



**CHERKIZOVO**  
**GROUP** QUALITY FROM FARM TO FORK



## Investor Presentation

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# Transaction Summary

Issuer	OAO Cherkizovo Group (the “Company”)
Selling Shareholder	Cherkizovsky Group Limited
Share Capital (Pre-Offer)	328,216 shares outstanding
Base Deal	Up to approx. US\$300 mln
Price Range	US\$14.75– US\$20.25 per GDR (US\$2,212-US\$3,037 per share)
Primary Shares	Up to 57,438 (18% pre-offer; 15% post-offer)
Secondary Shares	Up to 42,454 (13% pre-offer; 11% post-offer)
Greenshoe	15% of base deal
GDRs/Share	150 GDR per 1 share
Listing	London Stock Exchange, RTS, MSE
LSE Ticker	CHE
Offering Structure	Global institutional offering of GDRs under Rule 144A and Regulation S. Offering of local shares under Regulation S
Sole Bookrunner and Lead Manager	Renaissance Capital
Co-Lead Managers	Gazprombank and Uralsib
Shareholders Lock-up	180 days



## 1. Company Overview

## 2. Investment Highlights

## 3. Strategy

## 4. Financial Performance

## 5. Appendix

# Cherkizovo Group – The Integrated Meat Producer

	2005 Sales: \$546 MM 2005 EBITDA*: \$66 MM		
	Meat Processing 2005 Sales: \$413 MM 2005 EBITDA*: \$34 MM	Poultry 2005 Sales: \$114 MM 2005 EBITDA*: \$28 MM	Pork 2005 Sales: \$20 MM 2005 EBITDA*: \$2 MM
<b>03-05 Revenue CAGR</b>	• 11%	• 28%	• 64%
<b>Market Position</b>	• # 1 nationwide	• # 1 in the Moscow poultry market	• One of the top industry players
<b>Key Products</b>	• Sausages, salamis, semi-finished products	• Chilled / frozen poultry	• Live hogs, pork carcasses, fresh pork cuts
<b>Key Brands**</b>	   	 	
<b>Facilities</b>	<ul style="list-style-type: none"> <li>• 8 plants</li> <li>• Total capacity (t.p.a): 203,000+***</li> </ul>	<ul style="list-style-type: none"> <li>• 2 clusters</li> <li>• Total capacity (t.p.a): 65,000+****</li> </ul>	<ul style="list-style-type: none"> <li>• 4 plants</li> <li>• Total capacity (t.p.a): 50,000+ by 2007*****</li> </ul>
<b>Personnel</b>	• 7,203	• 4,039	• 824

Source: IKAR, Company, Financials: audited financial statements

\* Segment or group profit + Interest Expense – Financial Income + Loss on FA disposal + Depreciation  
 \*\* 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

# History - Key Milestones

## 1993 – 1996: Meat Processing: Establishing Leadership

- Privatisation and formation of Cherkizovsky MPP, a leading meat processing operator on the Moscow market
- Acquisition of Birulevsky MPC and foundation of Kashirsky MPC to build up production capacity

## 1996 – 2000: Pork & Poultry: Vertical Integration

- Acquisition of Kuznetsovsky pork plant – the largest in the Moscow region
- Acquisition of Petelino poultry plant, a leading market player
- Management company APK Mikhailovsky established to operate agricultural business
- Acquisition of Ardim fodder facility
- Further acquisitions of poultry and meat assets

## 2000 – Present: Integrated Meat Company: National Market Leader

- Acquisitions and greenfield construction of best-in-class pork and poultry assets (Lipetsk, Botovo, Penza)
- Acquisitions and construction of slaughter facilities and regional meat processing market leaders (Penza, etc)
- Restructuring and formation of Cherkizovo Group

# IPO to Drive Future Growth



## Finance Growth

- Capex for construction of pork farms
- Seize momentum to garner market share
- Optimize leverage profile

## Consolidation Currency

- Return-driven acquisitions in poultry and meat processing
- Highly fragmented industry ripe for consolidation

## Management Incentives

- Enhance management quality and performance
- Align management objectives with shareholder goals



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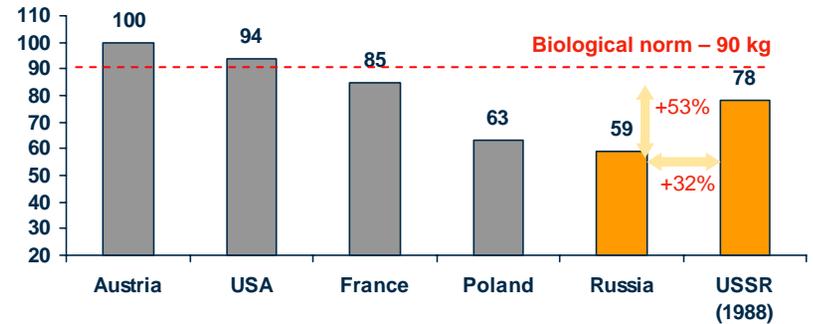
# Investment Highlights

