

# RUSSIAN NATIONAL LOGISTIC NETWORK FOR FRESH FRUIT DISTRIBUTION



## Road Show Presentation

October 2006

Representing JFC Group:

Mr. Vladimir Kekhman – *Chairman*

Mrs. Julia Zakharova – *General Director*



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## Introduction

Overview of the Russian fruit market

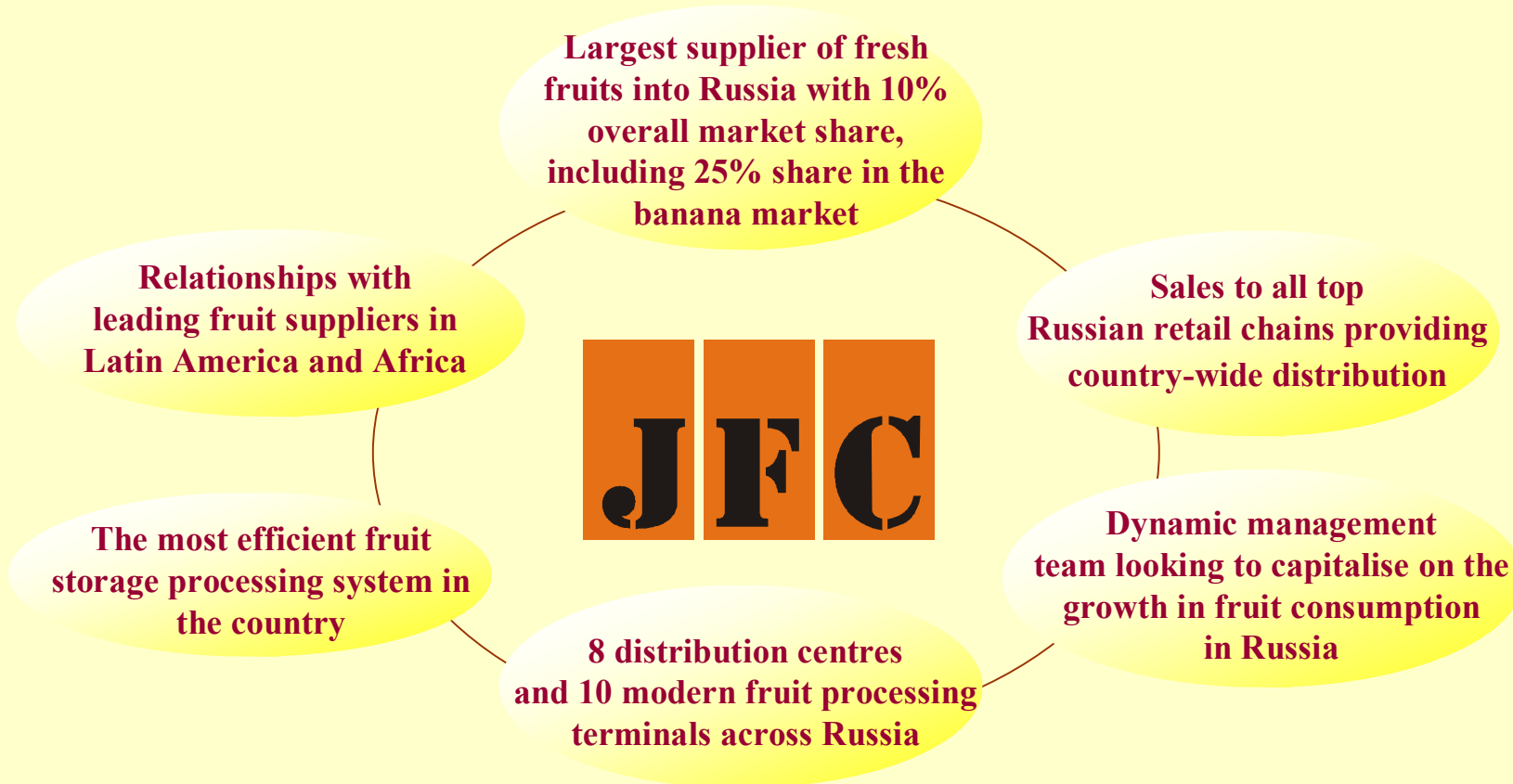
Business highlights

Financial highlights

Proposed offering



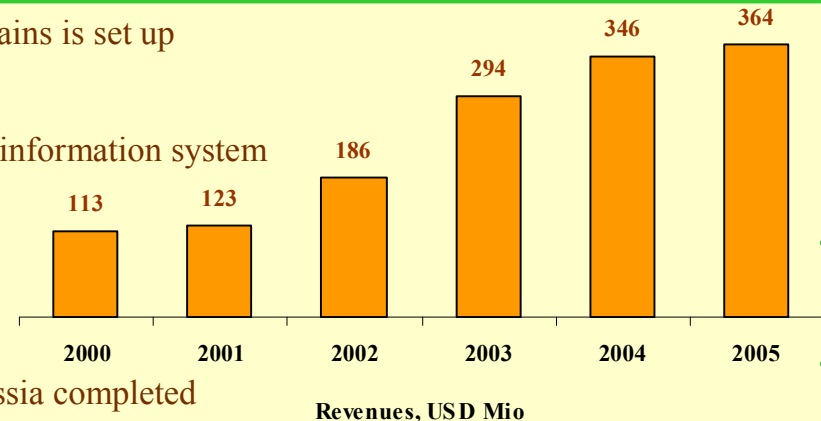
# Introduction



# History



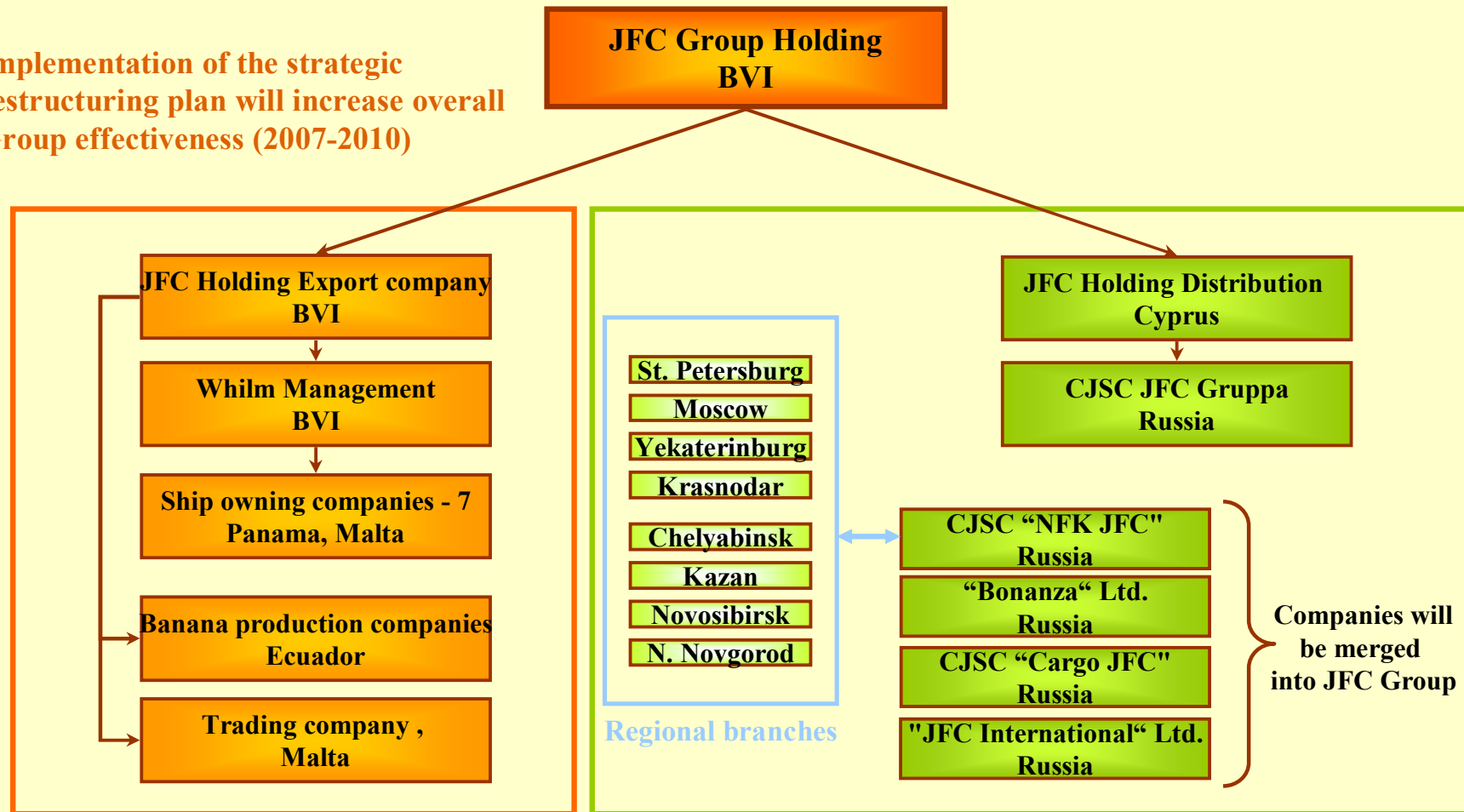
<b>1994</b>	<ul style="list-style-type: none"> <li>The Company is founded by Vladimir Kekhman</li> </ul>
<b>1995</b>	<ul style="list-style-type: none"> <li>First three fruit terminals opened in St. Petersburg</li> </ul>
<b>1996</b>	<ul style="list-style-type: none"> <li>JFC brand is launched</li> </ul>
<b>1997-2002</b>	<ul style="list-style-type: none"> <li>Terminals are opened in Moscow, Yekaterinburg, Krasnodar, St. Petersburg and Chelyabinsk</li> </ul>
