stadiums for the matches and, crucially, an improved transport network to ferry fans from city to city.

The stadiums are well on the way to being completed, but there is a lot more trouble with modernising Poland's dilapidated road network. In early 2008, just a few months after the current coalition government led by the centrist Civic Platform party came to power, Infrastructure Minister Cezary Grabarczyk made some pretty heady predictions about the state of Poland's roads by 2012 - he vowed that football fans would be able to drive on 1,600 kilometres of highways (of which more than 1,000 km were to be newly built) and 2,400 km of slightly lower quality express roads (of which 2,000 km were to be freshly completed).

But now it looks as those promises will be well off the mark. This year, no new highways are scheduled to be handed over for drivers to use, as the 30 km promised will be delayed thanks to floods this spring. By the time the championships start in the summer of 2012, it looks as though only about a third of the promised express roads will be built, and the highway system, particularly the crucial north-south A1, running from Gdansk on the Baltic Sea to the Czech border, will have large gaps that won't be completed until as late as 2015.

The delays are so severe that the government could end up spending PLN7bn (€1.8bn) less than the PLN26bn it had planned to dole out this year. Value for money Whatever the headaches and delays, the money being spent by Poland is proving to be a big draw for construction companies at a time when real estate markets have slumped and there is little else happening in the building sector. A new report by Raiffeisen Bank International finds that the biggest beneficiaries are likely to be local construction companies.

In its report, Raiffeisen predicts that Polimex-Mostostal, a rail and power engineering company, could see its shares rise by 20% over the next year, while Mostostal Warszawa, the country's

fifth-largest construction company, with a presence in housing, road, and power, could see its shares rise by as much as 23%. However, the scope of new road construction is also attracting international attention - China's COVEC is building two chunks of Poland's main east-west highway, while others are being built by companies like Spain's Dragados and Eurovia, and Austria's Strabag.

The Chinese bids have proved particularly controversial, because they came in at about a fifth lower than rival offers from European companies, a sweet enough deal for the Polish government to choose them over more established rivals. COVEC's victory prompted local road builders to complain about unfair competition to the European Commission. "No one would be able to do that kind of work for such a small amount of money," says Wojciech Malusi, head of the Polish Road Builders Chamber of Commerce, adding that the only way the Chinese company was able to place such a low bid was that the Chinese government was willing to help it as it tries to break into the European road business.

The complaint has not made much progress with the cash-strapped government, which is keen to spend as little as possible on roads. Thanks to the effects of the Chinese and to the economic crisis, the infrastructure ministry says that so far this year it has saved about 17% on the 350 km of highways and roads it has contracted for PLN13bn, in large part because construction costs have fallen sharply. The ministry estimates that building 1 km of highway now costs about PLN36.6m, about a third lower than 18 months ago. Part of the drop comes from lower costs for steel and other raw materials, and some from the lower margins being levied by construction firms desperate for business.

While the lower costs will make Jacek Rostowski, the finance minister, smile, the increasing trouble in meeting road building schedules could pose a political problem for the government of Donald Tusk, the prime minister, who came to power in late 2007 in part thanks to his promise to finally get road construction moving. The costs of Poland's awful roads are not just in the loss of jobs, as investors decide to build elsewhere in the region, but also in lives. Poland has the EU's second highest per-capita road death rate, 143 per million inhabitants, compared with 44 in the UK and 69 in France. In 2008, 5,437 people died on Polish roads. ●

Romanian Transport Ministry plans massive firings



GUVERNUL
ROMÂNIEI

bne

The Romanian Transport Ministry plans to fire between 7,100 and 8,300 employees of state-owned railway companies, which, together with other expense cutting steps will generate savings of 788 million RON (187mn euros) in 2011 compared with this year.

According to the railway company restructuring strategy, the volume of redundancies will depend on employees' willingness to give up some of their rights.

A number of 2,075 employees will be made redundant at CFR Calatori. As a result, the company's expenses will shrink by 7mn euros this year and by 15.5mn euros in 2011. The company in the first half sold 29.8 million tickets, down 12.8 percent from a year ago. ●

Russia infrastructure news

Infrastructure tax breaks to disappear?

bne

Major infrastructure, including rail tracks, pipelines and power lines could lose tax subsidies of up to RUB2.6bn (\$85m) per year from 2012, should a bill introduced by the Finance Ministry be passed, media report.

Seeking to leverage the country's state-controlled natural monopolies to help reduce the budget deficit, the move would incrementally cut subsidies of regional property taxes (which are currently capped at 2.2% of the asset value), and introduce a further 1.1% charge on some assets, the ministry revealed in a press statement.

The bill targets railroad tracks, trunk pipelines and power lines as well as "technological components," the statement said. Given the state's push to develop the country's road network however, federal highways will continue to be exempt from regional property taxes.

The bill follows the demand of President Dmitry Medvedev in his June budget address "to optimize subsidies ... and expand the tax autonomy of regional and local authorities," the ministry's press service told The Moscow Times. It added that the move could raise costs for natural monopolies and, "as a result, increase tariffs for transportation of cargo and passengers using railroads, electric energy tariffs and wholesale price of natural gas," the press service said.

According to Interfax, Alexei Sorokin, head of the Finance Ministry's tax department, said that the changes would be introduced gradually, and that the tax rate could rise after 2012.

The focus will now be on the lobbying power of those companies targeted by the bill, in particular the powerful oil & gas contingent. The likes of Gazprom and Rosneft have been successfully fighting Finance Minister Alexei Kudrin on the issue for years, but the pendulum has swung somewhat since the crisis as he pushes to raise tax revenues to cover the budget deficit.

Moscow-Nice train ticket to cost from 306 euros

bne

An adult passenger on the Russian Railways train to Nice will have to pay over 306 euros, reports Interfax.

Citing the railroad company, the news agency says that traffic starts on September 23,

Rostekhnologii and Crescent Petroleum set up \$500m fund for infrastructure

bne

State holding Rostekhnologii is to set up a fund alongside UAE oil and gas company Crescent Petroleum to build transport infrastructure projects in Russia, a Russian deputy prime minister said on Saturday, according to RIA Novosti.

"Today, we arrived at preliminary agreement on the statutory documents of an investment fund. The fund will include Rostekhnologii and the shareholders of Crescent Petroleum, with a total of \$500 million, and will implement transportation and logistics projects," Deputy-PM Igor Sechin told reporters.

A final agreement will be signed in September at a business forum in Sochi, Sechin added. The deal was also discussed at a meeting between Russian Prime Minister Vladimir Putin and former Iraqi Prime Minister Ayad Allawi, who is on the board at Crescent.

Sochi bypass road eyes \$126mn reconstruction

bne

A total of \$126mn is to be spent on reconstruction of a bypass road around Sochi, Krasnodar region, reports Interfax.

The news agency says that total road length is about 8 kilometers, with 3 kilometers to be strengthened by supporting walls.

TransContainer setting up subsidiary in Austria

bne

Russian container shipping company TransContainer is setting up a subsidiary, called TransContainer Europe, in Austria, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that TransContainer Europe is expected to focus on international rail container transportation services.

Russia infrastructure finance & statistics

Bamtonnelstroy published weak 1H 10 RAS financial results

Metropol

Bamtonnelstroy reported 1H 10 RAS financial results. Revenue decreased by 67% y-o-y to RUB 1.55bn. EBITDA and net income fell by 68% y-o-y and 77% respectively. Net debt decreased to RUB 1.95bn compared to RUB 2.57bn at the beginning of the 2010.

The company did not disclose details, but according to a sales breakdown, revenue from building decreased from 96% of total a year ago to 34% for 1H 10, as construction volumes declined significantly. At the same time, revenue from building equipment leasing increased to 53% in 1H 10 from 4% a year ago, showing that the company leased some of its equipment. This makes it clear why operating margin declined to a larger extent than net margin.

In our view, the results are weak and much worse than the market expected. We are afraid that the 1H 10 financials could provide evidence for the full year, which would be very weak in terms of net income, indicating a much lower dividend for preferred shares.

