



# Annual Results presentation

For the full year 2006

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# About Cherkizovo Group



# Cherkizovo Group – The Integrated Meat Producer

2006 Sales: US\$630m  
2006 EBITDA: US\$76m

**Meat Processing**  
2006 Sales: US\$452m  
2006 EBITDA: US\$34m

**Poultry**  
2006 Sales: US\$151m  
2006 EBITDA: US\$36m

**Pork**  
2006 Sales: US\$27m  
2006 EBITDA: US\$9m

**05-06 Revenue Growth**

- 10%

- 29%

- 48%

**Market Position**

- # 1 nationwide

- # 1 in the Moscow poultry market

- #1 greenfield in Russia

**Key Products**

- Sausages, salamis, ready-to-cook products

- Chilled / frozen poultry

- Live hogs, pork carcasses, fresh pork cuts

**Key Brands\*\***



**Production Facilities**

- 8 plants
- Total capacity (t.p.a): 203,000+ \*\*

- 2 clusters
- Total capacity (t.p.a): 70,000+ \*\*\*

- 4 plants
- Total capacity (t.p.a): 50,000+ \*\*\*\*

**Employees**

- 7,877

- 3,828

- 755

Source: IKAR, Company, Financials: audited financial statements



\* Pork brands to be developed on the basis of existing key brands in meat processing and poultry segments  
 \*\* Includes sausages and ready-to-cook products  
 \*\*\* Petelino and Vasilievskaya combined capacity  
 \*\*\*\* Live weight

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# 2006 Business Highlights

## Growth story

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- Successful IPO on The London Stock Exchange and RTS
- Construction of State of the Art pork production complexes in Lipetsk and in Tambov
- Lipetsk delivered its first pork to market in December. Since then more than 900 tonnes live-weight have been delivered
- Successful 5-year Rouble bond placed at 8.85%, one of the lowest rates in the industry
- Extensive program to modernise storage and distribution facilities under way: new or completely refurbished facilities are now operating in St Petersburg, Ekaterinburg, Samara, Kazan, Ufa, Perm and Saratov
- Divisional management strengthened with appointments of new COO and Poultry Division Manager
- Beginning of implementation of Oracle ERP system

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# Financial Highlights

Strong performance

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- Net Income from continuing operations increased by 92% year-on-year to US\$33.2 million (2005: US 17.3m)
- Adjusted EBITDA increased by 15% year-on-year to US\$76.1 million (2005: US\$66.0m)
- Adjusted EBITDA margin remained stable at 12%
- Gross margin increased to 24% (2005: 23%)
- Gross profit increased by 19% to US\$149.1 million (2005: US \$124.9m)
- Turnover increased by 16% to US \$630.0 million (2005: US \$544.9m)

# 2006 Results

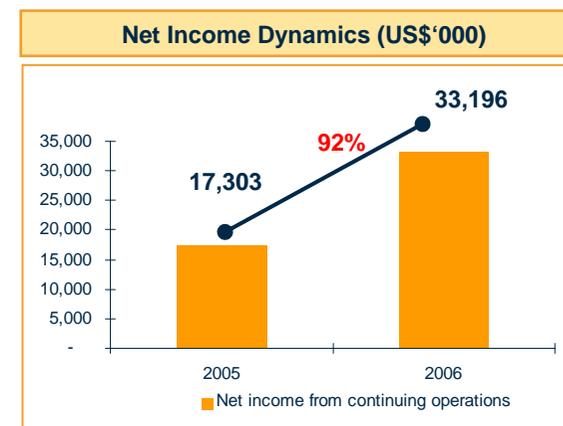
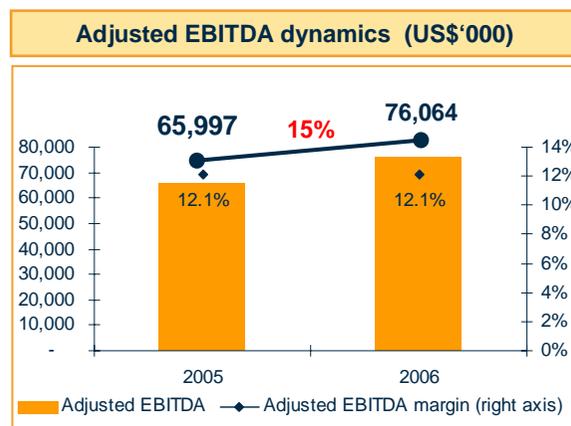
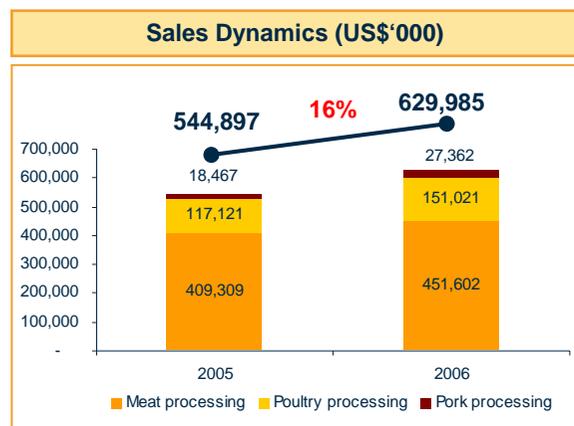


# Group Financial Performance

Solid performance with focus on operational efficiency and margins

- Revenue grew by 16%:
  - increase in average price of meat processing products due to the change of the product mix
  - poultry prices slightly decreased (1%) due to avian flu, offset by 36% volume increase
  - increase in price for pork
- Improvements in operational efficiencies
- Adjusted EBITDA grew 15%, EBITDA margin remained at 12%
- Net income from continuing operations increased by 92%
- Impressive margins in the pork business

	2006	2005	2006/2005
Sales, US\$ '000	629,985	544,897	16%
Gross Profit, US\$ '000	149,050	124,860	19%
Gross Margin, %	24%	23%	
Adjusted EBITDA, US\$ '000	76,064	65,997	15%
Adjusted EBITDA Margin, %	12%	12%	
Net Income from Continuing Operations, US\$ '000	33,196	17,303	92%

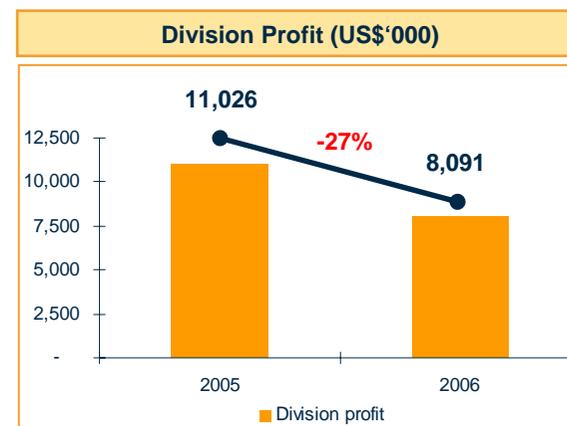
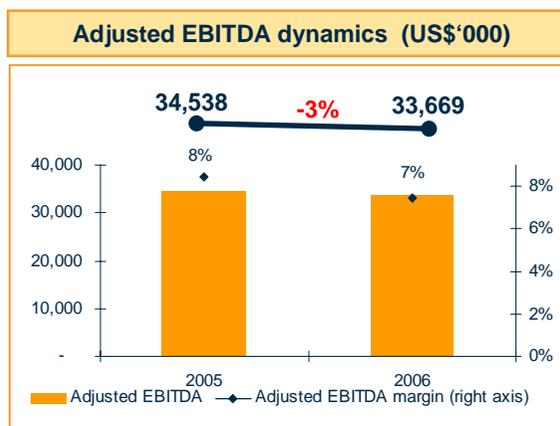
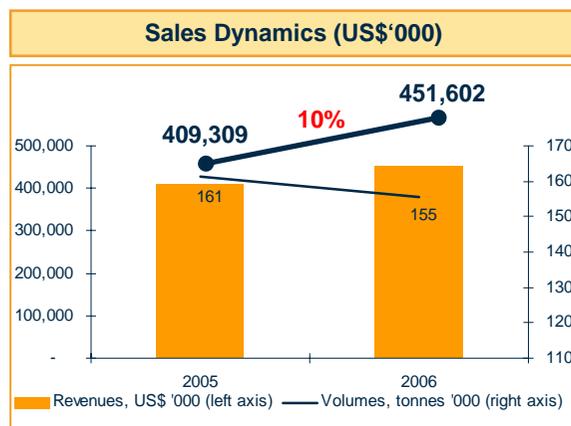


