

# VIS CONSTRUCTION GROUP: CONQUERING NEW FRONTIERS

During his keynote speech to the annual St Petersburg International Economic Forum last year, Russian President Vladimir Putin pledged to spend more than U.S. \$13bn of state money on a range of new infrastructure projects.

**W**HILE FLAGSHIP projects such as the extension of the Trans-Siberian Railway grabbed the headlines at the time, his announcement also breathed new life into an ongoing program of infrastructure development that is helping to transform transport, power and public utility facilities across the length and breadth of Russia.

One Russian company that is in an ideal position to benefit from Putin's commitment to infrastructure is the VIS Construction Group for it is one of handful of Russian contractors that combines conventional civil engineering expertise with a successful track record of serving the oil and energy sectors and which is also capable of working in the extreme weather conditions that exist north of the Arctic Circle where a large proportion of Russia's untapped hydrocarbon reserves are to be found.

Since it was established in 2000, VIS CG has grown into one of the largest construction and engineering companies in Russia, specializing in the construction and reconstruction not just of large industrial, oil, gas, and power enterprises, but also of transport systems, roads and bridges, and of social, cultural and commercial properties.

From a standing start it now co-ordinates the operations of ten construction and engineering subsidiaries that between them employ over 2,000 staff located in half a dozen regional offices and whose footprint stretches from the Yamal Peninsula

in north-west Siberia across Russia's western frontiers to the Bulgarian capital of Sofia. Since 2000 it has completed 45 major projects, is currently engaged in a further 35, and turned over U.S. \$1billion in revenues in 2013.

The glue that binds the disparate elements of VIS CG together and which has enabled it to acquire a formidable reputation for quality and delivery is, according to its General Director Sergey Palkin, its ability to deliver a consistently efficient and reliable EPC service to its clients. EPC stands for Engineering Procurement and Construction, and is rapidly becoming the default Russian contractual model for large-scale civil engineering projects. Under the terms of an EPC contract, the contractor designs the installation, procures the necessary materials and builds or project manages the construction of the project. In some cases they will also carry the project risk in terms of schedule as well as of budget in return for a fixed price lump sum payment.



"Our company constructs everything from quays and housing to power stations," says Palkin, "and what all these companies have in common is the need for organizational structure and both project and financial management. The main role of an EPC contractor is planning and managing a project and it is these two activities that dictate the final cost of a project; put simply, if it takes 18 months to finish a project instead of a year, your costs are going to be 30% higher.

"The management team we put into place a few years ago have produced amazing results, partly because they stick to a tried and tested business process," explains VIS CG Chairman Igor Snegurov. "No VIS CG company ever starts a project without undertaking a preliminary evaluation and we always make a forecast budget when we start a project. In the past four years we have only gone over calculations once and that was only by about 6%, so by Russian standards our track record is extremely good."

## IT IS A TRACK RECORD WIDELY RECOGNIZED IN THE CIVIL ENGINEERING AND THE OIL AND GAS SECTORS

both at home and abroad. As well as enjoying a longstanding relationship with Gazprom (the world's largest gas extracting company), VIS CG is also the 51% majority shareholder in the VIS Automation joint venture with the German multinational engineering and electronics conglomerate

Siemens AG and which specializes in the design, supply, installation, commissioning, engineering and service of automated process control systems. Other overseas partners have included Japan's Sojitz Corporation, France's Schneider Electric and the US-headquartered General Electric. The group has recently agreed to create Joint ventures for working on infrastructure projects with several large foreign companies. One of whom is OHL. VIS CG is very much in demand.

By referring to "Russian standards", VIS CG's General Director is not being critical of the quality of the work of its competitors, but is rather alluding to some of the extreme conditions increasingly encountered by the energy sector. A considerable proportion of hydrocarbon extraction and exploration is being conducted in highly inhospitable climates, a trend which is likely to continue as the quest for new oil and gas reserves takes the energy industry into ever more challenging environments.