We have therefore put our recommendation and fair value for the company's common and preferred shares under review.

Mosinzhstroy releases 1H10 results

Renaissance Capital

Event: Yesterday (16 Aug), Mosinzhstroy (MIST), a Moscow-based infrastructure construction company, published 1H10 results under Russian Accounting Standards (RAS). The company's revenues decreased 67% YoY to RUB2,964mn (\$99mn) in 1H10, from RUB8,963mn (\$271mn) in 1H09, while the cost of sales dropped 70% YoY to RUB2,599mn (\$86mn) in 1H10. The company's gross profit fell only 2% to RUB366mn (\$12mn) in 1H10. MIST's gross margin increased to 12% in 1H10, vs 4% in 1H09. The operating income reached RUB246mn (\$8mn), up 20% YoY, while the operating margin rose to 8% in 1H10, vs 2% in 1H09. MIST's net income was RUB4mn in 1H10, vs RUB26mn in 1H09. MIST's total debt was RUB5,104mn (\$165mn) at the end of 1H10.

Action: In our view, the 1H10 figures are positive, in view of the improved operating margin and increased operating income in these results.

Rationale: MIST's revenues fell YoY in 1H10 due to a lower construction volume and reduced prices in tenders. Despite this, the company improved its operating margin due to cost control, which resulted in a higher operating income in 1H10 than in 1H09. Currently, the company is participating in the construction of more than 170 projects, with a total value of more than RUB48bn. The company plans to retain its leading position in the Moscow infrastructure construction market, and to increase its market share (presently above 30%). MIST's target is to achieve RUB40bn in orders per year from the Moscow market and RUB55bn in total orders, including the regional markets. However, in 1H10 MIST participated in 30 tenders and won only three of them, for a total of slightly above RUB1bn in contracts.

Mostotrest issues 1H10 results

Renaissance Capital

Event: Russian construction company Mostotrest (MSTT) has released 1H10 results. The company's revenues fell 11% YoY to RUB13,281mn (\$441mn) in 1H10, from RUB14,857mn in 1H09. The gross profit decreased 17% YoY to RUB3,622mn (\$120mn), and the operating profit fell 22% YoY to RUB2,370mn (\$79mn). The company's operating margin was 18% in 1H10, vs 21% in 1H09. MSTT's net income was 1,266mn (\$41mn) in 1H10, vs RUB2,052mn (\$62mn) in 1H09. Total debt amounted to RUB10,926mn (\$354mn) at the end of June 2010.

Action: We think the company's 1H10 results were weak due to a higher volume of construction in progress, and we expect an improvement in the situation in 3Q-4Q10.

Rationale: Mostotrest is one of the largest Russian construction companies. In 2010 the company acquired 25% of Mostootryad 11 (2009 revenues of RUB5.4bn), 51% of Inzhtransstroj (2009 revenues of RUB49.9bn), and 50.1% of Transstroimekhanizatsia (2009 revenues of RUB12.8bn). MSTT has a strong order book, including construction projects in Sochi, part of Moscow's Fourth Ring Road, an MKAD overpass, and bridges over the Oka and Volga rivers. In 2009 the company's portfolio of orders increased by RUB18.5bn. In 2010, MSTT plans to negotiate a contract to build 43 km of the Moscow-St Petersburg motorway. MSTT registered a 1:200 share split to increase share liquidity. The company plans to raise \$500mn in an IPO in 2H10-1H11.

Russia roads

Medvedev freezes construction of controversial highway

Ria Novosti

Russian President Dmitry Medvedev signed a decree on Thursday on the suspension of the construction of a controversial highway north of Moscow, the Kremlin said.

The construction of the Moscow-St. Petersburg highway and the planned destruction of a section of the Khimki forest, part of Moscow's so-called greenbelt, has seen a large-scale grassroots protest movement spring up in Russia. Local residents and environmentalists say economic interests must not outweigh environmental concerns.

Earlier Medvedev said in his video blog that he had ordered the government to suspend the construction.

Russian environmentalists defending the forest were quick to hail the president's decision.

"We are celebrating victory...a victory for civil society... Even if the decision is not final, the fact itself that the president stopped the cutting down [of the forest] is a great victory," one of the activists who defended the forest, Alla Chernyshova, said.

\$111mn on access roads to metro bridge in Nizhny Novgorod

bne

A total of \$111mn is to be spent on construction of access roads to metro bridge over the Oka river in Nizhny Novgorod in 2011, reports local media.

Reports suggest that the project is reportedly financed from the federal, regional and city budgets.

Bridge over Don river opens after \$6.7mn repairs in Volgograd region

bne

A bridge over the Don river is opened in Volgograd region after \$6.7mn repairs, reports local media.

Reports suggest that the 921.63-meter bridge over the Don river is located on Volgograd - Kamensk-Shakhtinsky federal highway in the region's Kalachevsky district.

Chelyabinsk region to spend extra \$1.6mn on roads repairs

bne

Authorities in Chelyabinsk region are to allocate additional \$1.6mn on roads repairs in 2010, reports Ural-Press-Inform.

The news agency says that under plans, the funds are to be used to repair roads in Bredinsky and Verkhneuralsky districts, and Karabysh city district.

GAZ Group wins another tender to build Moscow's bus fleet

bne

GAZ Group has won a tender to supply Moscow City government with over 100 buses, the company's press office announced on Tuesday.

This is the second large order from the city this summer after the Russian automotive group, controlled by oligarch Oleg Deripaska, won a tender in June to supply 86 buses to Moscow's transport and communications department, reports Prime Tass.

The latest order will see GAZ sell the Russian capital 107 LiAZ-6213 buses at a cost of RUB1bn. The contract signed in June is worth RUB850m.

Minister promises solution to one of Russia's 'two woes'

RIA Novosti

Nikolai Gogol, the 19th century Russian novelist, once claimed that Russia had two woes - its roads and fools; on Saturday the country's finance minister pledged to rid the nation of one of them by 2020.

Speaking in northeast Siberia's Yakutsk, Alexei Kudrin, who is also a deputy prime minister, said that the creation of a Federal Road Fund in 2011 would see the country's main roads and highways attain European levels in "the next ten years."

"This is not too far off - we will resolve this task in the next ten years," he told journalists at a news briefing.

He also pointed out that Russia would increase excise taxes on petrol in 2011.

The minister clarified that "all roads will be flat and you will be able to drive on them without getting stuck in potholes."

Kudrin previously said the Federal Road Fund will amount to 377 billion rubles (\$12.6 bln) in 2011, 348 billion rubles in 2012 and 408 billion rubles in 2013.

Putin urges ecologists not to politicize highway construction issue

RIA Novosti

Prime Minister Vladimir Putin said the government was ready to take into account environmentalists' concerns over the construction of the controversial Moscow-St. Petersburg highway, but warned them against politicizing the issue.

The statement followed Thursday's order by Russian President Dmitry Medvedev to suspend the construction of the highway, which threatens a forest north of Moscow, as a result of a large-scale grassroots protest movement.

"Problems always emerge when it comes to development and environmental protection," Putin told reporters in the Far Eastern city of Khabarovsk.

"Sometimes this ecological problem is used for political purposes," Putin said, adding that in order to find a compromise, both politicians and ecologists should restrain their "ambitions." The construction of the Moscow-St. Petersburg highway through the Khimki forest, part of Moscow's so-called greenbelt, began

in 2006, sparking public protests against the destruction of a section of the centuries-old forest.

Environmentalists have maintained a round-the-clock vigil at the forest since July 15 in order to stop "illegal" attempts to cut down trees. Russia's Supreme Court has ruled that the decision to build the road does not violate the law.

Medvedev decided however to suspend the construction and hold additional public and expert discussions on the issue.

"They [the talks] have already been held, but because of the increased public response, I do not see anything bad in returning to the talks once again...in order to dot the i's and cross the t's," the president said in his video blog on Thursday.

Putin agreed with Medvedev's decision. "This is normal. This is right," he said.

However, he said, the Moscow-St. Petersburg highway should still be constructed as it was "necessary for economic development." Following Medvedev's order, the Russian Natural Resources Ministry said it was ready to join discussions on new possible routes for the highway.