- 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

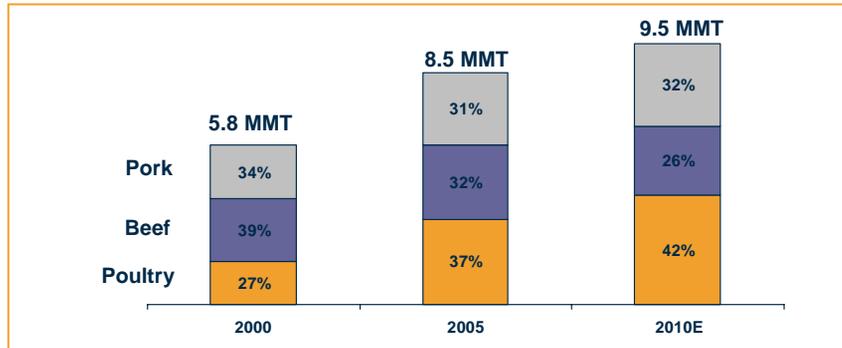
- \$25 bln market, 7.4% 06-10E CAGR
- Russia is a “meat eating” country
- Low per capita consumption

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



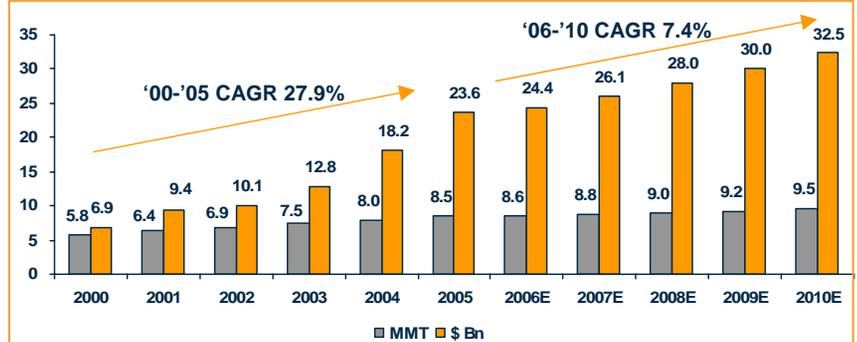
Source: Euromonitor, Meat Union of Russia, WHO

## Shift in Russian Meat Market Structure



Source: Meat Union of Russia

## Russian Meat Market Growth

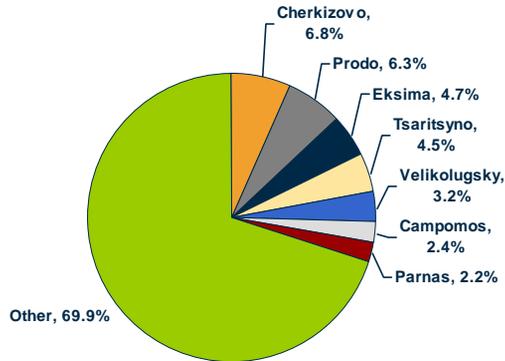


Source: Meat Union of Russia

# Consolidation Potential

## Processed Meat\*

2004



**Top 3 producers' share:**

**Russia – 18%**

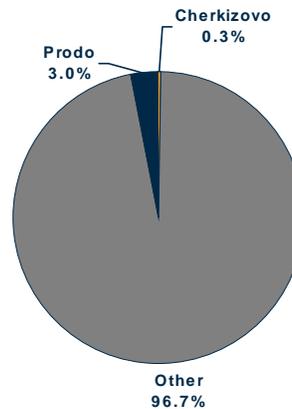
**Spain – 34%**

**USA – 38%**

Source: IKAR, Euromonitor (2003)