# Meat processing division

Moving to high margin products

- Sales grew by 10%:
  - average price increased by 15%
  - increased share of premium products
- Gross margin remained stable at 18% despite of raw materials price increase
- Increased share of retail chains
- Continuing regional expansion program

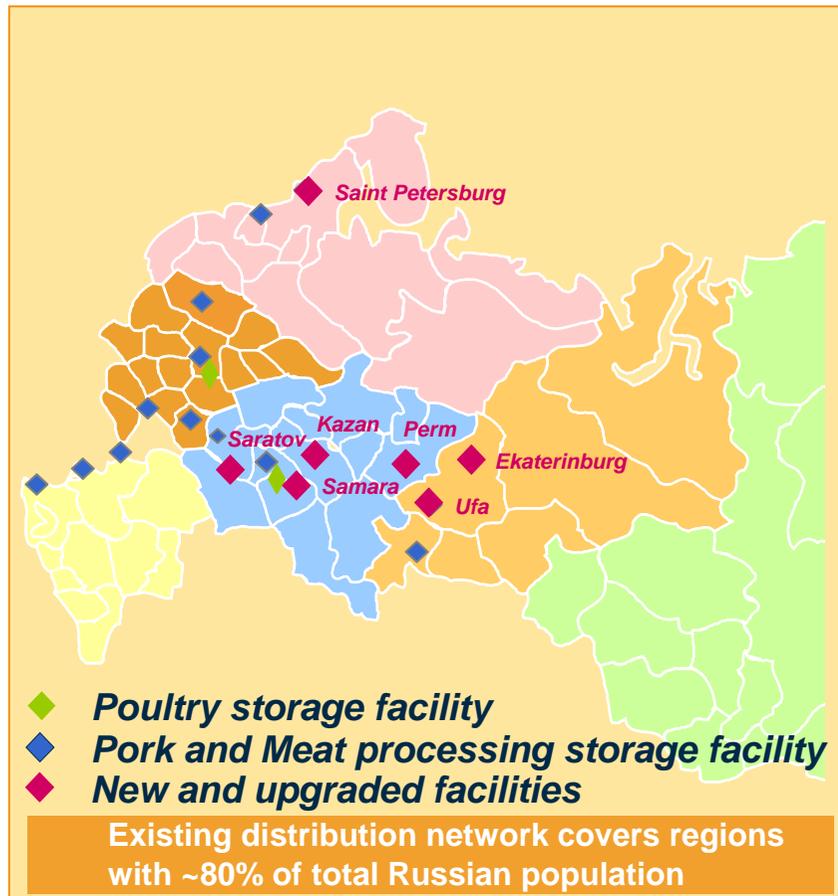
	2006	2005	2006/ 2005
Gross Sales, US\$ '000	453,194	410,179	10%
Sales, US\$ '000	451,602	409,309	10%
Gross Profit, US\$ '000	81,913	73,363	12%
Gross Margin, %	18%	18%	
Adjusted EBITDA, US\$ '000	33,669	34,538	-3%
Adjusted EBITDA Margin, %	7%	8%	
Division Profit, US\$ '000	8,091	11,026	-27%



# Regional Expansion

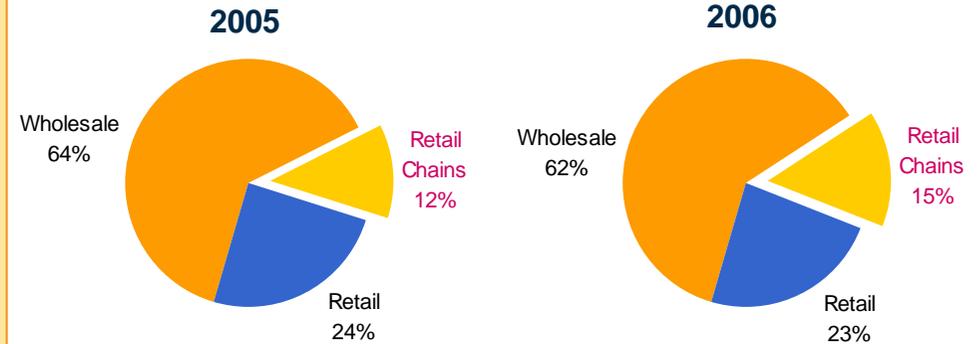
Regional expansion and increased share of modern distribution chains

## Storage Facilities Locations



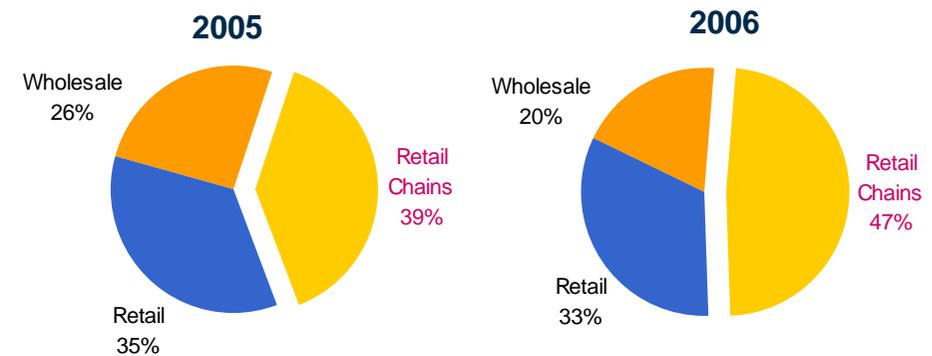
## Meat processing

Retail chains: +3%



## Poultry

Retail chains: +8%

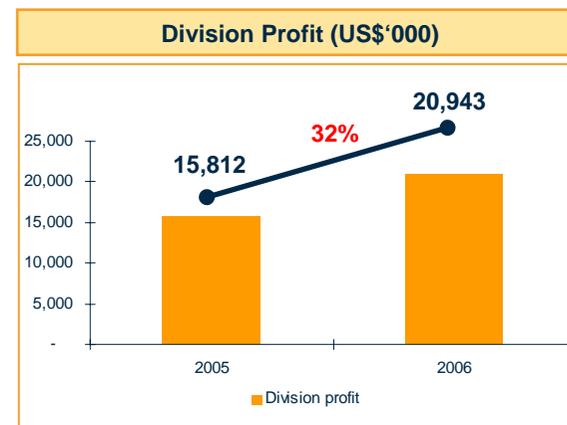
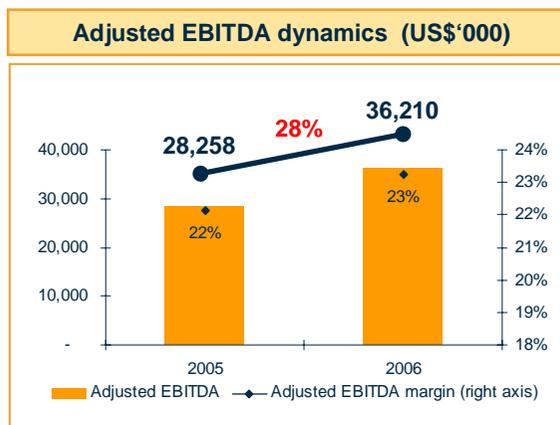
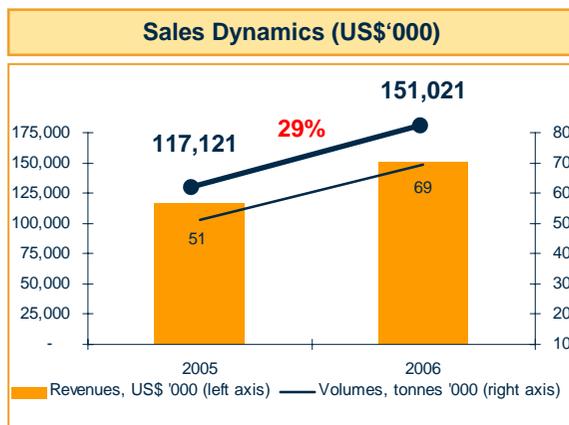