Russian bands to rock Moscow in protest at planned highway

RIA Novosti

Some of Russia's most famous rock groups will play a concert in downtown Moscow on Sunday to protest a \$8 billion highway being built through a forest just outside the Russian capital.

The concert, called "We live in the Khimki forest," will feature some of Russia's most outspoken bands including DDT, Televisor, Barto, OtZvuki Mu and Padla Bear Outfit, music critic Artemy Troitsky told RIA Novosti.

"Our music community has decided that it is fed up with being silent," Troitsky said.

Plans by local authorities to cut down part of the Khimki forest to make way for a toll highway from Moscow to St. Petersburg have provoked anger among local residents and environmentalists, who say economic interests must not outweigh environmental concerns.

Environmentalists have maintained a round-the-clock vigil at the forest since July 15 in order to stop any "illegal" attempts to cut down trees.

Russia's Supreme Court ruled in April that the decision to build the road was legal, but the Khimki Forest Defense movement has filed a suit with the European Court in Strasbourg over the issue.

The Moscow-St. Petersburg toll highway is scheduled to be put into operation in 2015.

Tambov region's \$43mn roads improvement plan

bne

Authorities in Tambov region have announced plans to spend a total of \$43mn on roads repairs and construction in 2010, up 30% on 2009, reports local media.

Temp construction freeze not stopping Moscow-St Pete highway

bne

Russian Prime Minister Vladimir Putin has said that a highway between Moscow and St. Petersburg would be built despite a temporary halt in construction, reports Prime-Tass.

The news agency quoted Putin as saying that it is necessary to build a highway between Russia's two largest centers, Moscow and St. Petersburg.

Russia trains

Globaltrans: On the inside track – Initiation of coverage

UralSib

Attractive play on sector fundamentals and reforms. As the largest private rail freight operator in Russia, and the only one that is publicly traded, Globaltrans is an attractive play on the compelling fundamentals of the domestic railway freight segment and recovering Russian economy. We expect the company to grow above the sector average helped with both by management efforts and expansion opportunities. As a result of sector consolidation, we expect to see less than ten operators to remain over medium- to long- term, with Globaltrans being among them. We also note the healthy financial shape of the company and its young fleet, which has a large share of gondolas and rail tanks, the most resilient to economic downturns - as a result, Globaltrans' turnover was up 3% in 2009, compared to a 12% drop for the industry last year.

Buy on ample 29% upside. We expect sector recovery and management efforts, oriented on logistics optimization and minimizing empty run costs, to drive a 2009-15 CAGR for revenue (13%), EBITDA (14%) and EPS (28%). Our DCF-based valuation for Globaltrans implies a target price of \$18/GDR, implying 29% upside to the market; whereas replacement value points to a downside limit at \$13/GDR. Hence, we initiate coverage in the name with a Buy rating.

Anna Kupriyanova

Russian Railways board OKs selling stakes in 6 units in 2010-2011

bne

The board of directors of state-owned railroad monopoly Russian Railways has given preliminary approval to selling stakes in six subsidiaries in 2010-2011, reports Prime-Tass.

Citing the company's data, the news agency says that the board approved selling 100% minus one share in each of Alatyrsky Mechanical Plant, Ishim Mechanical Plant, and Transvudservis.

Russian Railways board OKs creating Second Cargo Company

bne

Russian Deputy Prime Minister Alexander Zhukov says that the board of directors of state-owned Russian Railways has approved creating a cargo transportation subsidiary called Second Cargo Company, reports Prime-Tass.

The news agency says that the charter capital of Second Cargo Company is to amount to RUB46.4bn, the company's President Vladimir Yakunin said earlier.

Russian Railways BoD approves the creation of Freight Two

VTB Capital

News: Yesterday, Russian Railways' Board of Directors approved the creation of Freight Two. The company will operate 180,000 railcars (87% of them owned) controlling around 50% of the Russian railway transportation market. It will be registered in the Sverdlovsk region and thus enjoy the beneficiary tax regime. We guesstimate that this will help Freight Two to save RUB 10bn (USD 324mn) over ten years for capex needs. According to Interfax, the company is targeting an EBITDA margin of 39% .

Our View: Freight Two is being created in line with the previously announced schedule. It is set to enjoy significant tax benefits (the savings alone are enough to renovate 4% of its fleet) and special relations with railcar and locomotive producers located in the Sverdlovsk region (Uralvagonzavod and Sinara Transportation plants). The intended profitability level is impressive and we note that it is close to the 41% unadjusted EBITDA margin which Globaltrans reported in 2009.

Although the government has not yet decided on how to control Freight Two's transfer into private hands, we expect the choice to be made around the end of this year. We remind investors that there has been speculation in the Russian broadsheets that the key candidate to acquire Freight Two is Globaltrans. Were this to be the case, we would consider it to be positive for Russia's largest private rail operator since the recently released details imply that the new asset might be even more attractive than we thought.

Russian Railways, Irkutsk Reg, Irkutsk to upgrade rail station

bne

State-owned Russian Railways and the governments of the Irkutsk Region and the city of Irkutsk plan to conclude an accord in September to invest RUB3bn on upgrading the Irkutsk railway station,

Citing the Baikal Economic Forum's press office, the news agency says that the accord was expected to be signed at the forum, which is scheduled for September 6-9.

Storms obstruct railway traffic in Leningrad region

RIA Novosti

Storms on Sunday suspended railway traffic in Russia's northwestern Leningrad region.

The storms wrecked the schedule of the high-speed passenger train Sapsan running between Moscow and St. Petersburg. Over twenty long distance trains and ten suburban trains were delayed amid the weather conditions.

"Railway traffic has been completely restored. However, delays at several railroad sections... are still possible," a statement by the Leningrad region's branch of the Russian Railways company said.

Russia planes

Aeroflot releases 7M10 operating update

Renaissance Capital

Event: Aeroflot reported 7M10 and July 2010 operating statistics yesterday (26 Aug).

Action: We view the airline's volume dynamics as positive. The company has seen a sustained increase in revenue passenger-km (RPK) (despite a slight deceleration in July, given the base for comparison was already high in July 2009), up more than 36% YoY in 7M10, and further MoM growth in passenger load factor (PLF), although likely driven by seasonal factors primarily. Coupled with the broad recovery in business travel and resulting higher yields (we see anecdotal evidence of growth in business travel as well - MTS said that the major driver for higher corporate spending was roaming), this has created positive momentum for Aeroflot, in our view. Passenger numbers for August should be robust, given the abnormal weather conditions which stimulated traffic out of Russia.

Rationale:

- Aeroflot Group's RPK increased 33% YoY in July 2010 and 36% YoY in 7M10, driven by growth in both domestic and international traffic, which was driven in turn by broad economic recovery. Although this is a slight deceleration from 1H10 growth, RPK in July 2010 is ahead of pre-crisis July 2008 by 30%, while PLF in 7M10 is 6.4 ppts higher than in 7M08.
- The Group's freight tonne-km (FTK) was up 30% YoY in July 2010 and 37% YoY in 7M10.
- The airline's 7M10 PLF of 76.5% was 1.7 ppts higher than the 6M10 PLF (driven by seasonal trends), and up 9.8 ppts YoY. Aeroflot has shown consistent PLF improvement over 7M10.
- Aeroflot Group's 7M10 freight load factor was 62.8%, vs 54.3% in 7M09 and 57.5% in 7M08.

Aeroflot sends plans to buy local aircraft to government

RIA Novosti

Russia's flagship carrier Aeroflot has written to the government with a schedule for purchases of locally-made airliners under orders from Prime Minister Vladimir Putin, the company said on Thursday.

In the next 10 years, Aeroflot's fleet will comprise 126 Russia-produced aircraft, including 50 short-medium-range MS-21 airliners, 40 regional Sukhoi Superjet 100 (SSJ100) regional airliners, 25 Antonov An-140 turboprops and 11 Antonov An-148 regional airliners, Aeroflot said in a statement.

