

# Cash for Infrastructure Projects Lure Big Players

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Philippe Pegorier, of Alstom

French engineering conglomerate Alstom has done a spectacular job making inroads in Russia over the past 12 months.

It signed tentative agreements — or gained approval for deals — with nine major companies including RusHydro and Rosatom, chiefly seeking to develop technology and manufacture domestically rather than selling from abroad.

"We have changed our strategy," Alstom's country president Philippe Pegorier said in an interview. "The Russian market is sufficiently large, to say the least of it, to produce things locally."

The country's enormous needs and willingness to pay to upgrade its key industries of railway transportation and power generation has persuaded the French company and some of its

global rivals to put down roots here, in line with the government's expectations. As the state controls many of the biggest corporate spenders, these commitments have been a two-way street, paying back with a swelling number of contracts.

Other Siemens Projects Include:

An agreement signed in December 2009 to supply Russian Railways with 54 Desiro commuter trains — known in locally as Lastochka — of which 16 trains will be partially produced at a Siemens joint venture to be created in Russia.

Germany's Siemens, Canada's Bombardier, U.S.-based General Electric and Italy's Finmeccanica have in recent years all invested — or announced plans to invest — in local facilities to produce energy turbines or railway equipment.

Alstom's most advanced Russian project is a purchase of a stake of 25 percent plus 1 share in Transmashholding — a maker of railcars and locomotives. The deal, approved by the government's foreign investment commission in March, envisages that the French will help the company design and manufacture a new passenger train in the southern city of Novocheboksary. Other types of rolling stock will follow elsewhere in the country.

Alstom's reward for the investment came in the form of an order from state-owned Russian Railways to Transmashholding — which is 25 percent owned by the railway monopoly — for 200 of the new locomotives for delivery from next year to 2020 at a total price of 1 billion euros (\$1.44 billion). Alstom's share of the contract will be 450 million euros, the company said.

The companies, which are now testing the first locomotives made by the venture, have adapted French technology to withstand freezing winters and roll on the broader 1,522-millimeter track used in the former Soviet Union. The plan is for Russian Railways to start using the engines on the line between Moscow and Sochi in time for the February 2014 Winter Olympics at the Black Sea resort.

## **Siemens and Other Rivals**

Other Alstom Projects Include:

- A contract signed last month with the Russian company RESAD to supply a gas turbine to the Molzhaninovka power plant.
- A partnership agreement signed in March with the Skolkovo Foundation to help build transport and power generation for the planned innovation hub.
- A memorandum of understanding signed in December with state-controlled Inter RAO that includes the option of producing small steam turbines at the Podolsk plant.
- An agreement with Mosenergo, a power unit of state-controlled Gazprom, signed in December to upgrade the electricity producer's equipment.
- A cooperation agreement signed in December with Russian Technologies to supply coal-fired power plants.
- An agreement signed in December with the state-run Federal Grid Company to study the option to produce Alstom's grid equipment locally.

Another Russian Railways contract — for 221 freight locomotives worth 42 billion rubles, or \$1.5 billion — went to the joint venture that Siemens created with Sinara, a company controlled by billionaire Dmitry Pumpyansky. Siemens holds 49 percent of the venture, which will apply the German technological expertise to design and produce the machines at a plant in the Ural Mountains town of Verkhnyaya Pyshma, for deliveries from this year to 2016. The first two locomotives have already come off the line and tests are underway.

Russian Railways has said it needs to replace many more of its 14,000 locomotives in the coming years, as well as upgrade other equipment and build more tracks, tunnels and bridges. Its investment budget for this year rose 11 percent over last year to almost 350 billion rubles, or \$12.7 billion.

In further evidence that foreign majors are seeing the logic in manufacturing locally, in March, Bombardier increased its foothold by acquiring a stake in the domestic signaling equipment manufacturer United Electrical Engineering Plants, known as Elteza. Finmeccanica expanded its approach to the signaling market in November when it signed a memorandum of understanding with Russian Railways to set up a joint venture.

For anyone interested in supplying Russian Railways, there's even more opportunities in sight because the country will need new rail lines and equipment as the host country for the 2018 football World Cup. Pegorier said Alstom is assembling a consortium to bid in related tenders.

## **Energy Turbines**

GE Projects Include:

- An agreement signed last week to supply a Frame 6FA gas turbine and associated generator to upgrade a power plant that serves the rapidly growing industrial district of Kolpino in St. Petersburg.
- An agreement signed in March with power generation company TKG-9, an affiliate of the privately-controlled Integrated Energy Systems (IES), to supply two Frame 6FA gas turbines and associated generators for a plant that will supply heat and electricity for the residents of Berezniki, an industrial city in the Urals Federal District.
- A memorandum of understanding signed in December with Russian Technologies and Inter RAO to set up a jointly-owned entity to manufacture, sell and service GE's mid-sized 6FA gas turbines at a factory to be built in the vicinity of the Russian city of Rybinsk.
- A contract signed in September to supply a 1-megawatt J320 Jenbacher gas engine for Russia's first project to burn coal-bed methane to produce electricity, which celebrated its grand opening at Kuzbasskaya Energosetevaya Kompania's Talda site, located near Kemerovo, in February. The gas comes from test drills that Gazprom is conducting to capture the huge reserves of the methane in this traditional coal mining region.

In the energy industry, one of Alstom's achievements was an agreement to create a joint venture with RusHydro, the world's second biggest hydropower producer by capacity. After the partners complete negotiating their exact shares in the venture, Alstom will invest at least 50 million euros in an Ufa plant to produce turbines and other equipment for small hydropower plants, Pegorier said. The plant may start production in 2013, he said.

As the companies reached a tentative agreement on the plant, RusHydro signed a memorandum of understanding with Alstom to upgrade its nine Kuban River dams. Their joint venture will provide the equipment, Pegorier said.

Siemens has a presence on the market through its 25 percent stake in domestic turbine producer Power Machines. General Electric has only indicated it has plans to localize production here.

Alstom is negotiating potential contracts with Rosatom for French nuclear-powered Arabelle turbines, while the partners move on to equipping a facility in Podolsk to produce them. Rosatom has ambitious plans to build power plants at home and abroad, refusing to back down even at the risk of potential radioactive contamination proved by the earthquake in Japan.

"I don't see that Rosatom wants to cancel these projects," Pegorier said.

Russia's power-generating companies plan to spend 1 trillion rubles, or \$37 billion, over the next three years to buy equipment, Prime Minister Vladimir Putin said last month at a meeting where he also ordered the Economic Development Ministry to propose import duties that would encourage local supplies. Putin urged cooperation with international manufacturers so they move their production to Russia, adding that gas-powered turbines of high capacity were in greatest demand.

"They want to capture the market," he said about foreign companies, addressing an assembly of Cabinet ministers and company chiefs. "But I want to say it again — and you know it well — the market costs money. In exchange for letting them in, we may well demand ... a certain level of localization."

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