# Poultry division

Increasing sales nationwide

- Sales grew by 29%:
  - volumes grew by 36%
  - despite a 1% decrease in price influenced by the residual negative effect of news on avian flu
- Raw material cost optimization and improved production efficiencies
- Market in 2H06 showed an upward trend for poultry prices

	2006	2005	2006/ 2005
Gross sales, US\$ '000	155,682	127,641	22%
Sales, US\$ '000	151,021	117,121	29%
Gross Profit, US\$ '000	56,841	48,049	18%
Gross Margin, %	37%	38%	
Adjusted EBITDA, US\$ '000	36,210	28,258	28%
Adjusted EBITDA Margin, %	23%	22%	
Division Profit, US\$ '000	20,943	15,812	32%



# Poultry Facilities – Production Efficiencies

Constant commitment towards improvement of operational performance

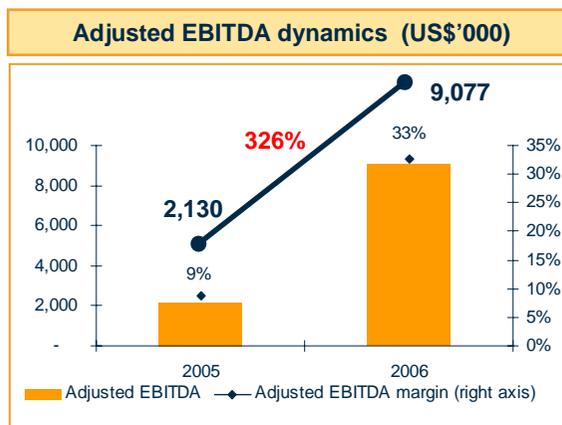
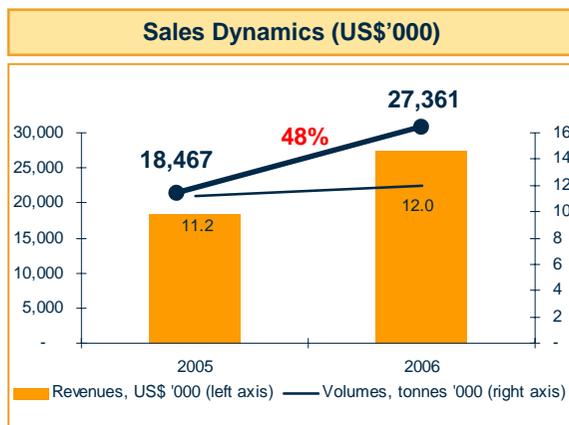
KPI Benchmarking Analysis			
	Average 2006	Average 2005	Differential
Average liveweight, gr.	1,948	1,892	+ 3.0%
Yearly flock turnover, times	7.10	6.68	+ 6.3%
Hatch, %	76.71	77.18	-0.6%
Livability, %	92.90	92.30	+ 0.6%
Average growing period, days	40.30	40.54	- 0.6%
Meat yield, %	71.74	71.15	+0.8%
Average fodder conversion rate, kg per kg of weight gain	1.98	2.06	- 3.9%

# Pork division

## Rising star

- Favorable price environment: pork prices increased by 19%:
  - Ban of Brazilian and Polish imports impacted further growth of pork prices
  - High beef prices contributed to increase in pork and poultry consumption in Russia
  - Avian flu contributed to additional growth in pork
- Existing facilities improved operational efficiency and margins
- Lipetsk delivered its first pork to market in December
- Launch of state of art facilities in Tambov, similar to Lipetsk
- Launch of another two modules in Lipetsk

	2006	2005	2006/ 2005
Gross sales, US\$ '000	27,816	24,297	14%
Sales, US\$ '000	27,361	18,467	48%
Gross Profit, US\$ '000	10,307	3,466	197%
Gross Margin, %	37%	14%	
Adjusted EBITDA, US\$ '000	9,077	2,130	326%
Adjusted EBITDA Margin, %	33%	9%	
Division Profit, US\$ '000	6,759	(76)	



# Lipetsk Update



## ***Lipetsk (4 modules)***

- planned capacity – c. 46,000 tons live weight annually
- four new integrated pig breeding farms, each for 4,800 brood-sows
- capacity to grow approximately 440,000 pigs annually
- total expenditures US\$ 150 million: US\$ 40 million invested in 2005

## ***Tambov (2 modules)***

- planned capacity – c. 23,000 tons live weight annually
- construction of two new integrated pig breeding farms started in 2H06
- capacity to grow approximately 220,000 pigs annually
- the project is supported by Tambov administration (infrastructure development)

# Production Efficiencies 2005 vs 2006

Impressive Results of Old Russian Pork Farms

KPI Benchmarking Analysis			
	Average 2006	Average 2005	Differential
Average marketable pig slaughter weight, kg	113	105	+ 8%
# of farrows per year	2.28	2.18	+ 5%
# of pigs per farrow	11.06	10.00	+ 11%
Livability, %	76.00	75.30	+ 1%
Average fattening period, days	195	209	- 6%
Annual pork (live weight) yield per sow, kg	2,175	700	+ 211%
Average fodder conversion rate, kg per kg of weight gain	3.5	4.3	- 19%

Source: Company, Rossvinoprom

# New Facilities – Production Efficiencies

Comparison with Russian peers – Feel The Difference

KPI Benchmarking Analysis			
	Average Russian pork farm	Average Lipetsk pork farm	Differential
Average marketable pig slaughter weight, kg	114	110	- 4%
# of farrows per year	1. 80	2.30	+ 28%
# of pigs per farrow	7. 80	13.00	+ 67%
Livability, %	62.00	79.00	+ 27%
Average fattening period, days	274	180	- 34%
Annual pork (live weight) yield per sow, kg	993	2,598	+ 162%
Average fodder conversion rate, kg per kg of weight gain	4.4	3.3	- 25%

Source: Company, Rossvinoprom

# Cherkizovo Group – Income Statement

US\$m	2006	2005	Growth, %
<b>Net Sales</b>	<b>630.0</b>	<b>544.9</b>	<b>16%</b>
Cost of Sales	(480.9)	(420.0)	14%
<b>Gross Profit</b>	<b>149.1</b>	<b>124.9</b>	<b>19%</b>
<i>Gross Margin</i>	24%	23%	
Operating Expenses	(100.1)	(81.3)	23%
<i>% of Sales</i>	16%	15%	
<b>Operating Income</b>	<b>49.0</b>	<b>43.6</b>	<b>12%</b>
<i>Operating Margin</i>	8%	8%	
Depreciation	24.5	20.2	22%
<i>% of Sales</i>	4%	4%	
<b>Adjusted EBITDA</b>	<b>76.1</b>	<b>66.0</b>	<b>15%</b>
<i>Adjusted EBITDA Margin</i>	12%	12%	
Other expenses, including financial	(11.1)	(16.9)	(35%)
<b>Pretax Profit*</b>	<b>37.9</b>	<b>26.7</b>	<b>42%</b>
<b>Taxation</b>	<b>(2.4)</b>	<b>(8.0)</b>	
<i>Effective tax rate</i>	6%	30%	
<b>Net Income (Loss) from Continuing Operations</b>	<b>33.2</b>	<b>17.3</b>	<b>92%</b>
<b>Net Income (Loss), Total</b>	<b>30.2</b>	<b>17.1</b>	<b>77%</b>