<b>2003</b>	<ul style="list-style-type: none"> <li>Specialized subsidiary for supply to retail chains is set up</li> <li>Distribution centre opened in Moscow</li> <li>Integration of the mySAP.com management information system</li> <li>Inaugural local RUR700m bond issue</li> </ul>
<b>2004</b>	<ul style="list-style-type: none"> <li>Terminal in Novosibirsk is opened</li> <li>Second local RUR1,200m bond issue</li> </ul>
<b>2005</b>	<ul style="list-style-type: none"> <li>Corporate reorganisation of the Group in Russia completed</li> <li>Launch of construction of a new distribution centre in Moscow to service retail chains</li> </ul>
<b>2006</b>	<ul style="list-style-type: none"> <li>Long-term contracts with leading retail chains all over Russia</li> <li>Terminal in Novosibirsk is successfully reconstructed</li> <li>Effective management of own banana plantations in Ecuador and use of own cargo fleet</li> </ul>



# Transparent Corporate Structure



Implementation of the strategic restructuring plan will increase overall Group effectiveness (2007-2010)



Production, export, transportation, wholesale

Infrastructure and distribution of fruits in Russia

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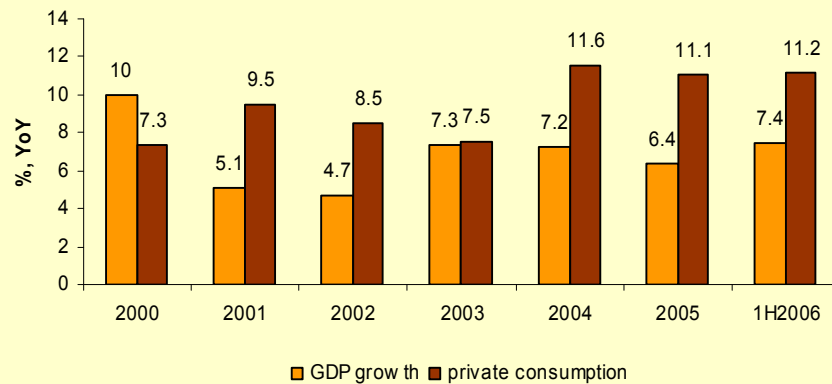
Proposed offering