## Pork\*

2004



**Top 3 producers' share:**

**Russia – 4%**

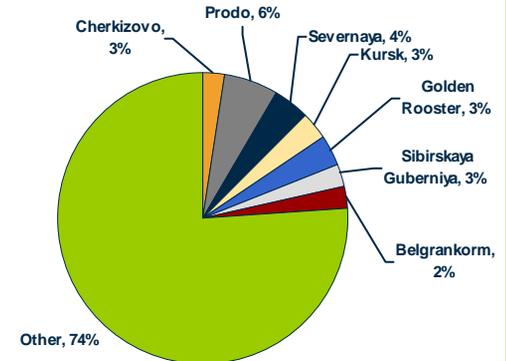
**Europe – 60%**

**USA – 58%**

Source: IKAR, Watt Publishing

## Poultry\*

2004



**Top 3 producers' share:**

**Russia – 13%**

**France – 50%**

**USA – 55%**

Source: IKAR, Watt Publishing

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

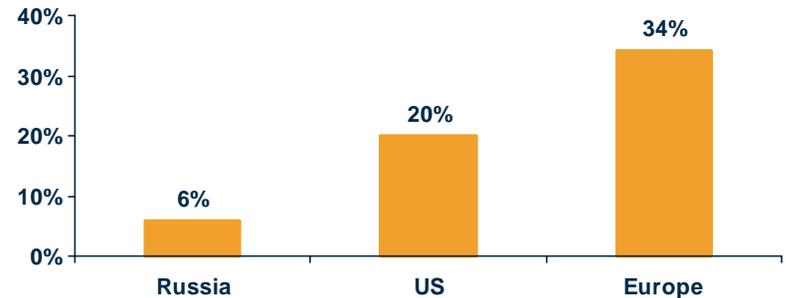
\*In volume terms

# 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

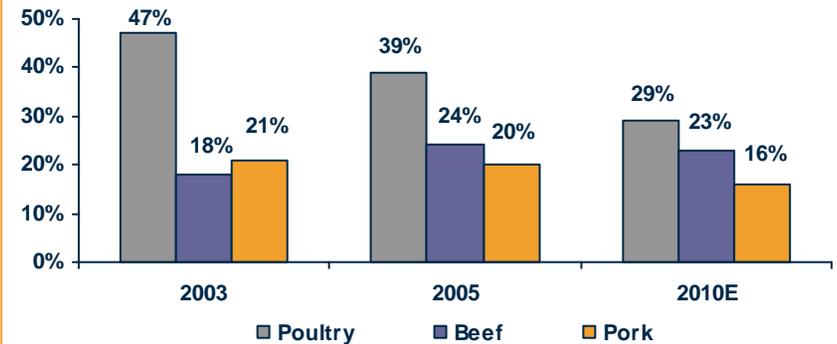
# Government Support: Quotas

- 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



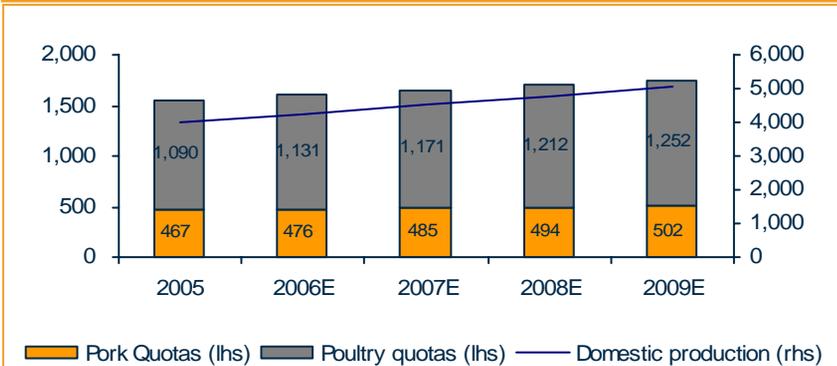
**Opportunity for domestic producers**

## 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

# Vertically 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)**

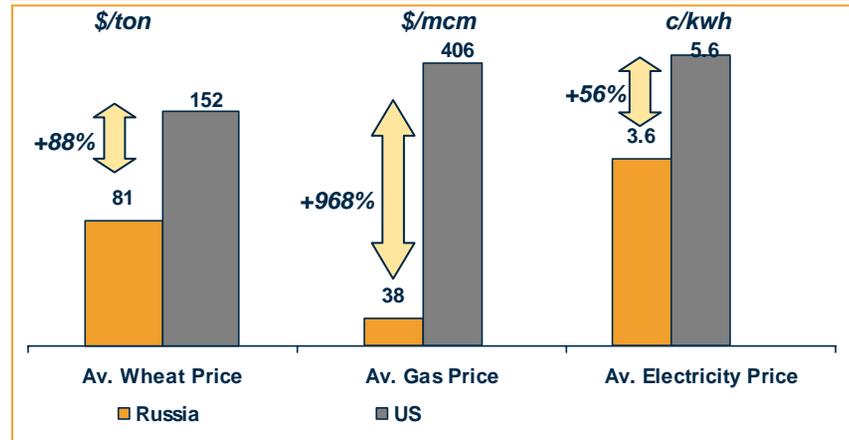


# Attractive Profitability Profile

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