\*before minority interest and extraordinary gain

# Cherkizovo Group – Balance Sheet

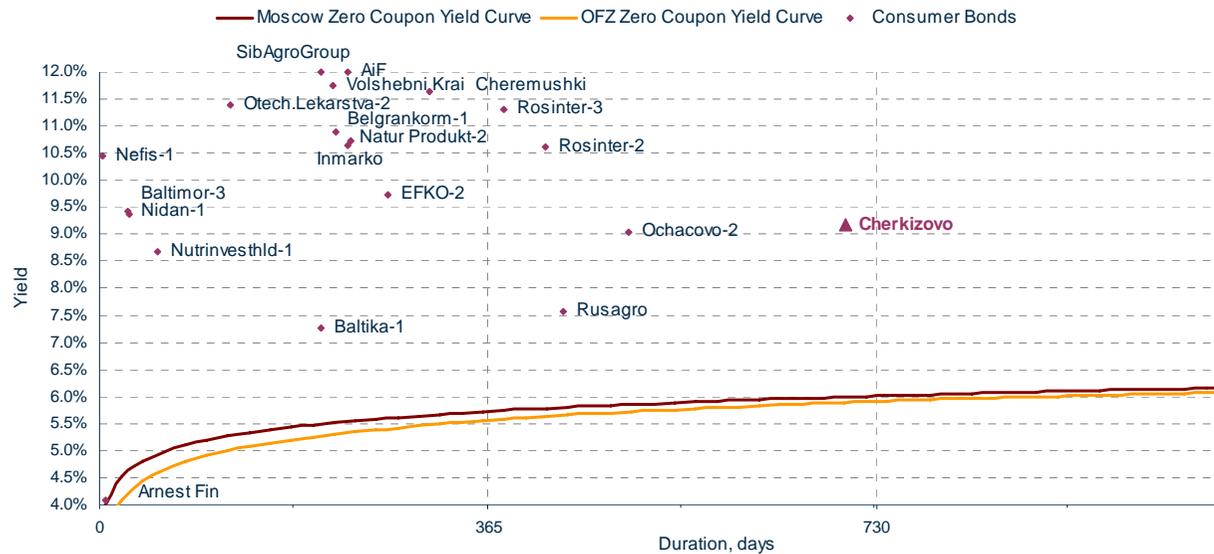
US\$m	2006	2005	Growth, %
Cash and Equivalents	107.0	5.2	1,961%
Trade Accounts Receivable	62.8	31.8	98%
Inventory	89.1	55.8	60%
Other Current Assets	62.2	48.2	29%
<b>Total Current Assets</b>	<b>321.1</b>	<b>141.0</b>	<b>128%</b>
Plant, Property and Equipment	353.5	250.0	41%
Other Non-current Assets	51.3	32.8	56%
<b>Total Non-current Assets</b>	<b>404.8</b>	<b>282.8</b>	<b>43%</b>
<b>Total Assets</b>	<b>725.9</b>	<b>423.8</b>	<b>71%</b>
Trade Accounts Payable	37.5	47.2	-21%
Short-term Debt	104.0	90.6	15%
Other current liabilities	31.1	43.3	-28%
<b>Total current liabilities</b>	<b>172.6</b>	<b>181.1</b>	<b>-5%</b>
Long-term debt	262.7	143.9	83%
Other non-current liabilities	21.3	21.8	-3%
<b>Total non-current liabilities</b>	<b>284.0</b>	<b>165.7</b>	<b>71%</b>
<b>Minority interest</b>	<b>18.9</b>	<b>14.5</b>	<b>30%</b>
<b>Shareholders' equity</b>	<b>250.4</b>	<b>62.5</b>	<b>301%</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>725.9</b>	<b>423.8</b>	<b>71%</b>

# Cherkizovo Group – Cash Flow Statement

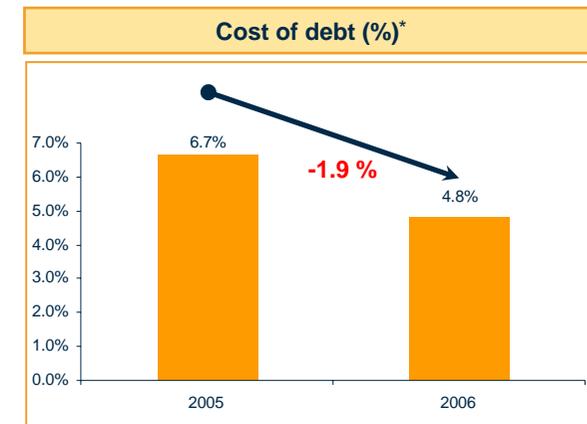
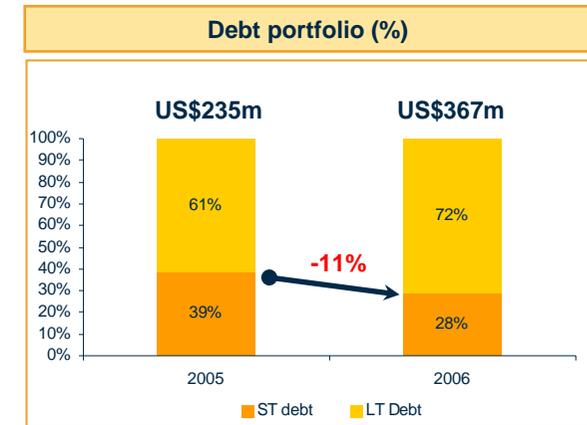
US\$m	2006	2005	Growth, %
Net Income from Continuing Operations	33.2	17.3	92%
Depreciation	24.5	20.2	22%
Adjustments to Non-cash Items	(6.0)	1.0	n/a
Changes in Net Working Capital	(84.9)	(24.9)	241%
Cash Flow from Discontinued Operations	(2.0)	0.6	
<b>Net Operating Cash Flow</b>	<b>(35.2)</b>	<b>14.2</b>	<b>n/a</b>
Purchases of PP&E	(112.9)	(76.5)	48%
Other Investing Cash Flow	(9.1)	5.8	
Cash Flow Used in Discontinued Operations	(0.2)	(0.4)	
<b>Net Investing Cash Flow</b>	<b>(122.2)</b>	<b>(71.1)</b>	<b>72%</b>
Proceeds from / (Repayment of) Debt	111.8	63.8	75%
Proceeds from Shares Issued	146.2		
Cash Distributed to Shareholders	(1.0)	(4.8)	
Cash Flow from Discontinued Operations	(0.8)	0.8	
<b>Net Financing Cash Flows</b>	<b>256.2</b>	<b>59.8</b>	<b>329%</b>
Exchange rate difference	3.0	(0.1)	
<b>Net Increase in Cash and Equivalents</b>	<b>101.8</b>	<b>2.8</b>	
<b>Opening Cash Balance</b>	<b>5.2</b>	<b>2.4</b>	
<b>Closing Cash Balance</b>	<b>107.0</b>	<b>5.2</b>	