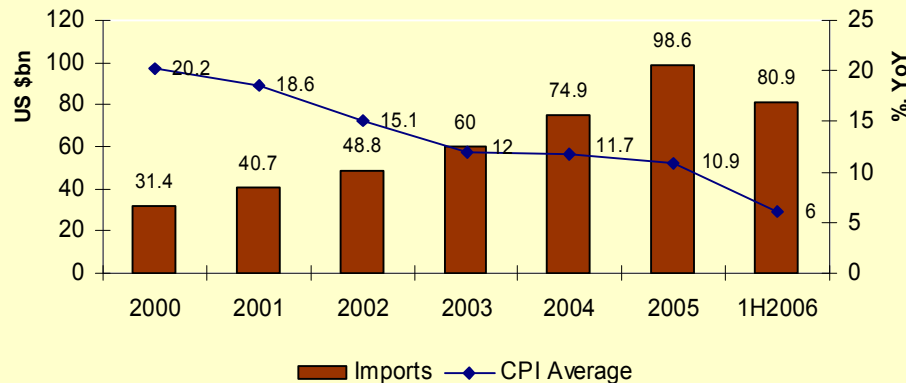
# Russian macroeconomic development



## GDP vs. private consumption growth



## Inflation vs. import growth



## Improving business environment

- Earlier this year Russia achieved investment-grade ratings by all three ratings agencies
- Improving tax system and structural reforms under way
- Government committed to further liberalisation and diversification of the economy
  - Objective is to lessen dependence on the exploitation of raw materials
  - Accession to WTO anticipated in 2007
- The growth in consumer spending outpaces GDP growth

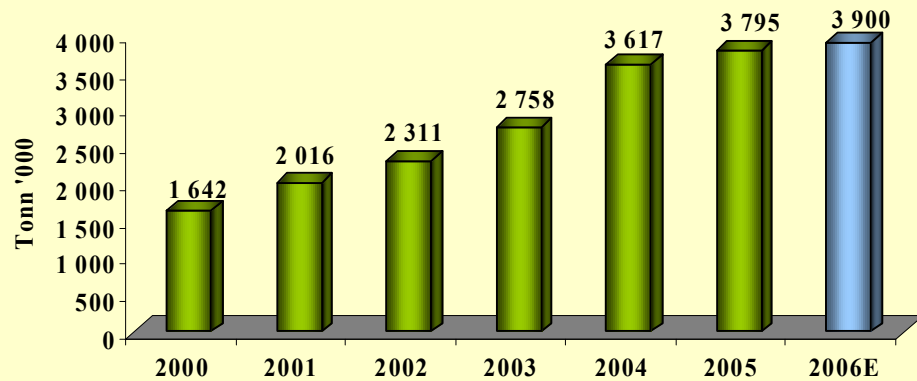
## Strong economic fundamentals

- GDP per capita exceeded US\$9,000 in 2005 vs. US\$3,000 in 2003 and is expected to grow in 2006
- CBR's reserves show constant growth and have reached \$265bn (as of 10.1.2006)
- RUB/USD exchange rate has been appreciating and remains broadly stable
- Import growth rates are to remain above 20% p.a.