In July, Putin told Aeroflot Chief Executive Officer Vitaly Savelyev that if the company planned to dominate the Russian market, it had to use planes of local manufacture.

Aeroflot has relied more on American Boeing and European Airbus aircraft in recent years over concerns about fuel economy in Russian and Soviet-built airliners.

Aeroflot: Fleet of future subsidiaries to be expanded with Russian and Ukrainian aircrafts

UralSib

Aeroflot to purchase 126 Russian and Ukrainian aircrafts by 2020. Aeroflot (AFLT RX - Buy) plans to purchase 126 Russian and Ukrainian aircrafts by 2020. These will consist of 40 Sukhoi Superjet (serial production expected to start in 2011) and 50 MC-21 (the timing of serial production is uncertain) by 2016 and 2020, respectively, as well as Ukrainian Antonov's that include 11 AN-148 and 25 AN-140 by 2016, Vedomosti reported. No details of the planned contracts are available.

We opt to keep our model unchanged until further details of consolidation with Rostechologies' assets emerge. 30 of the 40 Sukhoi Superjet aircraft mentioned are already included in Aeroflot's planned acquisitions (and in our model). We believe the other aircrafts are mainly destined for supply to Rostechologies' airline assets that are planned to be merged into Aeroflot in 2011 (GTK Rossiya, Vladivostok Air, SAT Airlines, Kavminvodiavia, Orenair, and Saravia). We note that the aforementioned types of aircrafts are for short-to-medium haul services and are suited to regional airlines. The planned new aircrafts (excluding 30 Suhoi Superjets) are not incorporated into our model, as a lack of details on consolidation prevents us from adjusting our model for the effect from the acquisition of Rostechologies' companies. Hence, we will leave our current projections unchanged until more details of consolidation emerge.

News should be considered neutral at this stage. We do not expect this news to have any impact on Aeroflot's share price.

Agency unhappy with slow terminal upgrade at Vnukovo Airport

bne

The construction and upgrade of the Vnukovo-1 terminal at Moscow's Vnukovo Airport is progressing slowly, reports Prime-Tass.

Citing a statement issued by Russia's Federal Agency for the Development of the State Border, the news agency says that the agency monitors the upgrade of the terminal on a constant basis.

Air Transport Agency may ground 42% of Russia's airlines

RIA Novosti

Russia's Federal Air Transport Agency, Rosaviatsiya, may impose restrictions on flights or even cancel the air operator licenses of 42 percent of the country's airlines, including over a third of the country's leading operators, due to their weak financial situation, Kommersant business daily said on Wednesday.

Kommersant quoted the transport agency statement saying that companies whose financial situation was worrying held 24.4 percent of the market by revenue.

The financial situation of the five leading airlines, Aeroflot, Transaero, S7 Airlines, Utair and Orenburg Airlines, is stable, but another seven airlines of the top 20 are at risk, Rosaviatsiya said.

The agency said 23 percent of all Russian airlines had negative net assets value as of early 2010, which, according to the Civil Code, seriously endangered their legitimacy. However, their owners did nothing to improve the situation, Rosaviatsiya said.

A month ago, Rosaviatsiya head Alexander Neradko slated budget carrier SkyExpress as a financially volatile company, a source at the Transport Ministry told Kommersant. Several days later, billionaire Oleg Deripaska's Basic Element rescued the company by securing all its loans.

Although Rosaviatsiya has the right to scrap air operator licenses of companies in financial distress, analysts think it is unlikely to do so due to the potentially huge social impact, and is more likely to impose restrictions instead.

The agency is authorized to deny access to charter flights and refuse to issue new authorization for international flights, which will result in the slow death of weak companies.

Some of the better unstable airlines could seek a merger with larger firms, but there are likely to be few takers for the worst operators, analysts say.

Airline passenger volumes recovering

bne

Passenger volumes for the first seven months of the year were 31.2 million, better than the same period in 2008, reports The Moscow Times.

Citing the Federal Air Transportation Agency, the newspaper report says that the number of airline passengers increased 30 percent in the first seven months of the year, showing that the business is recovering after the economic crisis.

Global airlines continue their strong growth in July

VTB Capital

News: Yesterday, IATA released its global airlines traffic statistics for July. Passenger turnover (RPK) was up 9.2% YoY, having slowed slightly from the 11.6% YoY increase in June, bringing the YTD growth figure to 8.1%.

Our View: The data shows that the airline industry continues its strong growth. We do not see the slowdown in the rate of growth as a cause for concern since it can be explained by the retreating low base effect (airline traffic started to rebound a year ago). We expect Russian airlines to follow the global trend, but with the slowdown in the growth rate probably being more pronounced due to the higher base effect. However, even then Russian airlines would continue outperforming the global industry by far, with RPK growth of almost 40% YoY.

Aeroflot has recently demonstrated more resilient traffic growth than the industry and so the national champion might become one of the fastest growing airlines globally. This supports our positive view on the company.

Elena Sakhnova

Russia's Aeroflot passenger traffic up 32.5% on year in January-July

bne

The passenger traffic of Aeroflot Russian Airlines rose 32.5% on the year to 6.285 million people in January-July, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that in July, Aeroflot's passenger traffic rose 32.9% on the year to 1.183 million people.

S7 cleared for take off to Tbilisi

RIA Novosti

Russian Federal Air Transport Agency Rosaviatsia has given a green light to Russian S7 Airlines to run regular flights between Moscow and Tbilisi.

Direct Russian-Georgian flights were suspended in 2006 amid sour relations between the two countries. Air travel was restored for a short time in 2008, but halted when the August 2008 conflict broke out between Russia and Georgia over the former Georgian republic of South Ossetia.

Moscow and Tbilisi gave permission for the resumption of scheduled flights after they allowed a number direct charter flights between the two capitals earlier in the year.

S7's press service said the airline was seeing feverish demand for tickets on the route, with the first flight scheduled for August 23.

The Russian carrier will make the flights along with Georgian Airways on equal basis. In the 2010 summer season each company will fly between Moscow and Tbilisi three times a week, S7's press service said.

"S7 Airlines will conduct flights to Tbilisi on Mondays, Thursdays and Saturdays by Airbus A319 aircraft. The departure time for flights from Moscow is 10:25 Moscow Time (06:25 GMT), the departure time from Tbilisi is 14:00 local time (10:00 GMT)," S7 said in a statement.

The Russian air carrier said it will consider the resumption of the flights to Georgian cities of Kutaisi and Batumi.

CIS infrastructure

Luhanskteplovoy's parent plans 150 locomotive orders in 2011

BG Capital

Transmash-Holding, which in June won a privatization auction for Ukrainian locomotives producer Luhanskteplovoy (LTPL), announced it expects to order 100 locomotive sections for Russian Railways and another 50 sections for Mongolia's railway monopoly from the Ukrainian plant in 2011, according to Interfax. Transmash-Holding revealed the potential orders in a letter to Ukraine's President Viktor Yanukovich in which the company also outlined its worries that the validity of Luhanskteplovoy's recent re-privatization auction could be challenged in court.

National investment project priorities set

bne

The economic reform committee has set out four priorities for the implementation of national investment projects, reports Interfax.

Speaking ahead of a meeting of the committee in Kiev on Wednesday, President Yanukovich outlined the areas that national projects aim to cover first. "These are new energy, where projects will give an answer to issues of the energy security in Ukraine. These are a new quality of life, where such issues as affordable housing, high-quality medical services throughout Ukraine, a transition to international standards of education, as well as the environment, should be resolved," he said.

Infrastructure development was named as a third priority, with Yanukovich insisting Ukraine should regain its role in international traffic flows, pointing at navigation on the Danube River as a primary issue. "We will resolve this issue without paying any attention to 'cheap pressure' that was placed on the Ukrainian government and the Transport Ministry regarding navigation on the Danube River. We want everybody to understand that any discussions about this issue won't stop us. Do you know to whom I'm addressing? I'm addressing those who executed the order to stop Ukraine in this issue," Yanukovich said.

