

Singapore Bets on Krasnodar Hub

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The company that operates Singapore's main airport will help Oleg Deripaska's Basic Element Holding create a new air transport hub in the south of Russia under an agreement of intent signed Monday, the companies said.

The deal paves the way for a three-way joint venture between Basic Element, Changi Airports International and Sberbank that will operate four airports in the Krasnodar region currently controlled by Basic Element.

"We want a modern, high level of service in the south of Russia. We could create a hub that would be the best for both passenger service and airline use in Russia, and even Europe," said Krasnodar Governor Alexander Tkachev, who was present at the ceremony.

The new company will be established in the second quarter of 2012 after completion of due diligence procedures, the companies said in a joint statement distributed to reporters.

Basic Element will hold a controlling stake of 50 percent plus one share in the new company.

The deal values Basic Element's airport-management subsidiary Basel Aero at \$500 million, Basic Element deputy chief executive Andrei Elinson said.

Changi, which is investing \$200 million in the project, will take 30 percent of the venture.

The remaining 20 percent minus one share will be taken by state lender Sberbank, which is financing the project to the tune of \$120 million but expects to sell out at a profit in the medium term.

"This is a financial investment — we're not airport managers," said Sberbank chief executive German Gref when asked about the bank's involvement in the project. "We see this as a five-to seven-year investment and then expect to realize a profit — primarily through an eventual IPO."

Basel Aero controls airports in Sochi, Anapa, Gelendzhik and Krasnodar, which is also the home hub of Basic Element-controlled Kuban Airlines.

Deripaska's group snapped up the airports in the 2000s after seeing potential in the region's future as a tourist destination and host of the 2014 winter Olympics, said Andrei Rozhkov, a transport analyst at Metropol.

Deripaska "picked them up rather cheaply because they were underdeveloped. I think he's approaching it as a strategic investment — that is to say, he may sell them once he's developed them," Rozhkov said by telephone.

Gref told reporters after the signing ceremony that Changi had been brought in because, despite the growth of Moscow's Domodedovo and Sheremetyevo airports, "Russia does not yet have a hub — that is, an airport that is a transit point for a large number of flights."

The Changi Airport Group, which is 100 percent owned by the Singapore Finance Ministry, claims credit for building the city-state's Changi International Airport into a hub that handles 40 million passengers and 1.8 million tons of cargo a year. It has regularly been rated the best airport in the world.

Lim Liang Song, chief executive of Changi Airports International, the groups' overseas investment arm, said he saw "great potential" in the Russian market.

Asked the secret to running a successful hub, he identified speed of service and friendliness toward passengers.

Robust growth in passenger numbers could make a new Krasnodar-based hub an attractive alternative to Moscow for airlines operating between Western Europe and central Russia, Rozhkov said.

Passenger turnover in Russia is expected to grow 13 percent by the end of 2011. Passenger traffic in Basel Aero's four airports is expected to reach 5 million this year, Elinson said.

Elinson of Basic Element would not confirm or deny rumors that the Krasnodar project is planned as a stepping-stone to running Sheremetyevo Airport.

"We're interested in other opportunities, but we'd probably tell you about them nearer the time," he said.

Vedomosti reported Monday that Changi had already been in talks with Sheremetyevo's management about the tender.

"It's quite a likely scenario. The authorities are likely to demand experience of Russian airports from any potential bidder, and this new company will be able to say 'we know about working here, just look at Krasnodar,'" Rozhkov told The Moscow Times.

A tender for a new operator for Sheremetyevo is expected next year after the merging of Terminal D, currently run by Aeroflot, with Terminals B, C, E and F, under the management of the state-owned Sheremetyevo Airport authority.

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