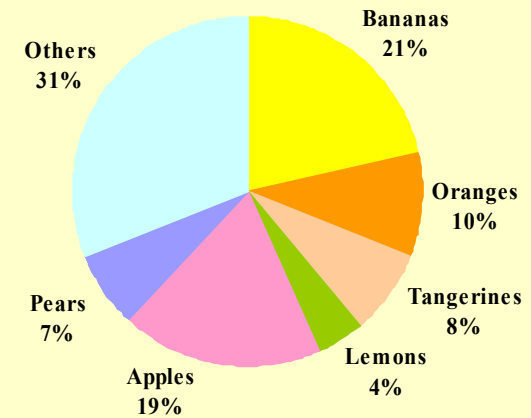
# Fruit imports and consumption



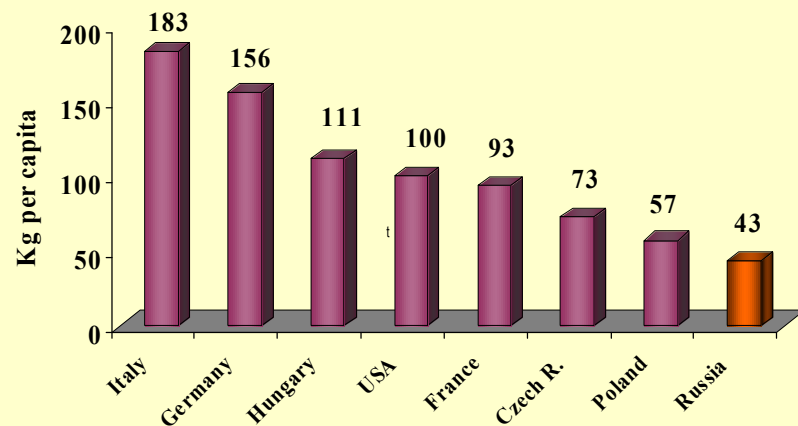
Annual Fruits Import to Russia



Breakdown of Imported Fruits, 2005



Comparison of Annual Fruit Consumption, 2005

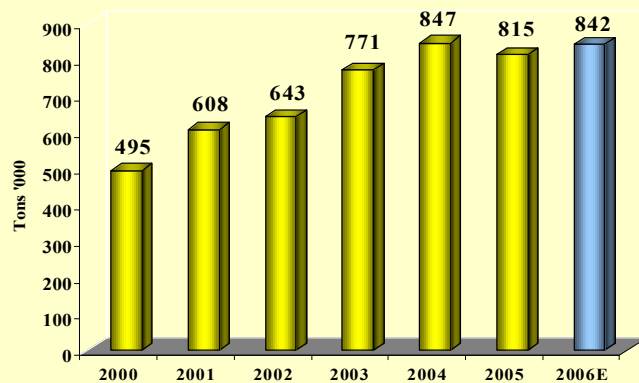


Source: Federal Customs Service, Company's estimations

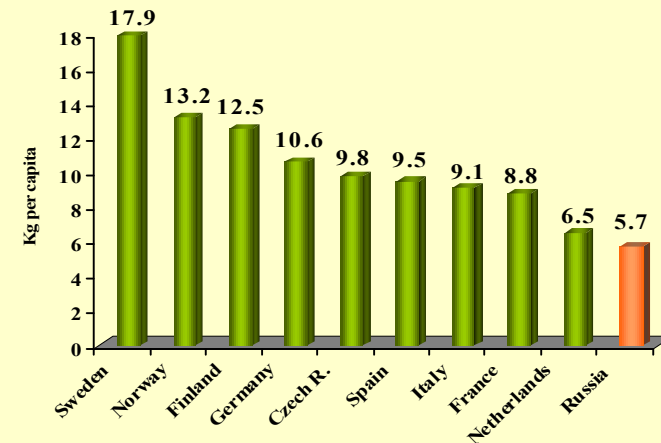
# Banana imports and consumption



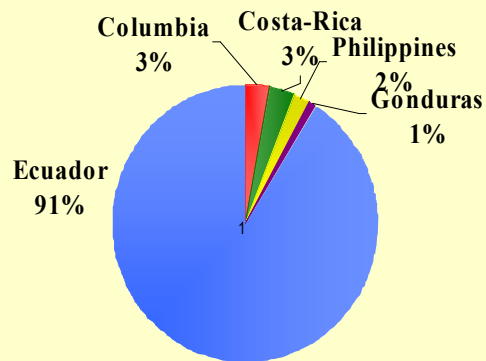
Annual Banana Import Volumes into Russia



Comparison of Annual Banana Consumption, 2005



Breakdown of Banana Import by Destination, 2005

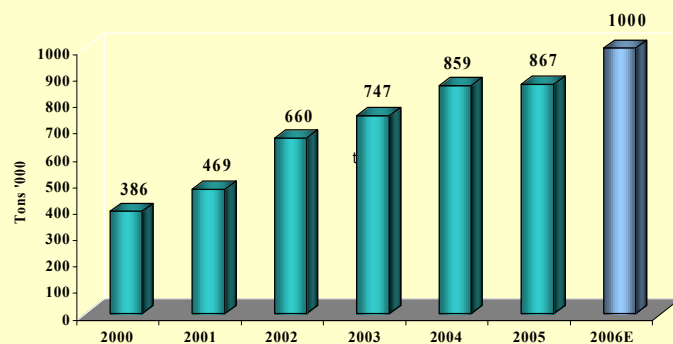


- The 2002-2006 banana imports CAGR exceeded inflation and GDP growth rate.
- The key supplier of bananas to Russia was Ecuador
- Ecuador:
  - lowest production costs;
  - most developed cultivation standards;
  - best infrastructure (transportation, storage)

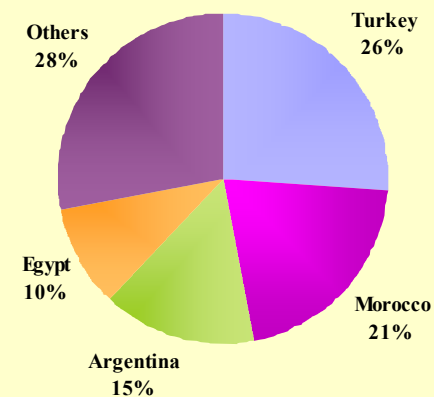
# Citrus imports



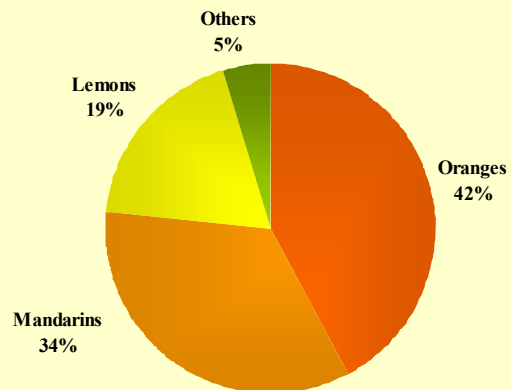
### Annual Citrus Import Volumes



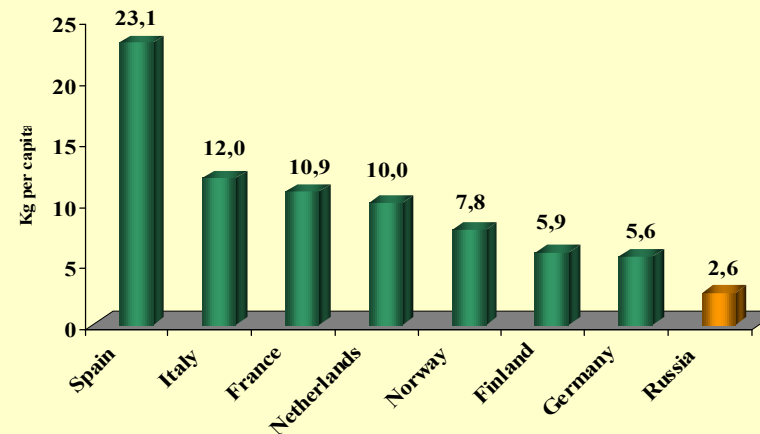
### Main Suppliers of Citrus Fruits, 2005