In other words, Yanukovich hopes to make it clear that the barb is specifically aimed at his predecessor Viktor Yushchenko, rather than the EU, with which the president is busy trying to ingratiate himself.

Ukraine inaugurated work on the Bistroe Channel, to provide an additional navigable link from the Black Sea to the Ukrainian section of the Danube Delta, in 2004. The EU advised the country to halt work due to concern over the impact on the fragile ecosystem of the area, and Romanian officials threatened to take the issue before the International Court of Justice. Then-President Leonid Kuchma was scathing in response, but Yushchenko stopped the project in 2005.

The bid to host the 2022 Winter Olympic Games in the Carpathians was named the fourth priority. Yanukovich claimed that the experience of preparing for the Euro 2012 European Football Championship would open up "a lot of new things."

The president went on to insist that he personally take control of all national investment projects, saying he will "... keep this issue under tight control. I'll work as the president on the one hand, and as executor on the other." He added that the state should provide guarantees as a signal to investors and in particular, that the government will finance "a certain part of these projects."

British company to redevelop Sevastopol airport and attract low-cost carriers

bne

A British investment company says it's ready to invest at least \$200m to develop Sevastopol's infrastructure, according to media reports.

The first investment target for Shanti Capital Ltd. is the city's Belbek Airport, which the company aims to redevelop, Mykola Berezin, the director of Shanti Ukraine Ltd. told journalists on Wednesday. Belbek was closed to civilian air traffic in 2007, but limited services were resumed in April.

"The amount of possible investment would start from \$200 million. This is only for the airport, while there are a recreation

zone, hotels and other objects [that could receive investment]," Berezin said, speaking after the third round of talks between the company and local authorities.

The chairman of Sevastopol City Council, Valeriy Saratov, said that the construction of an international airport would raise the city's investment attractiveness. "Under Western European standards, a city with over 300,000 residents without an airport located closer than 40 minutes by road is not interesting to investors," he said.

Whilst no time schedule for the redevelopment of the airport was offered, Saratov said: "We agreed with our investor that we are to realize the project in the shortest terms."

Dniproavia airlines announced on April 30 that it had launched flights from Sevastopol to Dnipropetrovsk, Kyiv, and Moscow. Later AeroSvit airlines said that the company had signed a code-sharing agreement with Dniproavia on joint servicing on the Kyiv and Dnipropetrovsk routes.

According to Interfax, Shanti Capital plans to attract low-cost air carriers to Belbek, increasing passenger numbers to 18.5m per year.

Little, if any, information is available about Shanti Capital. It was registered in London in early April this year.

Kryukivka Train Car Building Plant Receives New Orders

Sokrat

The state railway transport administration of Ukraine, Ukrzaliznytsya, plans to purchase 10 new high-speed electric trains by the end of 2011. New trains will have a speed of 160 km/h-double the speed of electric trains used currently-and will be used on high-speed portions of rail routes. The Kryukivka Train Car Building Plant [KVBZ UZ] will produce the high-speed electric trains. Meanwhile, South Western Railway plans to order 26 passenger cars from the company.

Our view: We consider this to be good news for the Kryukivka Train Car Building Plant. This is more than a minor increase of our order portfolio: rolling stock renovation in the electric train segment can provide the plant with orders for a long time, as the Kryukivka Train Car Building Plant is the only Ukrainian producer of passenger carriages. Ukrzaliznytsya will also benefit from an increase of passengers, as high-speed transportation is an important competitive advantage in the suburban passenger transport

Construction recovering

Astrum

According to the State Statistics Committee, construction activity declined by 16.7% y/y in 7M10. The two biggest construction sites in Ukraine - the City of Kyiv and the Donetsk Region - experienced declines of 15.5% y/y and 11.4% y/y respectively. The Kharkiv Region, third in terms of importance, performed relatively better, with a 8.5% y/y decline.

Astrum's perspective: Despite the fact that the figure for 7M10 is better than the 50% plus decline indicators that were registered last year, it still points to the depressed state of the industry. Considering the fact that construction declined by 54.2% y/y in 7M09, the amount of construction activities in 7M10 was actually just 38% of the level seen in the pre-crisis 7M08. However, according to our estimates, construction activities have resumed growth in y/y terms this summer. We expect this sector to continue its recovery in 2H10; however, the extent of this recovery should be rather modest, especially when cleared of the ultra-low baseline effect.

Freight transportation up 12.5% in 7M10

Astrum

According to the State Statistics Committee, freight transportation volumes grew by 12.5% y/y in 7M10. Freight transportation by railways increased by 14.5% y/y, while pipeline transit volumes rose by 8% y/y.

Astrum's perspective: Transport sector statistical data for July'10 brought no surprises. The slowdown in growth rates for shipments of goods related to the metals and mining complex was associated with a slowdown in the growth of annual output in the steel sector. At the same time, the decline in grain shipments continues to fall deeper, as resources from last year's harvest have been mostly depleted. We draw attention to the fact that dynamics regarding cement shipments by railways is improving rapidly (from a decline of 30.1% y/y in 1Q10 to a decline of just 0.8% y/y in 7M10). This is yet another fact supporting our view that the construction sector is on the verge of renewed growth.

Oleksiy Blinov

Gov't approves \$850m worth of guarantees for Ukravtodor to attract new debt

Dragon Capital

The government approved a resolution on providing \$850m (UAH 6.8bn) worth of guarantees on new foreign borrowings being raised by state-owned road company Ukravtodor. (Debtwire) The company earlier announced it was looking to borrow up to \$1bn externally before September to cover its funding needs for the rest of 2010 and finance infrastructure projects related to the Euro 2012 football championship. According to reports, Ukravtodor is looking to borrow for seven years at an annual interest rate of below 8%.

Ukravtodor has \$850m of outstanding foreign bank debt and owes about UAH 5bn to local banks.

Olga Slyvynska

Lyman shipyard stake sold to unnamed party

bne

An unnamed private owner of a 16.89% stake in the Lyman shipyard in Mykolaiv, sold his shares on August 13, the plant said in a statement, reports Ukrainian News.

The name of the buyer of the 540,000 common shares also remains unknown. Santa, based in Odessa holds a 24.99% stake in the shipyard - which builds and repairs vessels up to a length of 70m and dock weights of 800 tons - with a further pair of private owners holding a 40.34% between them.

Lyman ended 2009 with a net profit of UAH5m, after increasing net revenue by nearly 500% YoY to UAH 61m.

Ukrzaliznytsya acknowledges rolling stock deficit

Sokrat

According to Viktor Chyorny, the deputy general director of Ukrzaliznytsya, the company experiences deficit of rolling stock

due to the cropping campaign and preparation to the heating season which requires coal transportation increase. Total amount of cargo freight car deficit is estimated at 2,000 units, which administration plans to purchase by the end of 2010.

Our view: We consider this news to be positive for Stakhanov Train Car Plant [SVGZ UZ], Kryukovka Train Car Plant [KVBZ UZ], Mariupol Heavy Machinery Plant [MZVM UZ] and Azovzagalmash [AZGM UZ] as a probability to acquire an order for train cars after completing tender procedure is high. Recent successful bond placement confirms financial solvency of Ukrzaliznytsya.

Ukrzaliznytsya plans to renew passenger railcar purchases

Concorde Capital

South-West Railways, part of Ukraine's state-owned railway monopoly Ukrzaliznytsya, announced a tender for 21 passenger railcars, Interfax reported yesterday.

Yegor Samusenko: Historically, Ukrzaliznytsya has placed orders for passenger railcars domestically, and Kryukiv Wagon (UX: KVBZ UK) is the only local producer of passenger railcars. The expected volume of the contract is not significant (~USD 15 mln, or 3% of Kryukiv Wagon's 2010E revenue), though this order for passenger cars is the first to be made by Ukrzaliznytsya since 2008. Given that Ukrzaliznytsya's passenger fleet is heavily aged (half of all its passenger cars are older than the normal service life of 28 years), we believe that passenger car segment could have considerable potential for Kryukiv Wagon, which could contribute up to 40% of revenue and 60% of EBITDA over the long term. However, current financing difficulties at Ukrzaliznytsya and low tariffs for passenger transportation makes us skeptical about Ukrzaliznytsya's ability to speed up passenger railcar replacement in the short term. For now, we maintain our conservative view on the segment for Kryukiv Wagon.