Given its track record of working near or within the Arctic Circle, VIS CG is more than likely to be involved in this process. In 2012 it completed the reconstruction of a Booster Compression Station at the Komsomolsk gas field and one of its largest ongoing projects is the construction of a 600-hectare gas and chemical complex at Novy Urengoy which on completion will have an annual production capacity of 400,000 tons of low-density polyethylene, created by tapping into the hydrocarbon reserves of the nearby Urengoy field.

VIS CG's experience within the energy sector stretches far beyond the Arctic Circle, however, and in recent years it has helped Gazprom restore and reconstruct facilities at the Orenburg helium plant destroyed in a major accident ten years ago; modernized a power plant in the north west city of Kirishi and a transformer substation in Slovakia's Lemesany; and laid several gas pipelines including one up to the Rosa Khutor ski resort near Sochi in time for the Winter Olympics earlier this year. VIS is also currently working on



Sergey Palkin  
VIS CG General Director



Igor Snegurov  
VIS CG Chairman

the construction of the 9th energy block of the Novocherkassk State Regional Electrical Station in the Rostov region.

Its civil engineering and general construction arms have also been extremely active and its flagship projects include the construction of Gazprom's offices in Orenburg and of the adjacent Gazovic Palace of Culture and Sports; its administrative and domestic complex in Noyabrsk; and the comprehensive renovation of Yaroslav's Volga Embankment. It has also been responsible for the multifunctional bus and railway station in Novy Urengoy and the Northern Lights residential complex in Noyabrsk.

## IT HAS TAKEN A LOT OF THOUGHT AS WELL AS HARD WORK AND DETERMINATION

for the management at VIS CG to get the company to where it is today, and they have derived inspiration and guidance from some unexpected sources. "Companies like McDonald's or [the Russian retail chain] Magnit are successful because they are very well structured businesses with perfectly managed business practices and high

labor efficiency," Snegurov explains, "and as a construction company we need to be similarly highly efficient and well-structured."

Despite running a dedicated business-to-business organization, Snegurov and his colleagues have nevertheless learnt some invaluable lessons from the two leading FMCG retailers. "One of our objectives is to turn ourselves into a sort of construction version of McDonald's," says Snegurov. "We created a special group that is responsible for all elements of our logistics operations including supplies, the storage of materials and the way work is organized and structured on site. The upshot is that our sites look perfect, although that isn't the main thing; what is really important are things like the fact that all our materials are stored in accessible locations. It is details like this that can make the difference between profit and loss for a construction company."

Although the Russian economy has been on a relatively steep upward curve for most of the time that VIS CG has existed, there was the small matter of the 2008 financial crisis to overcome as well as a ferociously competitive business environment which has seen several Russian construction companies go to

the wall in the past few years. Another secret of VIS CG's survival and sustained success has been its financial caution.

"Due to our fiscal conservatism we have never made any risky investments or withdrawn cash at the wrong point in the cycle," Snegurov points out. "On the contrary, we have always made sure we have a solid financial foundation. This means that we have always had some financial reserves at our disposal so that when the crisis struck we were able to take some projects on when some of our competitors could not. The effects of the crisis are still working through the system; this year a lot of construction companies went bankrupt while we had our best year ever."

As well as being a leading epc contractor, VIS CG is also in the vanguard of the movement to use Public Private Partnerships (PPP) to harness private sector capital for the greater public good; late last year, for example, it signed up to a PPP with the Yamal-Nenets Autonomous District Administration for the design, construction and supply of equipment to

six kindergarten and preschool facilities which between them will be able to accommodate almost 1,000 infants and toddlers in villages and towns across the region.

"Today there is a huge demand for infrastructure modernization in Russia which requires a lot of investment, and which has given rise to the need for client-oriented services," Snegurov explains. "We actively participate in this process. We are ready to offer a full range of services when it comes to infrastructure turnkey project, including business planning, project solution, the provision of qualified specialists, and, perhaps most importantly of all, investment. If, for example, a region requires a waste processing plant or water treatment facilities, there's no need for our clients to wait for decisions to be made about budget allocation as we are ready to implement such projects through a public private partnership. We possess all the necessary financial, technical and human resources."

Once again VIS CG finds itself in the right place at the right time. ●



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