### Breakdown of Citrus Import, 2005



### Comparison of annual orange consumption, 2005

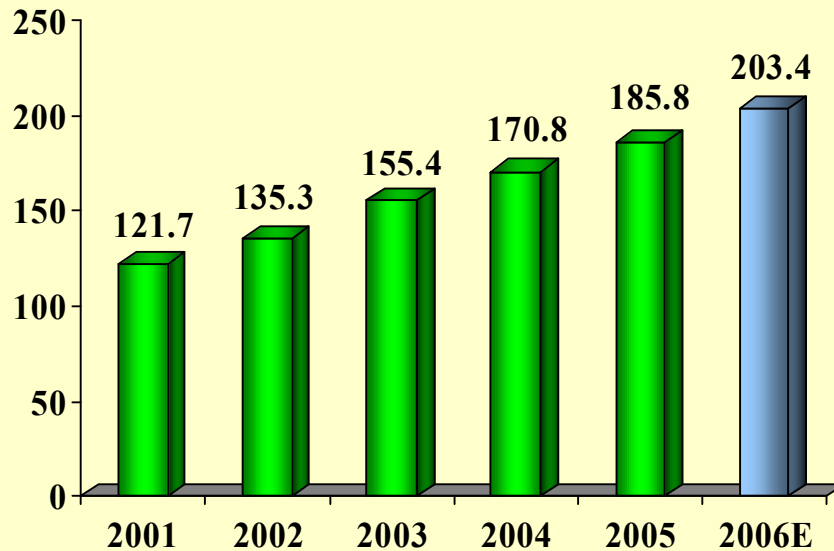


Source: Federal Customs Service, Company's estimations

# Income and spending

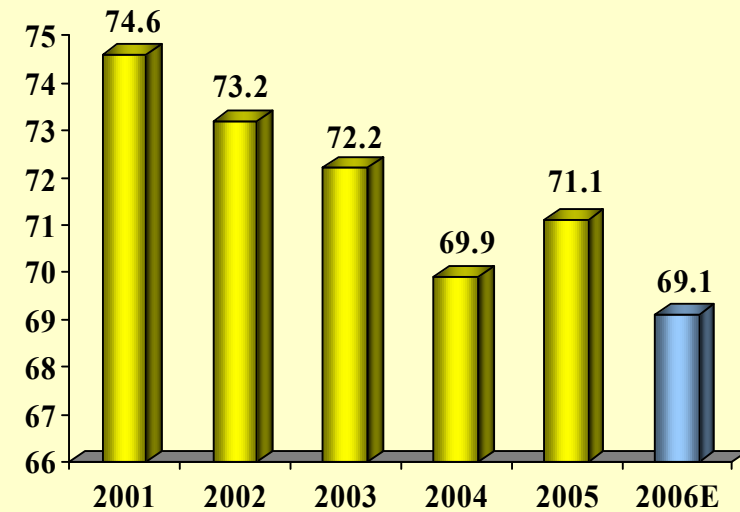


Real Disposable Income (1999 = 100%)



Real disposable income of Russians increased significantly over the last 6 years, although the gap in prosperity between Moscow, Saint-Petersburg and the regions remains quite large

Spending on basic goods and services (as % of RDI)

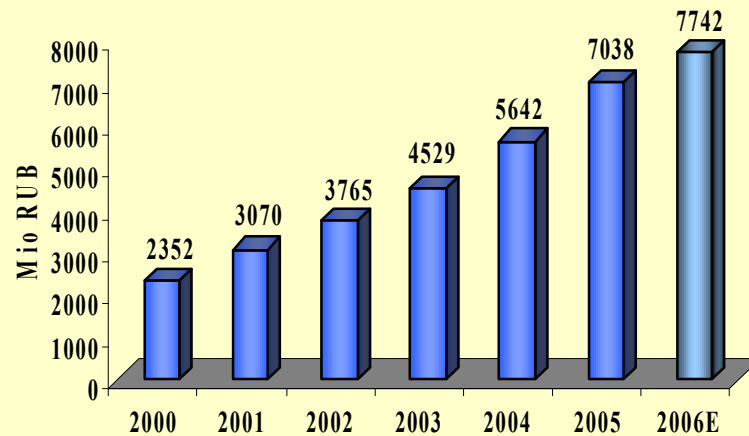


There is a positive qualitative shift in spending and consumption structure. As incomes continue to grow, spending on basic goods and services declines. More Russians choose high quality, rather than low price.

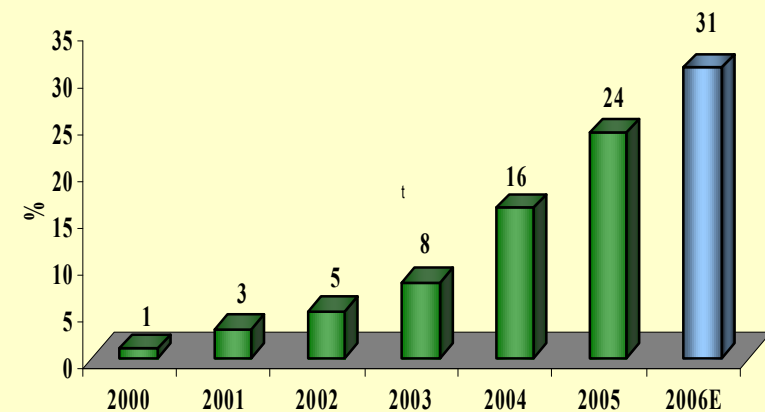
# Retail chains



Volume of Total Retail Trade in Russia



Retail chain's share in retail sales



- According to A.T. Kearney Global Retail Development Index 2006, Russia is second most attractive market for global retail chains
- Retail trade stands for 21% of GDP growing 10-15% a year
- Share of chains in retail turnover will reach 40% by 2007 according to RBC forecast