# Debt

## Better Capital Structure

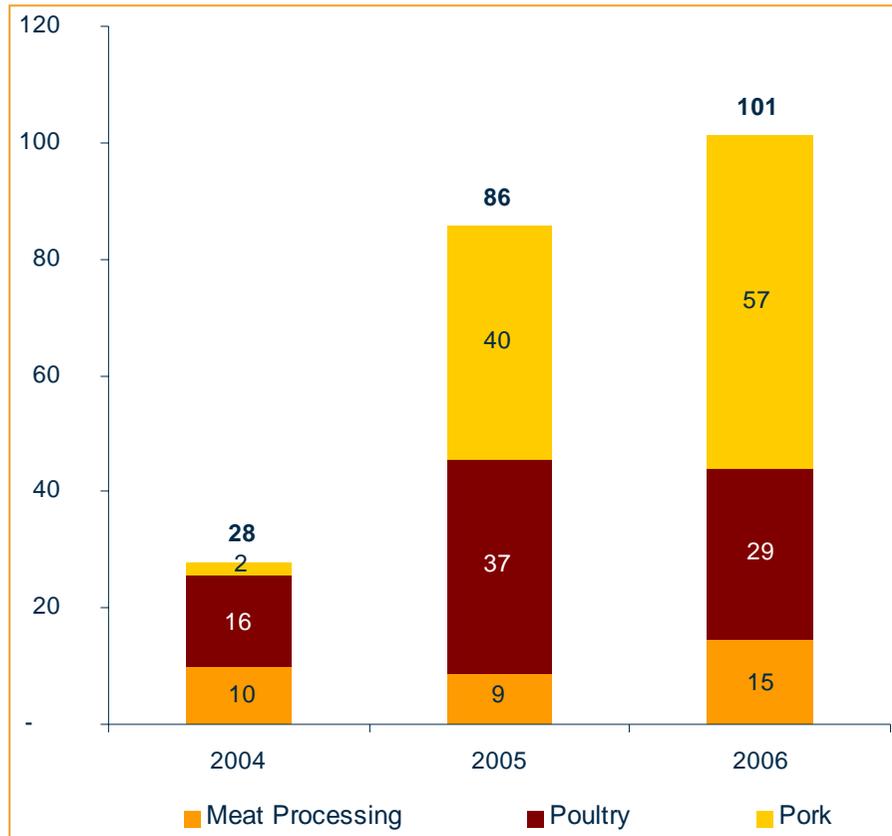


- Switch from short-term to long-term debt: improved maturity
- Improved interest coverage ratios (+2.6%)
- Increased portion of subsidized debt (low interest)
- EBRD loan refinanced on June 30, 2006
- 5-year Rouble bond issued at 8.85%, one of the lowest rates in the industry



# Capital Expenditures

## Capital Expenditure, US\$m



- **Meat processing:**
  - maintenance capex, equipment
  - transport
  - regional expansion - storage facilities
- **Poultry:**
  - increased capacity in Penza and Moscow
  - additional poultry places
  - new fodder plant
- **Pork:**
  - 1H06 Lipetsk – two additional modules launched in February
  - 2H06 Tambov – two new modules launched in July

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# Investment Highlights

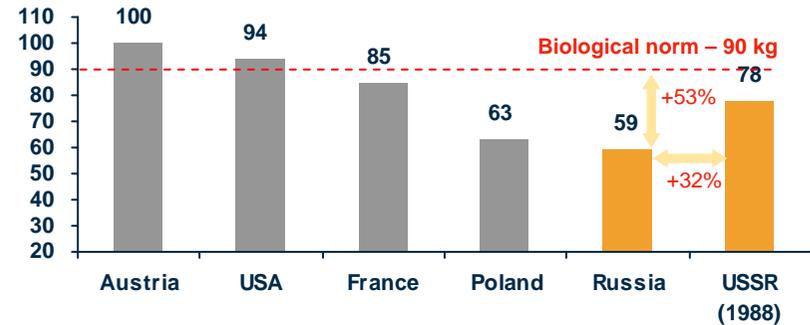
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- 1 Sizeable market opportunity
- 2 Government support
- 3 Vertically integrated / diversified meat producer
- 4 Sustainable profitability profile
- 5 Market-leading portfolio of brands
- 6 Leading distribution network and diversified customer base
- 7 Well-invested production assets
- 8 Strong management team

# Meat Market Growth and Potential

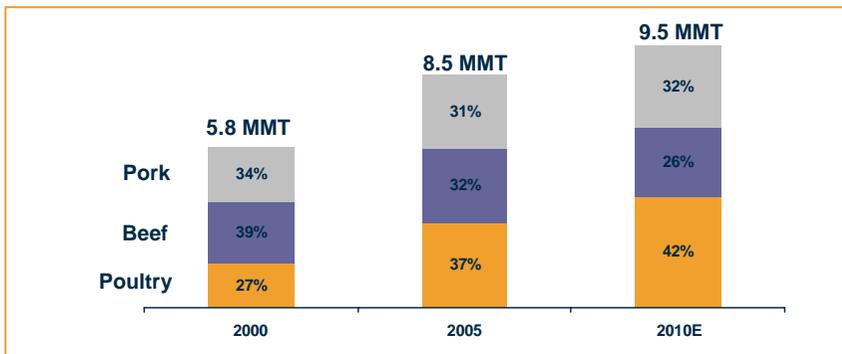
- \$25 bln market, 7.4% 06-10E CAGR
- Russia is a “meat eating” country
- Low per capita consumption

## Annual Per Capita Meat Consumption, kg (2005E)



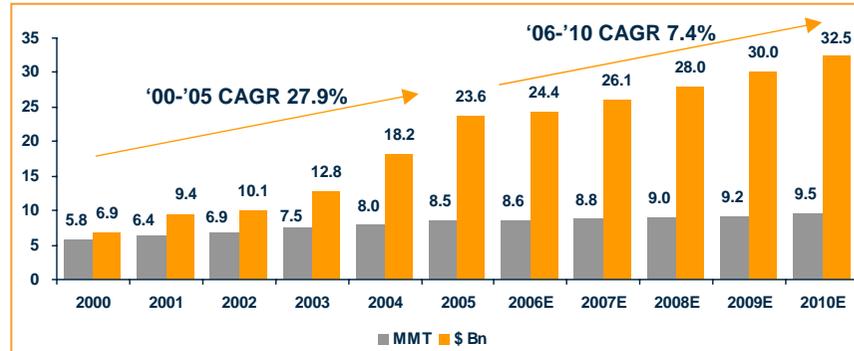
Source: Euromonitor, Meat Union of Russia, WHO