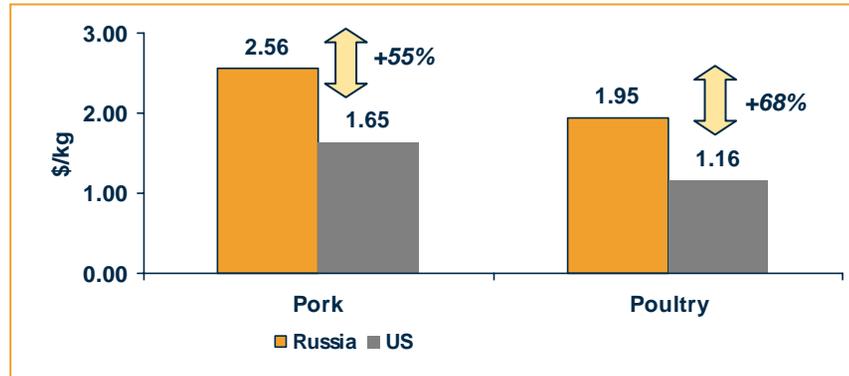
**Sustainable profitability**

## 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

	2004	2005
<b>Cherkizovo</b>	<b>13.8%</b>	<b>24.1%</b>
<b>US</b>		
Goldkist Foods	10.3%	11.3%
Pilgrims Pride	6.9%	10.2%
Tyson Foods*	9.4%	9.9%
<b>Brazil</b>		
Perdigao	12.2%	12.7%
Sadia*	10.6%	n/a

## Meat Processing: EBITDA Margin

	2004	2005
<b>Cherkizovo</b>	<b>5.2%</b>	<b>8.2%</b>
<b>Spain</b>		
Campofrio	10.9%	n/a
<b>US</b>		
Hormel Foods	9.4%	9.9%
Smithfield Foods	5.9%	6.9%

\* Poultry Segment only  
Source: Company financials: audited financial statements

# Portfolio of Strong Brands

- Covers the whole price spectrum
- Powerful flagship brands
  - Petelinka – c. 39% of Poultry segment sales\*
  - Cherkizovsky – c. 37% 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				

\*2005 In value terms  
Source: Company, SKAN Market

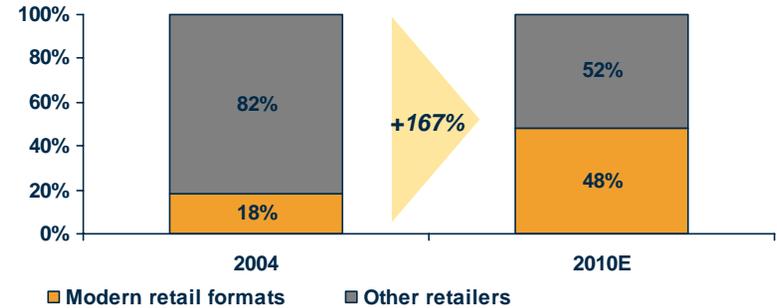
\*\* Present in more than 1 federal district