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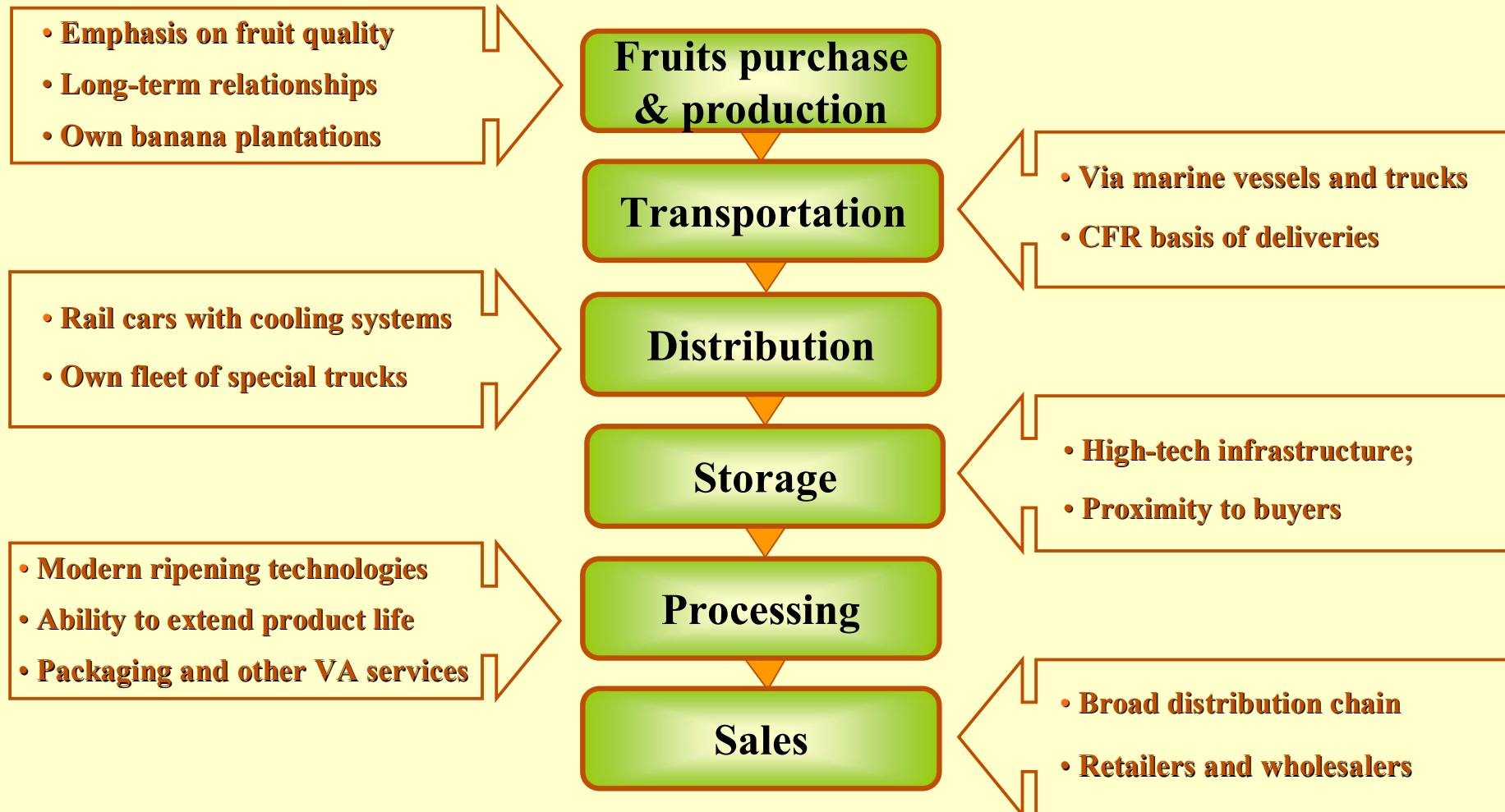
**Business highlights**

Financial highlights

Proposed offering



# Business Overview



# Fruits Purchase & Production



## **PURCHASE:**

- **Diversified range of suppliers - low risk of dependence on a key supplier**
- **Contracts are concluded for 1 year on average**
- **Dedicated staff with language skills and thorough knowledge of suppliers**
- **Customs/excise duties - paid in full, no “shadow” schemes utilized**

## **PRODUCTION:**

- **“JFC Ecuador” (non-consolidated subsidiary of the Company) possesses plantations of 908 hectares for banana cultivation in Ecuador**
- **Costs of own production are 25% lower than costs of purchased goods**
- **12% of banana turnover are cultivated at own plantations**
- **By 2010 increase in share of own produced bananas by 32%**

# Transportation



*Delivery of fruits is carried by vessels and trucks:*

## **VESSELS:**

- Import from Latin America, Africa
- Shipping costs composed 35% of DDP price for imported fruits
- Duration - on average 1-3 weeks
- 7 own sea vessels
- By 2010 launch of construction of new container vessels

## **TRUCKS:**

- Import from Europe
- Transportation costs composed 14% of DDP price for imported fruits
- Duration - on average 3-5 days

**Our track record – no major delays in the last 11 years  
Lost or spoiled in transit are negligible amounts**



# Distribution Network



- “JFC” controls and manages the most efficient distribution network for fruits and vegetables in Russia
- The Company has 8 distribution centers (with 10 terminals) which all are equipped with temperature regulation systems, storing, ripening, packing and wrapping facilities
- Distribution centers are situated in:



- ✓ St. Petersburg - 2
- ✓ Moscow - 2
- ✓ Yekaterinburg
- ✓ Krasnodar
- ✓ Chelyabinsk
- ✓ Kazan
- ✓ Novosibirsk
- ✓ Nizhniy Novgorod

- Fruit terminals are either owned or leased by JFC on a long term basis
- Terminals operate 24 hours per day (split in 2-3 shifts), 7 days per week. The volatility of seasonal working force is 10% during a year
- By 2010 the construction of new distribution centers oriented on retail sales in Moscow and St. Petersburg will be completed.

# Distribution to regional branches



*Delivery to JFC distribution centers within Russia by train and trucks:*

## **TRAINS:**

- 20% of fruits have been transported by train (2005)
- Railway cars with cooling systems are leased from the state-owned market monopolist (Russian railways)
- Transportation prices are controlled by the Government, fixed every 4 months on average and have been stable over the last few years