## Shift in Russian Meat Market Structure



Source: Meat Union of Russia

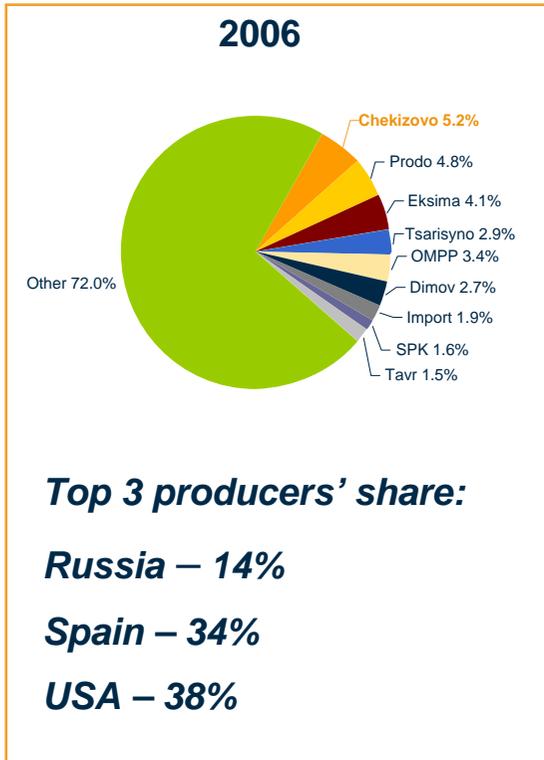
## Russian Meat Market Growth



Source: Meat Union of Russia

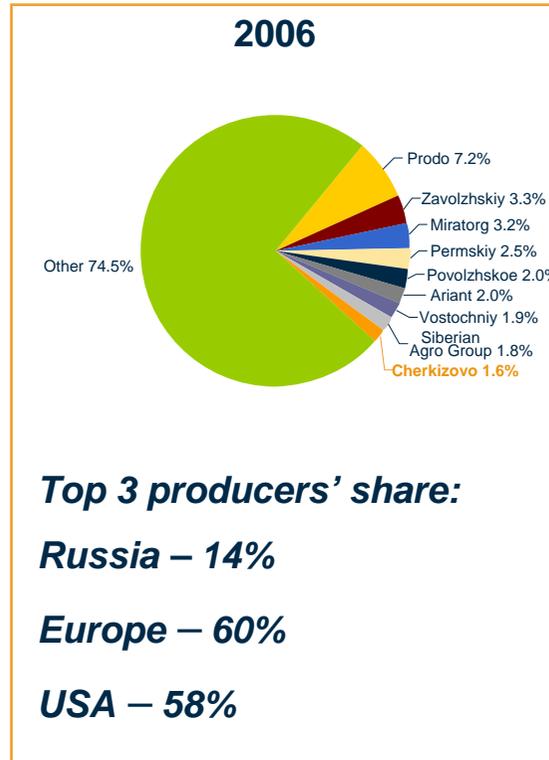
# Consolidation Potential

## Processed Meat (1)



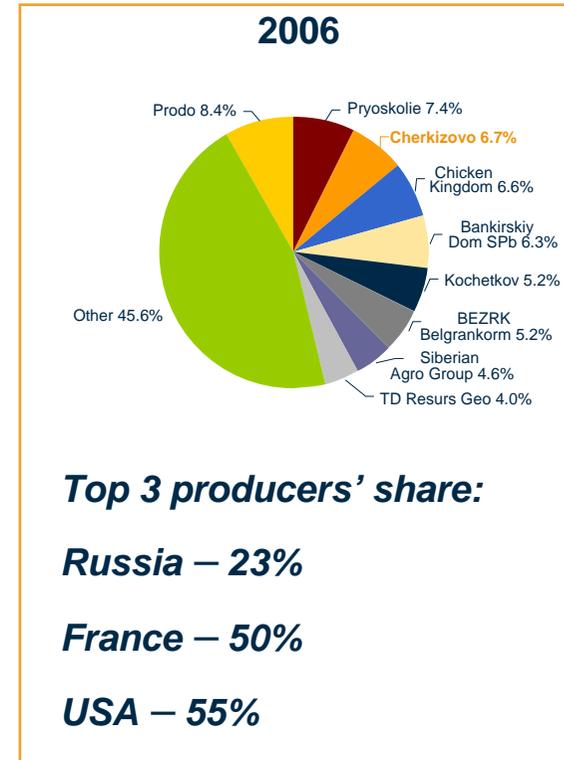
Source: Meat Union

## Pork (2)



Source: Institute of Agricultural Marketing

## Poultry (3)



Source: Institute of Agricultural Marketing

**Fragmented market creates a platform for organic growth and consolidation**



(1) In value terms (US\$ sales)  
 (2) In volume terms (slaughter weight)  
 (3) In volume terms (live weight)

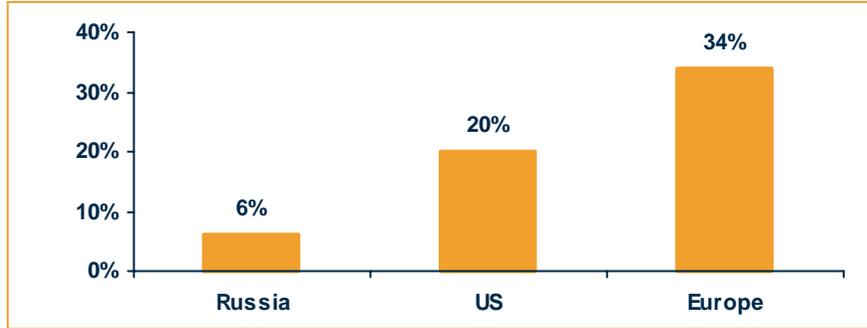
# Government Support

- Still far below compared to western countries
- Favourable tax regime for agriculture
- Subsidized debt, effective cost of debt reduced by 40%
- Direct subsidies



**High conversion of EBITDA to Net Income**

## Government Subsidies vs. Meat Sales



Source: OECD, FAOstat

## Profit Tax Rate for Agriculture Producers, %



Source: Federal Law 39-FZ

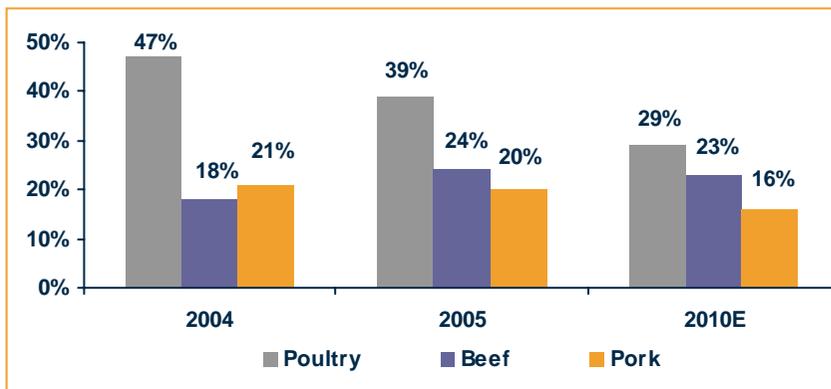
# Government Support: Quotas

- Russia is No.1 importer of poultry and No.2 importer of beef
- Quotas introduced in 2003
- Poultry and pork imports to decrease by 14% by 2009



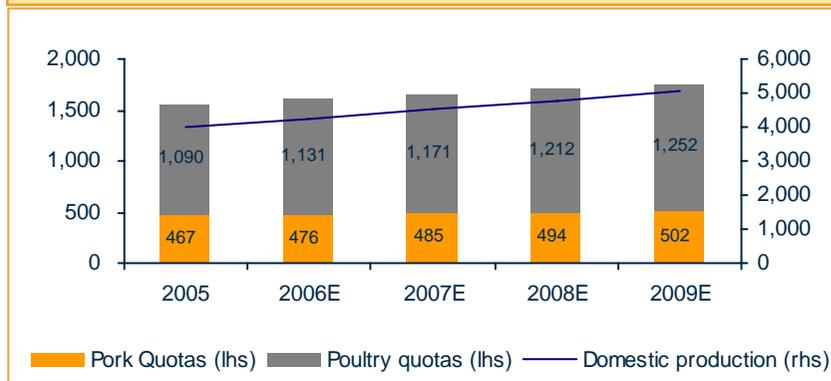
**Opportunity for domestic producers**

## Import to Consumption, 2003-2010



Source: Meat Union of Russia

## Domestic Production\* & Quotas, 000 tons



Source: Government of Russian Federation, \* production of poultry and pork, Meat Union of Russia

# Vertical Integration

## Grain and Soy bean



## Fodder



Quality and biological safety

## Pork and Poultry



Lower dependence on imports and suppliers

## Meat Processing



Capture margins from value-added products

## Distribution



Quality control and cost optimization

	 <b>CHERKIZOVO GROUP</b> QUALITY FROM FARM TO FORK	 <b>Prodo</b>	 <b>Golden Rooster</b>	 <b>Tsaritsyno</b>
Grain	x	x	x	x
Fodder	✓	✓	✓	x
Pork / Poultry	✓ / ✓	✓ / ✓	x / ✓	x / x
Meat Processing	✓	✓	x	✓
Centralized distribution	✓	x	x	✓

Capability for vertical integration (current asset base)



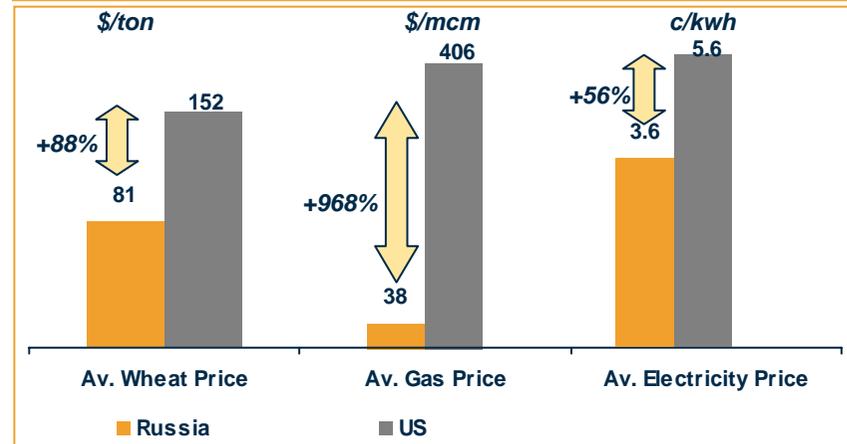
# Attractive Profitability Profile

- Low cost components
  - Cheaper wheat, labour, gas and electricity
- Domestic price premium
  - Quotas / custom duties
  - Limited transportability of chilled meat