# 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

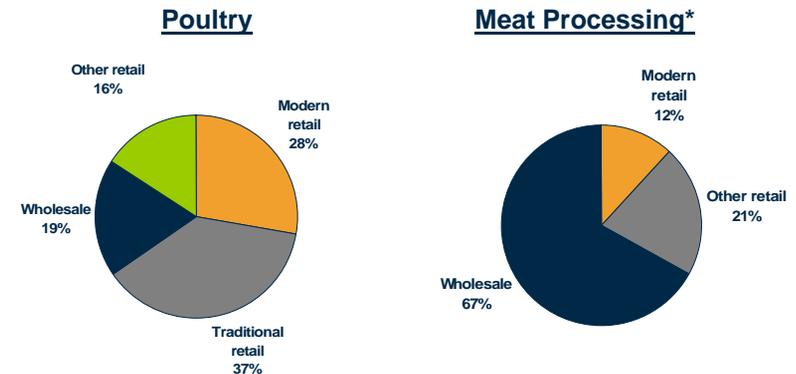


## Modern Format Retailers Penetration



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

## Sales by Channel (2005) in Volume Terms



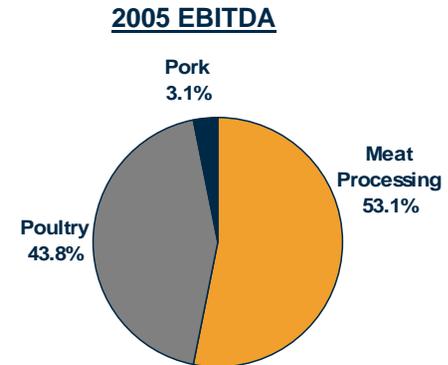
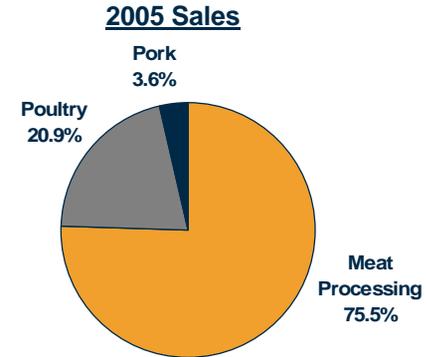
\*Sales of Cherkizovsky Trade House



# Product Mix: Diversification and Growth

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

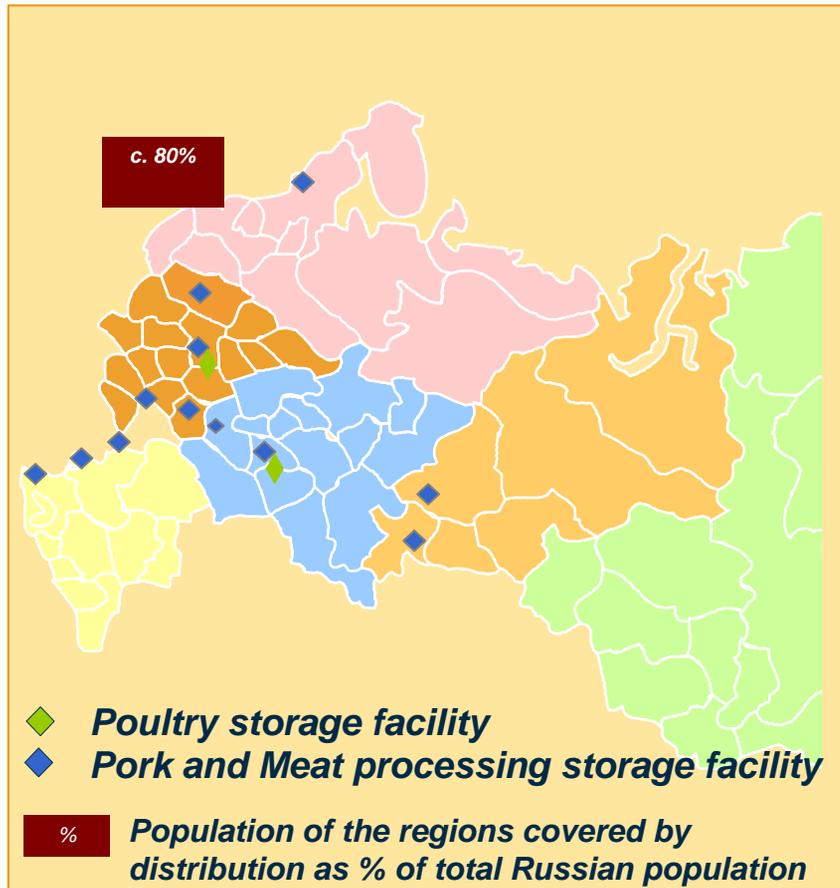
## Diversified Product Exposure



Source: Company

# Leading Distribution Network

## Storage Facilities Locations



- Network covers European Russia
- Modern vehicle fleet
  - Poultry: 110 trucks
  - Meat Processing : 315 trucks for the Moscow region and 155 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



**NAUM  
BABAEV**  
*Head of Strategy*

- Joined Cherkizovo in 1996, since 2000 – deputy general director of APK Mikhailovsky, responsible for strategy and corporate development
- Since 2003, Vice President of European Poultry Club
- BA from Finance Academy, Moscow