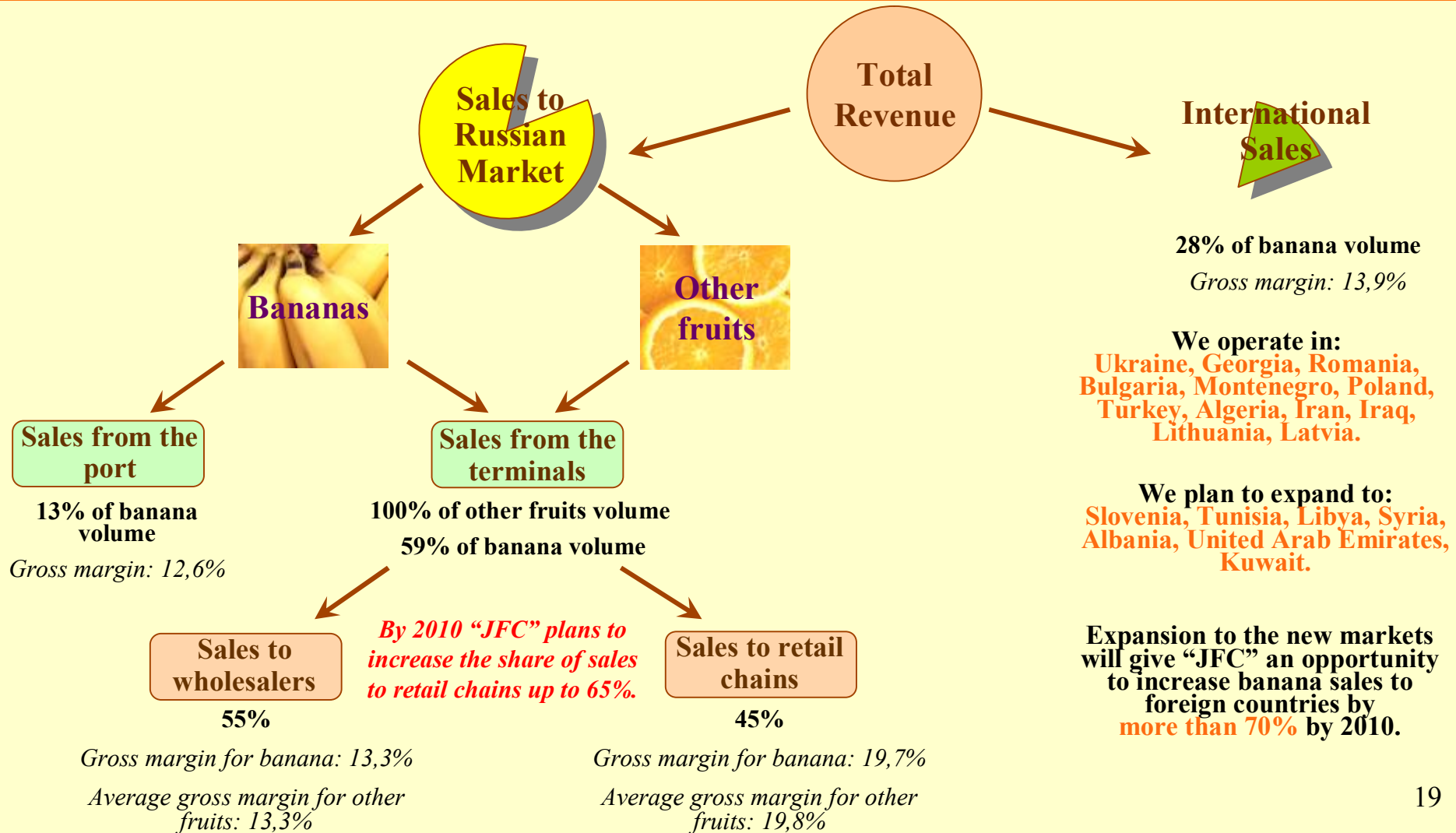
## **TRUCKS:**

- 80% of fruits have been transported by trucks (2005)
- JFC owns 50 Mercedes-Benz refrigerator trucks and has a long stable relationships with rental operators

**Lost or spoiled fruits constitute 0.3% of the total volumes on average**  
**Transportation within Russia constitutes 3.5% of COGS**



# Sales



# Objectives for a 5-year strategy



## QUALITATIVE PERFORMANCE:

- **Risk reduction: Gradual transformation into a full-scale logistics and distribution operation, including management of the commercial real estate**
- **Reduction of operational losses risks: Gradual exit from SPOT market of green banana and expanding cooperation with retail chains**
- **Country-wide coverage: Presence in all densely populated regions**
- **Brand recognition: Lower customer acquisition costs**
- **Investment attractiveness: Increased interest in “JFC” from international financial institutions**
- **Access to new funding sources: New route via international capital markets**
- **Flexible pricing: Product competitiveness**
- **IT leadership: Highly advanced technical equipment and software solutions**
- **International expansion: Significant increase in international sales and multi-national asset profile**
- **Key suppliers independence: Creation of a diversified supplier base is a part of the strategy against over-reliance on any single supplier**

## QUANTITATIVE PERFORMANCE:

### Growth in:

- **Banana import to Russia by 40% (from 11.6 Mio boxes to 16.2 Mio boxes)**
- **Import of other fruits to Russia by 18% (from 115'924 ton to 136'570 ton)**
- **International sales by 71% (from 4.5 Mio boxes to 7.7 Mio boxes)**
- **Retail chains' share up to 65%**

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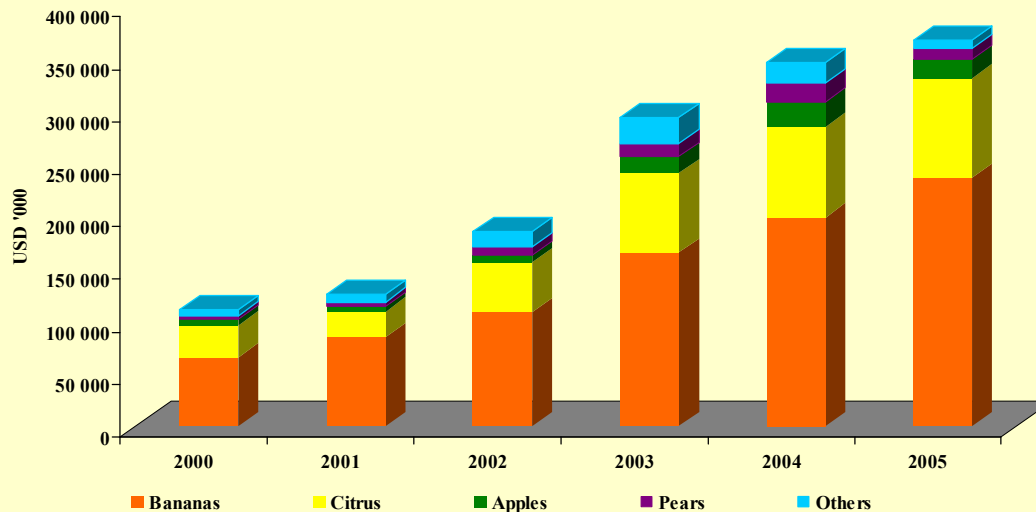
Proposed offering