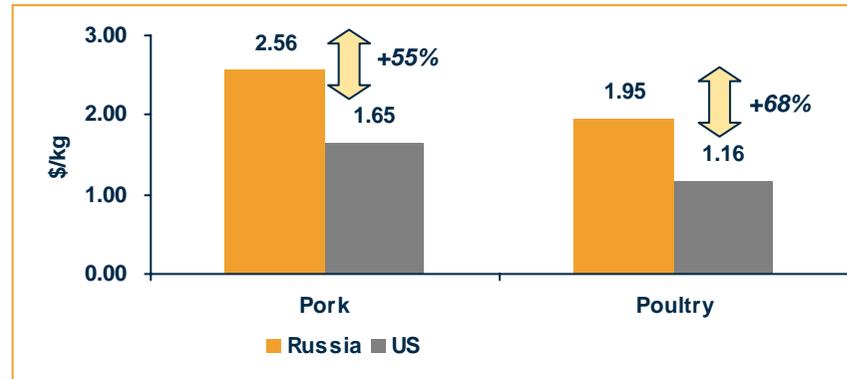
**Sustainable profitability**

## Selected Cost Components (2005)



Source: FAPRI, IKAR, EIA, Federal Tariff Service, Brokers' reports

## Pork & Poultry Price Differential (2005)



Source: Meat Union of Russia, FARPI (prices for industrial producers)

# Attractive Profitability Profile

## Poultry: EBITDA Margin

	2005	2006
<b>Cherkizovo</b>	22.1%	23.3%
<b>US</b>		
Goldkist Foods**	11.3%	1.6%
Pilgrims Pride	10.2%	2.6%
Tyson Foods*	9.9%	n/a
<b>Brazil</b>		
Perdigao	12.7%	6.4%

## Meat Processing: EBITDA Margin

	2005	2006
<b>Cherkizovo</b>	8.4%	7.4%
<b>Spain</b>		
Campofrio	9.0%	9.9%
<b>US</b>		
Hormel Foods	9.4%	9.9%
Smithfield Foods	6.8%	5.4%

\* Poultry Segment only

\*\* Acquired by Pilgrims Pride in Jan 2007

Source: Company financials: audited financial statements

# Portfolio of Strong Brands

- Covers the whole price spectrum
- Powerful flagship brands
  - Petelinka – c. 40% of Poultry segment sales\*
  - Cherkizovsky – c. 55% of Meat processing segment sales\*
- High brand awareness
  - Petelinka – 80% in the Moscow region

	<u>POULTRY</u>		<u>MEAT PROCESSING</u>	
	National**	Local	National	Local
Premium	 # 1 in Moscow region			
Medium			 	  
Low				

\*2006 In value terms  
Source: Company, SKAN Market

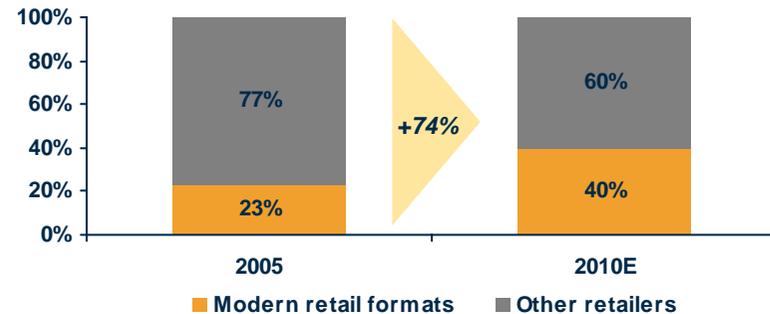
\*\* Present in more than 1 federal district

# Supplier of Choice to Modern Retailers

- Modern retail is the fastest growing distribution channel
- Expansion of chains to drive our regional growth
- Cherkizovo is a “single source of protein”
  - High quality
  - Market-leading portfolio of brands and products
  - Established logistics



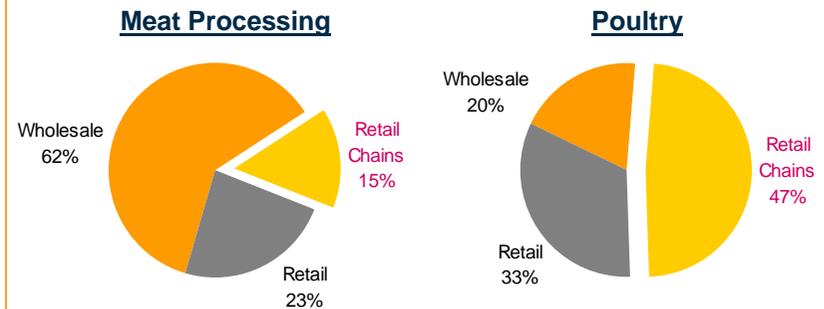
## Modern Format Retailers Penetration



Source: Business Analytica, Market Reports

\* Modern retail format includes supermarkets, hypermarkets, discounters; other retailers include general unbranded grocery stores, street kiosks and open markets

## Sales by Channel (2006)



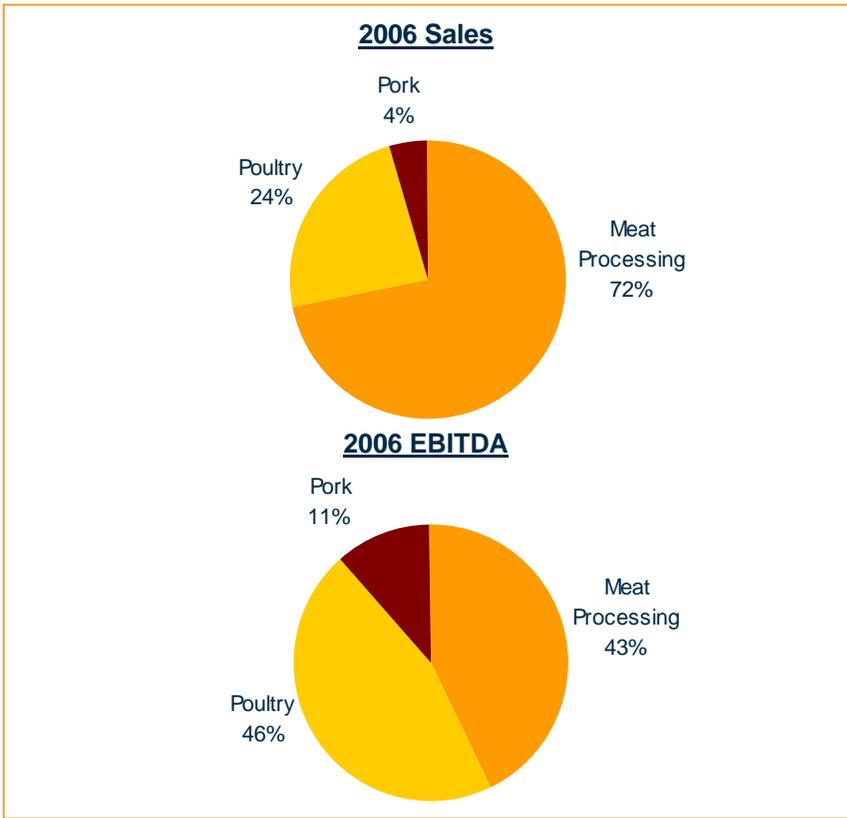
Source: Company data



# Product Mix: Diversification and Growth

- Follows evolving consumer preferences
- Single source of protein
- Reduced biological exposure
- Natural margin hedge