**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)



**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



**ARTUR  
MINOCYANTS**  
*COO*

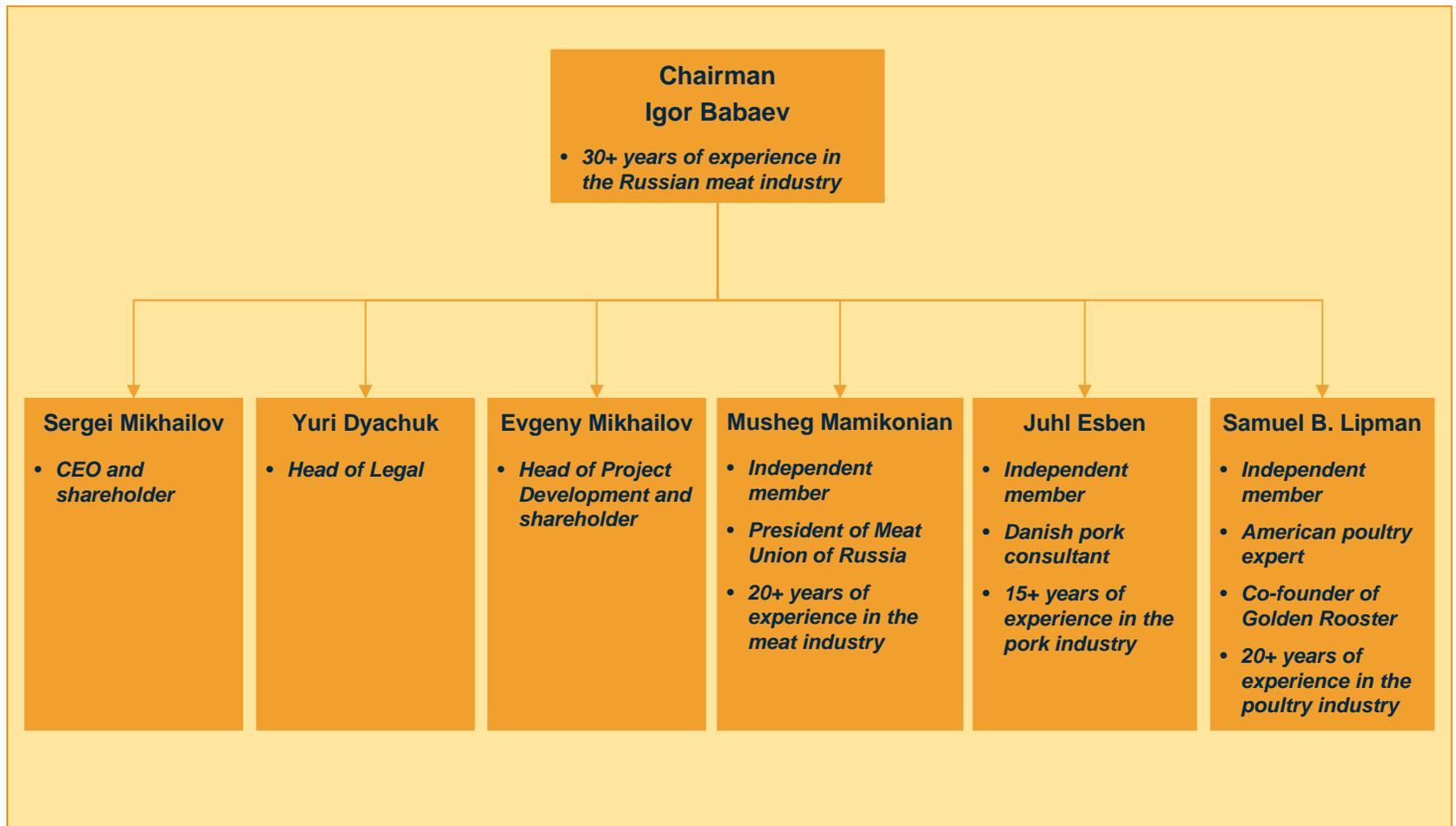
- Joint Cherkizovo in 1996, since 2004 – deputy general director of APK Cherkizovsky
- In 1996 – 2003, worked as Finance Director of APK Cherkizovsky
- BA in Economics from Moscow University of National Economy named after Plehanov



**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

# Board Structure





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# Group Strategy



# Strategy: Poultry

Focus on modern retailers



Premium higher margin value-added products



HoReCa



Organic growth and acquisitions



# Strategy: Pork

High quality products, new standards of marketing and packaging



Focus on modern retailers



Leader in processed pork meat

Greenfield projects



# Strategy: Meat Processing

**Optimize raw materials inputs structure – develop innovative high value added products, leveraging vertical integration**

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

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

# Drive Group Synergies and Knowledge Sharing

**Control over modern  
retail as a single  
supplier of protein**

**Minimizing the risk of  
shifts in consumer  
preferences and flexibility  
to changing preferences  
of the end consumers**



**Product quality,  
guaranteed product  
supply and efficient by  
product utilization**

**Knowledge sharing,  
economies of scale and  
cost optimization**





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**2. Investment Highlights**