Eurasia infrastructure

Turkey to build 90 bridges in Turkmenistan

bne

Turkey's Net Yap?, a NATA Group company, is about to complete construction of 90 bridges across Turkmenistan, according to Hurriyet Daily News.

The bridges are worth \$287.5 million and will be built in different parts of the country over two years. The bridges include country's longest with a length of 320 meters.

The company has almost come the end of the construction of concrete-reinforced bridges and a steel suspension bridge, NATA Group's CEO C,neyt Ozdemir said.

The steel suspension bridge will be the first of its kind in Turkmenistan, Ozdemir said, adding that Turkmenistan government has praised their work on the bridge projects.

"With the help of the latest technology, we want to give these bridges to Turkmenistan as a gift they can use for centuries," Ozdemir said.

The steel suspension bridge stretches over Karakum Canal, the longest and largest irrigation waterway in the world.

CE infrastructure

Bratislava airport posts a loss of EUR2.7mn last year

bne

The M.R. Stefanika airport of Bratislava ended in a loss of EUR2.7mn last year on sales worth EUR29.1mn, spokeswoman Dana Madunicka told CTK.

In 2008, the firm posted a net profit of EUR800,000, Madunicka said. Worse economic results for 2009 are due to falling passenger numbers caused by the economic crisis and due to problems experienced by some airlines.

"Due to external factors, the year 2009 was the most difficult year in the history of the airport," Madunicka said. Owing to problems with companies SkyEurope, Seagle Air and Air Slovakia, the number of passengers cleared by the airport dropped from 2008's 2.2 million to 1.7 million last year, which is the lowest figure in the past four years.

According to Madunicka, the largest Slovak airport is also burdened by high write-offs worth EUR9m. Excluding the write-offs and operating costs, the airport's operating profit reached EUR9.3m in 2009. Last year, the airport invested over EUR50m from the state budget into construction of a new terminal, reconstruction of the heating system and enlargement of runways. This year, the firm expects sales to fall further and loss to deepen to EUR4.38mn.

Czech Minister Stops 15 Road Works

PMR

The Czech Ministry of Transport announced that it has decided to halt works on a total of 12 ongoing road infrastructure projects and to stop three other planned projects, Hospodarske Noviny reported citing an official announcement from the ministry. Four of the 12 suspended projects were at an advanced stage of construction, i.e. three class I roads in the Moravia-Silesia region and one class I road in Ceske Lipy. The other eight projects include five expressways such as R35 in Hradec Kralove and R7 in Postoloprst.

The ministry added that it decided to delay the construction of the D8 motorway to Usti nad Labem and of the motorway D47 at Bohumin. Transport minister Vit Barta would not comment on the costs that will potentially have to be incurred to conserve the

halted construction works. The decision to stop the works was caused by lack of funding.

This year the State Fund for Transport Infrastructure (SFDI) in the Czech Republic has seen a more than CZK 3.6bn (€144m) drop in its budget. Its budget for 2011 is further expected to decline by some 35% year-on-year to CZK 33bn (€3bn). The total cost of the 12 suspended projects is estimated at up to CZK 4bn. Four construction companies are mainly involved in road infrastructure works: Skanska CS, Eurovia, Metrostav and Strabag. They usually team up in consortia to take part in tenders mainly because individually they lack the equipment needed for such projects.

Czech Transport Ministry to halt work on 12 road projects

bne

The Czech Transport Ministry will halt work on 12 road infrastructure projects whose construction is already under way and suspend preparations of further three projects owing to lack of money, the ministry said Friday, CTK reported.

The ministry will not halt any motorway projects that are under way. From the halted projects, four are in advanced stages of construction. They include three primary roads in the Moravskoslezsky region, northern Moravia and one primary road in the Liberecky region, northern Bohemia.

The stage of construction work on the remaining eight projects, including five high-speed roads, is minimal, according to the ministry. The ministry has left out motorways from its "black list" of transport projects to be halted, and only extended deadlines for building the D8 motorway to Usti nad Labem, northern Bohemia and the D47 motorway near Bohumin, northern Moravia.

Originally, the ministry's list of jeopardised transport projects contained 51 roads. The Transport Ministry said at the end of July that most transport infrastructure projects in the Czech Republic may be halted owing to planned cuts in the budget of the State Fund for Transport Infrastructure (SFDI). The SFDI this year registers a drop in its budget of Kc3.6bn compared with plans. In 2011, the fund's budget should decrease by 35 percent to Kc33bn from national resources.

Apart from lack of money, the drafting of the list was influenced by three other criteria, Transport Minister Vit Barta said. The ministry does not want to scrap projects that are just before completion, and also wants to finish roads which resolve the worst problems in the centres of municipalities, Barta said. It also had to secure money for co-financing projects covered from EU funds,

he added. On Monday, Barta already halted construction work on all railway infrastructure projects. All projects now under way are worth Kc200bn, with Kc120bn having been invested already and Kc80bn still to be spent for the projects to be completed. The amount of money that was to be used for the halted projects was not disclosed by the Roads and Motorways Directorate.

Vaclav Matyas, head of the Czech Association of Building Entrepreneurs, said in reaction to the ministry's decision that halting some of the transport infrastructure projects is a non systemic measure. It will not pay to halt their implementation, he added. Designing of less costly transport projects is a way to save money, according to him.

"Seeking savings in investments is completely bad," said Matyas. He pointed out the fact that the state halted all railway infrastructure projects and transferred part of money to the building of roads. "This is not a path to follow, we also have certain European commitments," Matyas said.

Representatives of the Moravskoslezsky, Zlinsky and Pardubicky regions do not agree with the ministry's decision. Representatives of the Moravskoslezsky region want to meet Barta on Monday over the matter since most projects in advanced stages of construction are to be halted in this region in the north of Moravia. Michal Talian of Hochtief that is a subcontractor in three halted projects said the decision would have a substantial effect on the firm. Representatives of builders, such as Skanska DS, Eurovia CS and Strabag, also taking part in the projects that have been halted were not immediately available for comment.

Hungary's NIF expected to announce new tender for section of M3 motorway

PMR

The NIF has declared the results of the first two tenders for the construction of the section of the M3 motorway between Road No.

49 and Vasarosnameny invalid and is expected to announce a new tender. The first was announced in December 2009, and eight offers were made: by the M3 Kraszna Consortium, the BBDA Consortium, Dobrastav, the M3 Euro-Hid Consortium, Swietelsky, the PT M3 Consortium, Nemzetkozi Vegyepszer and Sadesa Obras y Servicios. The NIF declared the PT M3 Consortium the winner and deemed four offers to be invalid: those by the BBDA Consortium, Swietelsky, Nemzetkozi Vegyepszer and Sadesa Obras y Servicios.

When its offer was rejected, Nemzetkozi Vegyepszer petitioned the Public Procurement Council (the KDP). The Council fined the NIF HUF 3m (€11,000).

It was forced to re-evaluate the offers and again declared the PT

M3 Consortium the winner. This time Sadesa Obras y Servicios petitioned the council. The NIF has now announced that it will not re-evaluate the offers a third time but will, instead, announce a new tender.

Poland spends almost PLN 45bn on road projects since 2008

bne

The General Directorate for National Roads and Motorways (GDDKiA) has spent almost PLN 45bn (€11.5bn) on road projects in the past two and a half years, reports local media.

Reports suggest that over the past 30 months, contracts concerning the construction of over 1,600 km of new roads of various classes have been signed.

Poland spends almost PLN45bn on road projects since 2008

PMR

The General Directorate for National Roads and Motorways (GDDKiA) has spent almost PLN 45bn (€11.5bn) on road projects in the past two and a half years, as reported by Puls Biznesu based on the GDDKiA data.

Over the past 30 months, contracts concerning the construction of over 1,600 km of new roads of various classes have been signed.