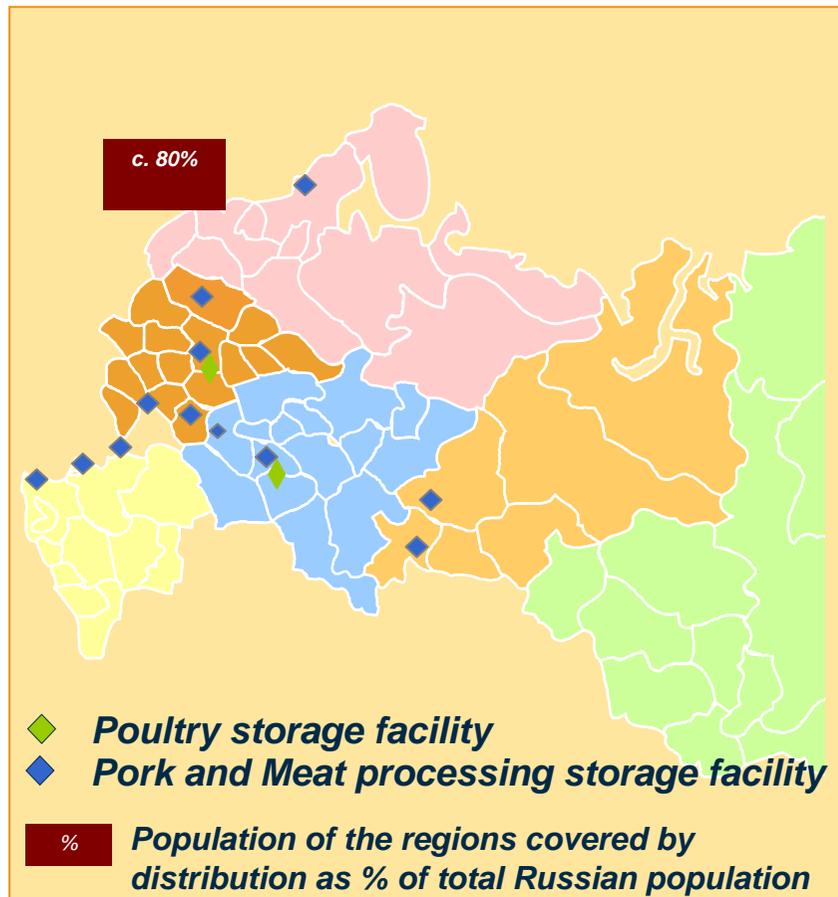
## Diversified Product Exposure



Source: Company

# Leading Distribution Network

## Storage Facilities Locations



- Network covers European Russia
- Modern vehicle fleet
  - Poultry: 248 trucks
  - Meat Processing: 319 trucks for the Moscow region and 304 trucks in other regions
- Quality control (from farm to shelf in <24 hours)
- Revenue and cost optimization
- Key success factor / Major barrier to entry



# Well-invested Production Assets

- Modern, best-in-class assets
- State-of-art broiler and breeder farms and processing plants
  - Finest breeds
  - Latest technologies
  - Quality control throughout the production chain
- Greenfield pork as opposed to acquisitions
- First mover into eco and healthy products



**Quality and cost efficiency**



# Strong Management Team



**IGOR  
BABAEV**  
*Chairman  
of the Board*

- Joined Cherkizovsky MPP in 1988, appointed its general director in 1989, CEO of APK Cherkizovsky since 1998
- Graduated from Krasnodar Polytechnic Institute in 1971



**SERGEY  
MIKHAILOV**  
*CEO*

- Joined the Company in 2001 as director for marketing
- Prior to that, founder of aTelo telecommunications company in Washington
- BA from Georgetown university (Finance and Economics)



**LUDMILA  
MIKHAILOVA**  
*CFO*

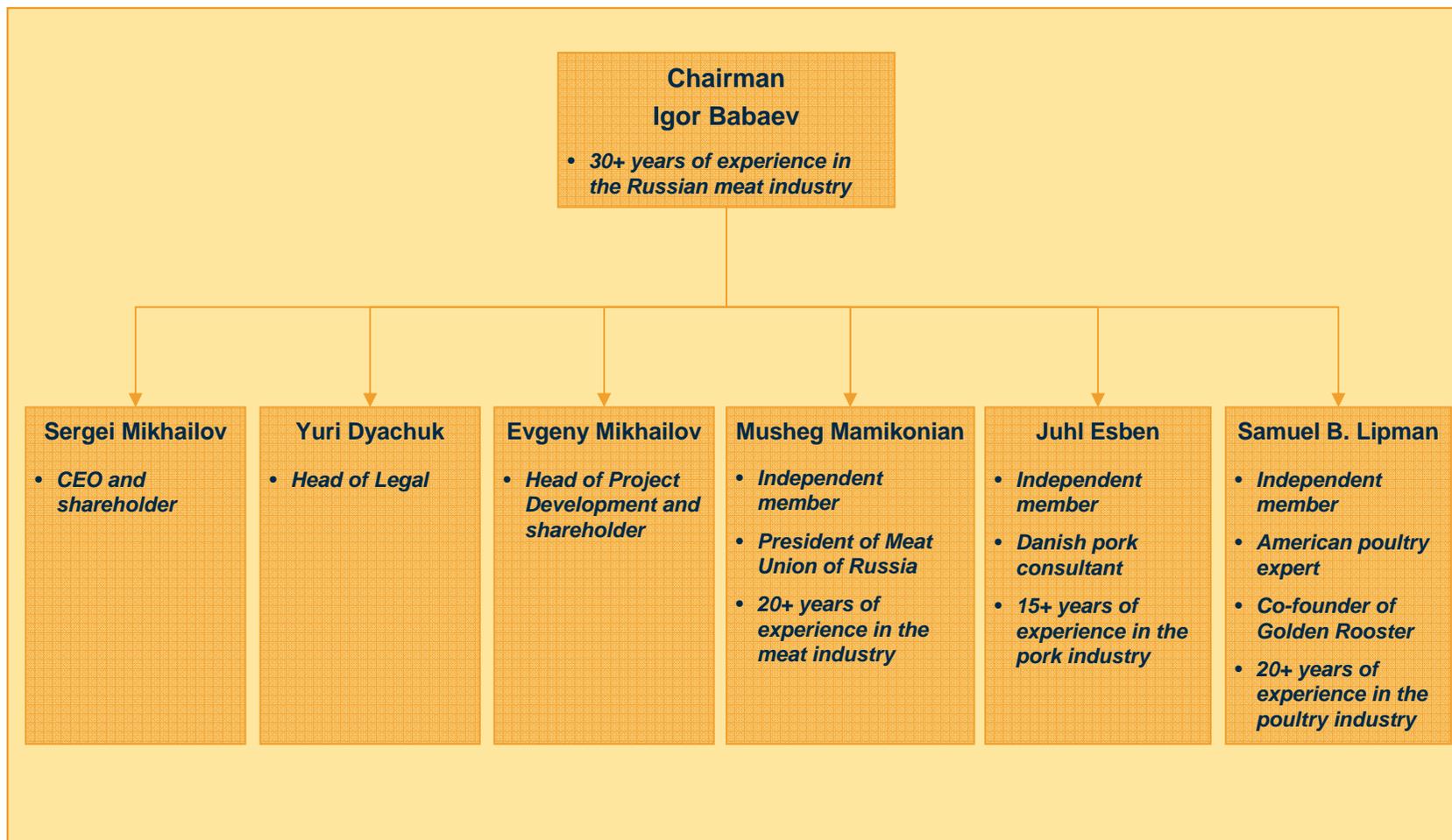
- In 2002 - 2004, worked as financial analyst in General Mills Corporation Canada (Toronto)
- Prior to that, worked as head of corporate finance division of Cherkizovsky MPP
- BA from Finance Academy, Moscow; MBA from York University, Canada



**ARTUR  
MINOSYANTS**  
*COO*

- In 2000-2006, worked as the First Deputy President for Finance and Economics at Cherkizovsky MPP
- Prior to that worked as Finance and Economics Director of Birulovsky Meat Processing Plant
- PhD in Economics from the Moscow Plekhanov Institute for the National Economy

# Board Structure



# Strategy



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# Group Strategy

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# Meat Processing

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**Refocus portfolio towards higher profitability products**

**Develop new quality products and category brands**

**Optimize raw materials inputs structure leveraging vertical integration**

**Consolidate market share via M&A in core regions**

**Increase share of regional direct / controlled distribution**

# Poultry – Focus on High Value-Added Products

Focus on modern retailers



Branding and semi-finished, pre-cut carcasses



HoReCa



# Strategy: Pork

High quality product and presentation, new market standard



Focus on modern retailers



Leader in processed pork meat

Greenfield projects



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# CHERKIZOVO

GROUP **QUALITY FROM FARM TO FORK**