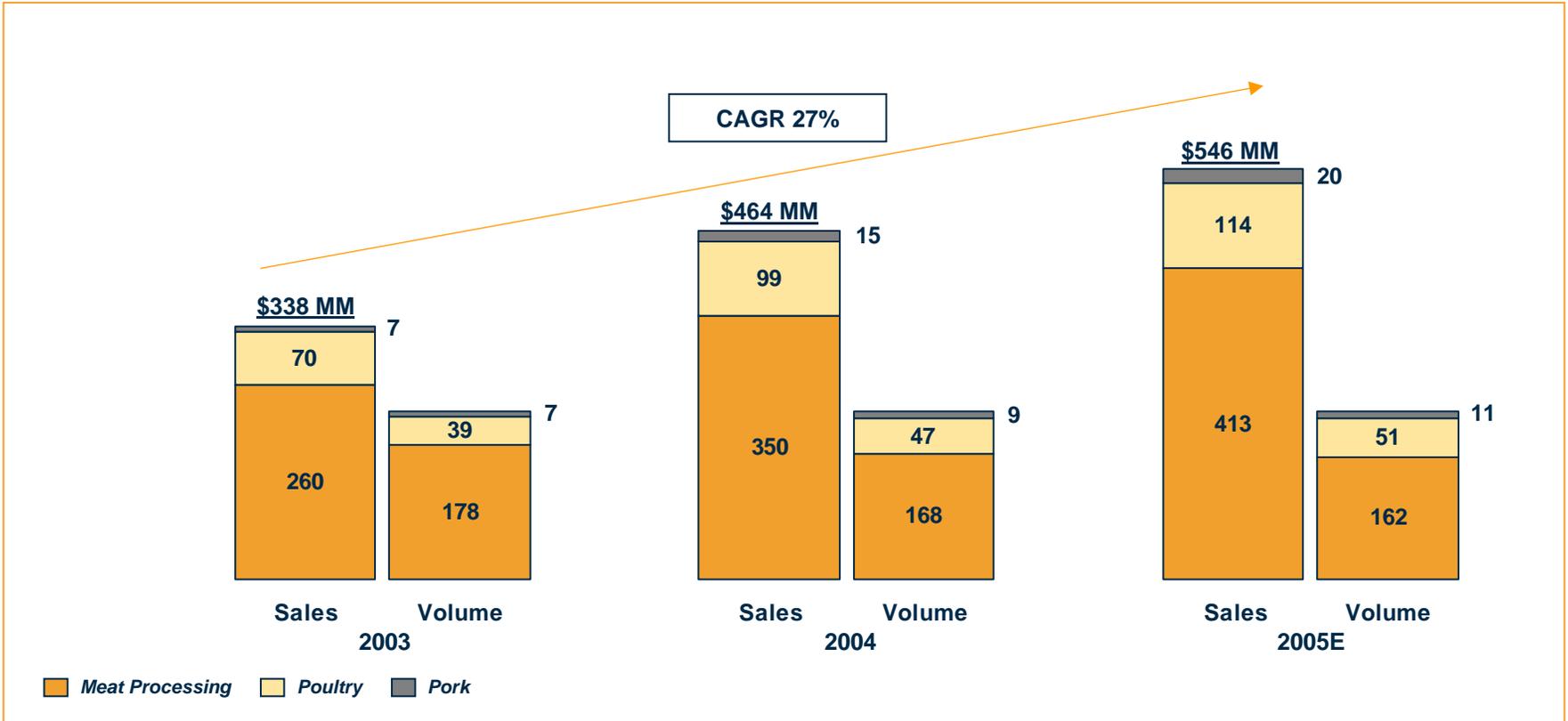
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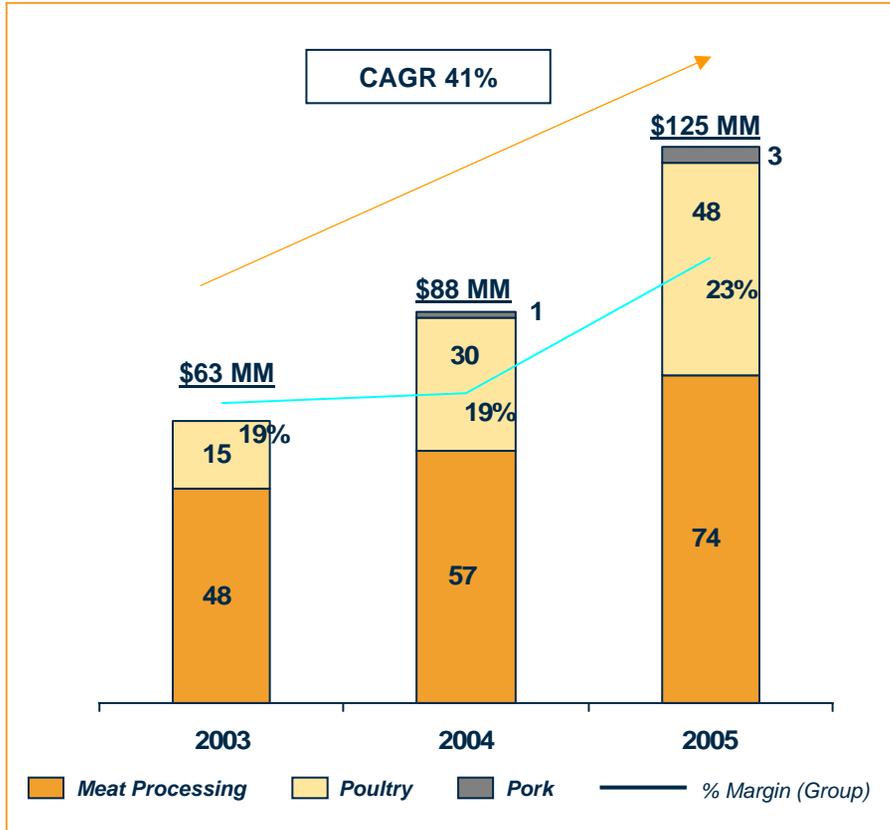
# Top Line Growth