These contracts concern the construction of 700 km of motorways, 900 km of expressways and 20 bypasses. Projects underway concern the construction of over 500 km of motorways, almost 340 km of expressways and 135 km of bypasses. Reconstruction projects on national roads span 75 km in length.

Over 935 km of new roads have been completed since 2008, including 180 km of motorways, 315 km of expressways and 90 km of bypasses. In the period under review, the quality of the existing roads has significantly improved as well - 60% of the roads are classified as either good or very good. In accordance with GDDKiA's plans, expenditure on the development of the road infrastructure will continue at a high level in the coming years.

SE infrastructure

A rail block in the Balkans

Aleksandar Dimishkovski in Skopje

When the construction of a railroad connecting the capitals of Macedonia and Bulgaria began almost 15 years ago, no one expected that a century-old idea would take more than a couple of years to be realized. Nine years after the project was suspended due to a lack of finance, no one today believes Skopje when it promises that it will be finished sometime soon.

"I hope that in 2011 we can secure the necessary finance," was the latest pronouncement from the Macedonian transport minister, Mile Janakieski, in early August following a meeting with his Bulgarian counterpart, Aleksandar Tsvetkov, in Sofia. Janakieski said he expects construction of the unfinished railroad to Bulgaria to start at the end of 2011 or the beginning of 2012.

In practice, though, it's this kind of empty promise as well as bouts of political point scoring that have been the only two things added to the project over the past decade since it stalled in 2001. That construction was initiated by the current largest opposition party, SDSM, when it was in power in the period 1994-1998 has been used by the ruling VMRO-DPMNE as an excuse to prolong the project. The head of SDSM, Branko Crvenkovski, who was prime minister at that time, is often blamed by VMRO-DPMNE for the failed attempt to build the railroad and his administration's lack of proper plans on how to carry the project through which have cost the country both time and money.

Half-baked

The problem remains firmly on the Macedonian side of the border. Bulgaria has only 2.5 kilometres to build to the Macedonian border, but only one-third of Macedonia's 89-km section has been built at a cost of more than €100m. Worse, it's unclear if and how much of those constructed segments can still be used. For that purpose, Janakieski has announced that a new feasibility study will be done in September, which should cost around €500,000.

Most depressing is that this has actually been designated a high-priority project for Macedonia. The planned railway running between Skopje to Sofia is part of Corridor VIII, one of the 10 Pan-European transport corridors identified by the EU as crucial transcontinental links needing substantial investment to enhance Europe's transportation infrastructure.

Macedonia's National Programme for Railroad Infrastructure (2008-2012) lists two basic priorities to improve the condition of the rail system: investments in improving the existing infrastructure that will enable trains to move at speeds in excess of 120 km/hour and building the railroad infrastructure that's part of Corridor VIII - an east-west route across the Balkans from Constanta on Romania's Black Sea coast to Durres on the Adriatic in Albania.

Figures in this National Programme show what a tall order this will be. The last major investments in Macedonia's railroad infrastructure were done almost 40 years ago. In fact, the majority of the existing infrastructure was constructed between the late 19th century and first half of the 20th century. For example, the sections from the border with Serbia to the Greek border, which are now part of Corridor X, were built between 1873 and 1888.

Three countries of the former Yugoslavia - Croatia, Serbia and Slovenia - recently signed a declaration to form a joint railway company, whose main goal will be to secure faster movement of people and goods through Corridor X. Given Macedonia's decrepit infrastructure and the fact there's been no serious investment in the past 20 years, those trains will face a major "rail block" when they enter Macedonia.

A rail block in the Balkans

bne

When the construction of a railroad connecting the capitals of Macedonia and Bulgaria began almost 15 years ago, no one expected that a century-old idea would take more than a couple of years to be realized. Nine years after the project was suspended due to a lack of finance, no one today believes Skopje when it promises that it will be finished sometime soon.

"I hope that in 2011 we can secure the necessary finance," was the latest pronouncement from the Macedonian transport minister, Mile Janakieski, in early August following a meeting with his Bulgarian counterpart, Aleksandar Tsvetkov, in Sofia.

Janakieski said he expects construction of the unfinished railroad to Bulgaria to start at the end of 2011 or the beginning of 2012. In practice, though, it's this kind of empty promise as well as bouts of political point scoring that have been the only two things added to the project over the past decade since it stalled in 2001.

That construction was initiated by the current largest opposition party, SDSM, when it was in power in the period 1994-1998 has been used by the ruling VMRO-DPMNE as an excuse to prolong the project.

The head of SDSM, Branko Crvenkovski, who was prime minister at that time, is often blamed by VMRO-DPMNE for the failed attempt to build the railroad and his administration's lack of proper plans on how to carry the project through which have cost the country both time and money. Half-baked The problem remains firmly on the Macedonian side of the border.

Bulgaria has only 2.5 kilometres to build to the Macedonian border, but only one-third of Macedonia's 89-km section has been built at a cost of more than €100m.

Worse, it's unclear if and how much of those constructed segments can still be used. For that purpose, Janakieski has announced that a new feasibility study will be done in September, which should cost around €500,000. Most depressing is that this has actually been designated a high-priority project for Macedonia. The planned railway running between Skopje to Sofia is part of Corridor VIII, one of the 10 Pan-European transport corridors identified by the EU as crucial transcontinental links needing substantial investment to enhance Europe's transportation infrastructure.

Macedonia's National Programme for Railroad Infrastructure (2008-2012) lists two basic priorities to improve the condition of the rail system: investments in improving the existing infrastructure that will enable trains to move at speeds in excess of 120 km/hour and building the railroad infrastructure that's part of Corridor VIII - an east-west route across the Balkans from Constanta on Romania's Black Sea coast to Durres on the Adriatic in Albania.

Figures in this National Programme show what a tall order this will be. The last major investments in Macedonia's railroad infrastructure were done almost 40 years ago. In fact, the majority of the existing infrastructure was constructed between the late 19th century and first half of the 20th century. For example, the sections from the border with Serbia to the Greek border, which are now part of Corridor X, were built between 1873 and 1888.

Three countries of the former Yugoslavia - Croatia, Serbia and Slovenia - recently signed a declaration to form a joint railway company, whose main goal will be to secure faster movement of people and goods through Corridor X. Given Macedonia's decrepit infrastructure and the fact there's been no serious investment in the past 20 years, those trains will face a major "rail block" when they enter Macedonia.

Bulgaria begins massive road renovations

bne

The renovation of 300 km of Bulgarian roads for a total of BGN 130mn under the EU operational program Regional Development begins Thursday.

The start will be marked with a groundbreaking ceremony on the road connecting the northeastern city of Dobrich with the Romanian border where BGN 5 million will be used in the next 3 months to renovate 16 km.

The Minister of Regional Development, Rosen Plevneliev, promised that groundbreaking ceremonies will take place every other day in September, saying 14 road sections will be renovated. According to Plevneliev, 2011 will break the 2007 record when BGN 200 million was invested in the country's roads. The amount for 2011 is BGN 500mn to be used for another 16 road sections or 311 km.

On Wednesday, the Finance Ministry received letters asking for an additional BGN 61 million for the financing in 2011 of road projects that are being realized with loans from the World Bank and the European Investment Bank.

Bulgarian minister hopes for Hemus Highway funding by 2011

bne

Bulgarian National TV reports Friday that Bulgarian Minister of Regional Development Rosen Plevneliev has said, "I hope that Bulgaria will have a clear agreement on the construction of the Hemus Highway within a year."

Plevneliev was present at the launch of EU Operational Programme Regional Development in Bulgaria, celebrated with a groundbreaking ceremony on the road connecting the northeastern city of Dobrich with Kardam the Romanian border where BGN 5mn will be used in the next 3 months to renovate 16 km. Bulgaria will reconstruct 300 km of roads for a total of BGN 130mn under the program.

Recently Plevneliev revived the idea for building the frozen Hemus Highway, set to connect capital Sofia with Varna on the Black Sea, passing through northern Bulgaria. He said that money from the European Regional Development Fund can be used for that.