## Revenue and Volumes, \$ MM / TH tonnes

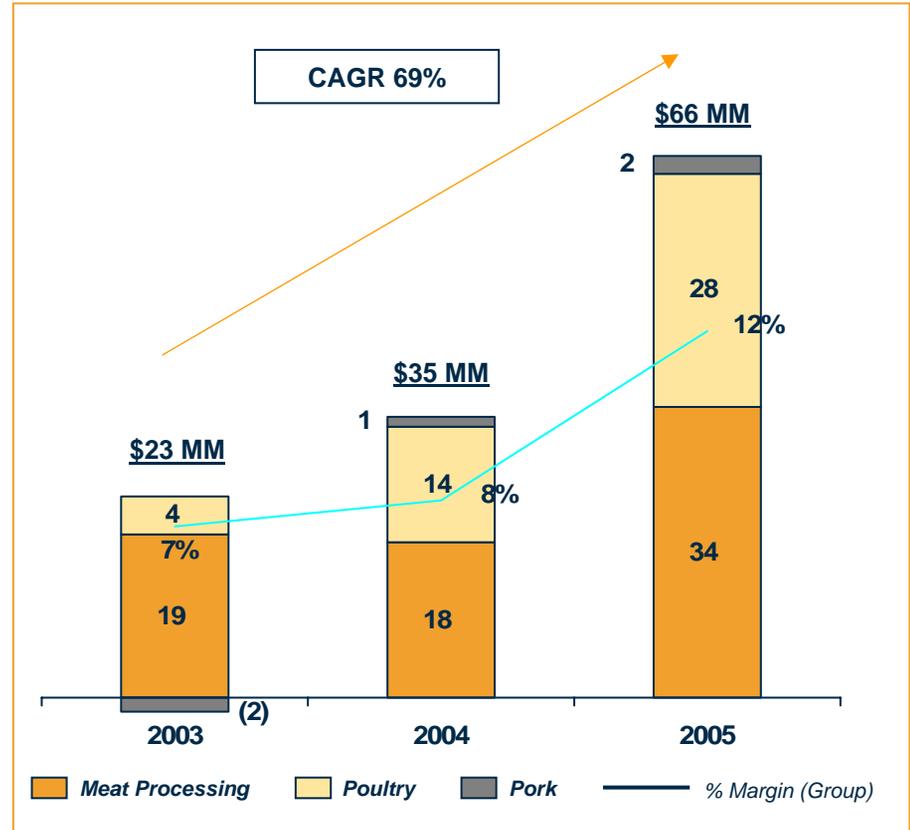


# Improving Profitability

## Gross Profit, \$ MM



## EBITDA, \$ MM



# Cherkizovo Group – Capital Structure

\$ MM	2003	2004	2005
Total Debt*	138.9	178.9	234.4
Cash	2.3	2.4	5.2
Net Debt	136.6	176.5	229.3
Net Debt/EBITDA	4.0x	5.1x	3.5x
EBIT/Interest Expense	1.1x	0.9x	2.8x
EBITDA/Interest Expense	2.1x	2.1x	4.2x

\* Including capital leases

# Use of Proceeds



## Capex and Debt Paydown

- Equity towards capex: \$20-30MM
- Debt repayment: \$40-50MM



## Consolidation Financing

- M&A financing: \$100-120MM
- Currency for share component

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