Friday Plevneliev reminded that since Hemus is not part of the Trans-European Network it cannot be financed with EU road funds, so there are two options - the Regional Development Operational Programme, or public-private partnership.

He said that his ministry and the cabinet as a whole should be bracing for hard work and promised to do so. Plevneliev estimated the cost for Hemus Highway at EUR 1.1-1.3bn.

Plevneliev added that if work is being done properly, by 2020 Bulgaria might have 7 completed highways.

Croatian Motorways (HAC)

EBRD

The EBRD is considering providing a €60.7 million facility to Croatian Motorways ("HAC"), the state-owned company in charge of the motorway network in Croatia, to finance the construction of 12.53 km of motorway sections along Corridor Vc in Croatia connecting the northern and southern ends of the corridor at the border with Bosnia and Herzegovina (BiH). The loan will be guaranteed by the Republic of Croatia. The Project will be co-financed by EIB.

Corridor Vc is one of the three major Trans-European corridors within the region and the completion of the Croatian part of Corridor Vc adjacent to Bosnia and Herzegovina will allow for the full regional motorway linkage along the Corridor and complement the Bank's existing funding of the Corridor Vc sections in Bosnia and Herzegovina and Hungary, and the Port of Ploce, the maritime gateway for Corridor Vc.

Transition Impact

The Project will support the development of Corridor Vc as an integrated regional corridor by ensuring the physical continuity of the corridor on Croatian territory and connecting it to the Croatian motorway network. It will also facilitate improvements in the safety and efficiency of border-crossings on this corridor with Bosnia and Herzegovina.

The transition impact of the Project will result from the following:

- (i) Support of greater efficiency of border crossing custom and immigration procedures resulting in higher trade flows along the Corridor Vc
- (ii) Institutional Strengthening through the improvement of procurement policy and practices at HAC.
- (iii) Further commercialisation of HAC through potential private sector participation in tolling and maintenance operations.

The Client

The client is HAC, which is responsible for developing and maintaining the motorway network and other tolled activities in Croatia. HAC was established by Government decree on 9 April 2001 as a state-owned limited liability company, following the restructuring of the Croatian Road Authority. HAC reports to the Ministry of Sea, Transport and Infrastructure.

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EBRD mulls loan of up to €5.35m to finance Montenegro environmental project

bne

The EBRD is considering providing a sovereign loan of up to €5.35mn to finance the construction of a wastewater collection system and treatment plant and modernisation of the water supply system in Danilovgrad, reports EBRD.

The objective of the Project is to improve the water supply and wastewater situation in the area of Danilovgrad Municipality by the construction of new or rehabilitation of existing assets and improved management of the existing systems to comply with municipal and national environmental requirements.

Romania construction of Comarnic- Brasov section of motorway on hold

PMR

The construction of the Comarnic-Brasov section of the motorway is no longer a priority, because of the lack of interest on the part of its funders, namely the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), according to the National Company of Motorways and National Roads in Romania (CNADNR). Aktor- Vinci, the holding which prevailed in the tender for the Comarnic-Brasov section of the motorway, did not succeed in obtaining funds from the EBRD and EIB and, as a result, the company withdrew from its partnership with the Romanian government pertaining to this project.

In mid-2009, the Ministry of Transport signed a construction contract for the Comarnic-Brasov section with the Greek- French holding Aktor-Vinci. The contractor was to have completed the project in a public- private partnership with the Romanian government. This year, the CNADNR and the Ministry of Transport plan to choose a contractor for the Sibiu-Pitesti section of the motorway, part of the Corridor IV pan- European motorway.

Romanian Sibiu ring road to open in December

Mirzon

From the helicopter straight onto the ring road around Sibiu, PM Emil Boc and Minister of Transport Radu Berceanu yesterday visited the road construction site, promising locals they will have no more traffic jams as of December, Mediafax informs.

"I am here to make sure the people of Sibiu are getting rid of the nightmare traffic crossing through the city. The locals should be taking pictures of the heavy traffic in the city because they won't have it for a very long time from now on," he added.

The Sibiu ring road will be 23 km long, more than half of it having a motorway regime. The 23 km are divided into two segments. Works started in the spring of 2003 and should have been over by the autumn of 2006.

Romania's A3 Highway: another 12 km to be completed in three months

Mirzon

America's Bechtel will complete another 12 kilometres on the Transylvania Highway (A3) in the next three months, 'Jurnalul National' daily informs.

"The completion of this section will eliminate heavy traffic between the two cities and will shorten driving time from today's 45 minutes to 10 minutes," Premier Emil Boc stated while present on the A3 work site. Thus, six years after the start of construction works, only 55 kilometres have been built out of the 415 kilometres that A3 will have.

In the absence of budget funds needed for continuing construction works on A3, the authorities want to resort to public-private partnership.

Transport Minister Radu Berceanu explained that the possibility of working on the 161-kilometre Targu Mures - Brasov section "through a kind of public-private partnership" is currently analysed because construction works will make extremely slow headway and the costs will increase exponentially if the state budget funds option continues to be pursued.

Romania's Monteadriano completes first section of corridor IV motorway

PMR

The Portuguese contractor MonteAdriano has completed the first section of the European Corridor IV motorway in Romania, according to Capital, which was quoting the company. The work on the section cost €20.8m. The completed section links the motorway bypass around the town of Lugoj with the Deva-Lugoj-Nadlac motorway.

The project was put out to tender by the Transport Ministry at the beginning of 2008.

MonteAdriano was chosen as the general contractor for this work on 3 March 2008.

The 9.6 km section of motorway was completed in two years at a cost of €2.2m per km.

MonteAdriano entered Romania in 2005, where it has, so far, completed seven construction projects worth more than €134m between them.

Turkey EBRD considering providing a senior loan of up to €50 million for Bursa Light Rail (LRT)

EBRD

EBRD is considering providing a senior loan of up to €50 million to the City of Bursa to finance the Bursa Light Rail (LRT) project, reports EBRD.

The Project will finance investments of the second phase of the Bursa LRT system to extend the existing LRT as the backbone of the City's sustainable urban transport approach.

Turkey's Bursa Light Rail

EBRD

The EBRD is considering providing a senior loan of up to €50 million to the City of Bursa to finance the Bursa Light Rail (LRT) project.

The Project will finance investments of the second phase of the Bursa LRT system to extend the existing LRT as the backbone of the City's sustainable urban transport approach. The Project includes construction, mechanical works and procurement of new rolling stock.

The project will address the need for the enhanced environmental infrastructure, energy efficiency via monetisation of carbon credits and institutional developments towards quality improvements and commercialisation of municipal services.

Transition Impact

The proposed Project is expected to result in transition impact in the following areas:

Monetisation of Carbon Reductions: The investment in the project will lead to a significant shift away from cars and diesel buses to clean LRT. Specialist consultants will prepare under TC Funds all necessary documentation to achieve the monetisation of the carbon savings on the VER market

Improvement of Public Service Contract: Specific service standards that are common under best practice contracts will be introduced to the new contract. Key performance indicators related to operations and customer satisfaction will be included in the amended contract.

Demonstration effect for successful restructuring: Through a corporate development effort several improvements will be established. Firstly, municipal bus operating department will be restructured under Burulas (urban transport company owned by BMM) which will consolidate the public transport operations. Secondly, the establishment of an asset management approach to rolling stock versus fixed assets (track, signals, stations, depot, etc.) to be managed in future by two distinct divisions with separate cost lines within Burulas with the support of Bank's technical assistance. Thirdly, a business plan will be developed to lay out a strategic vision for the coming 5 year period for Burulas. Finally, e-ticketing system penetration rate will be expanded through increased marketing efforts supported by TC consultants.

The Client

Bursa Metropolitan Municipality ("BMM").

EBRD Finance

Senior loan of up to €50 million.

The EBRD loan will be part of a multi-source financing package for the project which includes a €100 million EIB loan already signed. The Agence Francaise de Developpement (AFD) is considering a €30 million loan, with the remaining cost of the project to be covered by BMM.

Project Cost: €247 million.