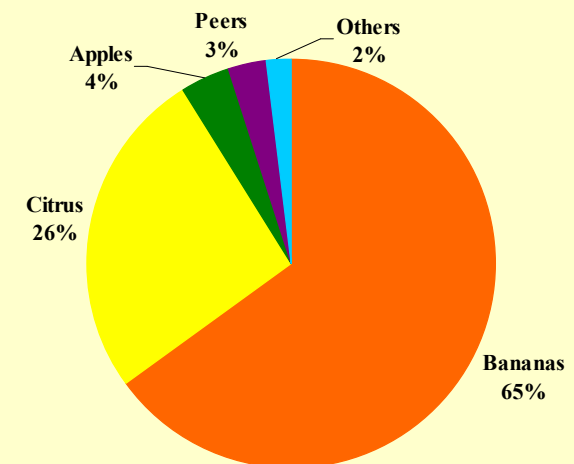
# Revenue growth and composition



Revenue growth, 2000-2005



Revenue composition, 2006



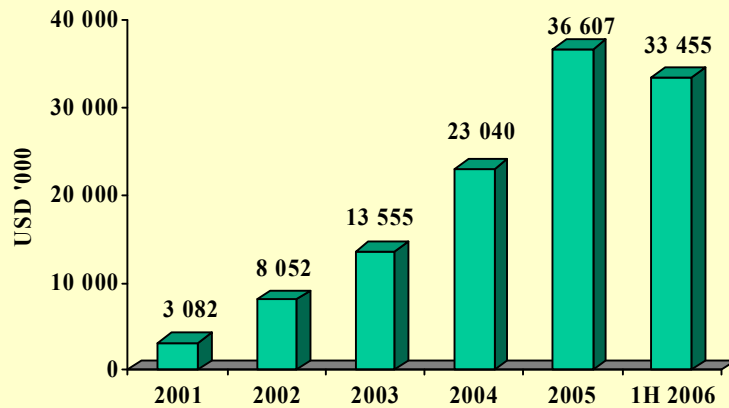
As revenues continue to grow, the key factor of future success is diversification of revenue composition. An ongoing qualitative shift in consumption will enable us to increase our market share of fruits with higher added value. Bananas and citrus sales, however, will continue to be the major source of revenue.



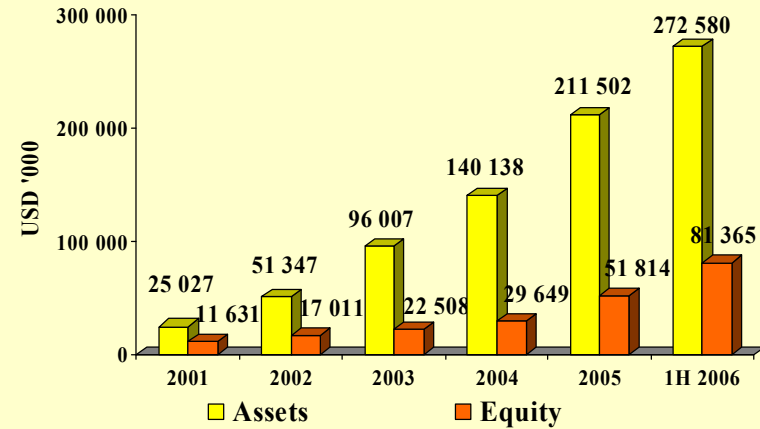
# Main financial indicators



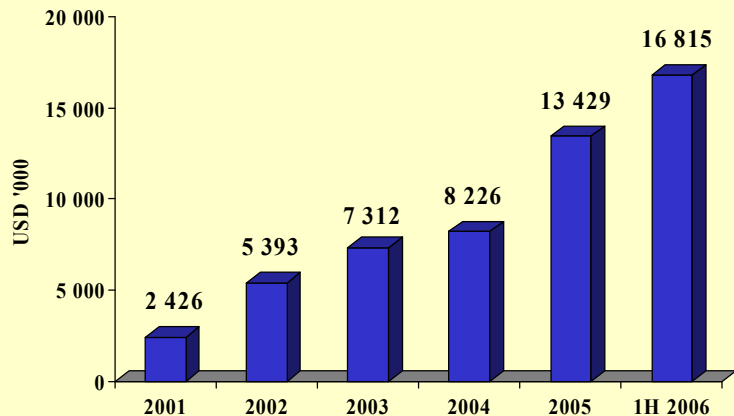
**EBITDA, 2001 - 1H 2006**



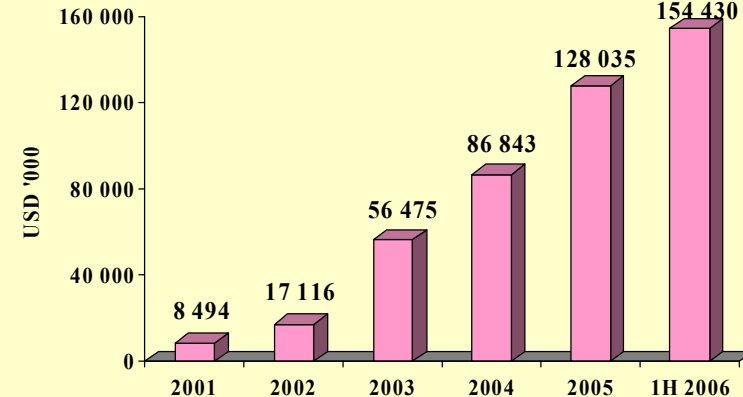
**Assets, Equity, 2001 - 1H 2006**



**Net Profit, 2001 - 1H 2006**



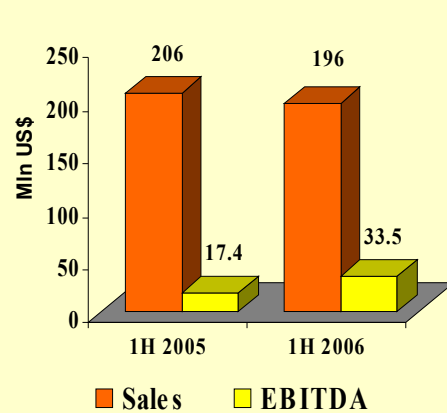
**Net Debt, 2001 - 1H 2006**



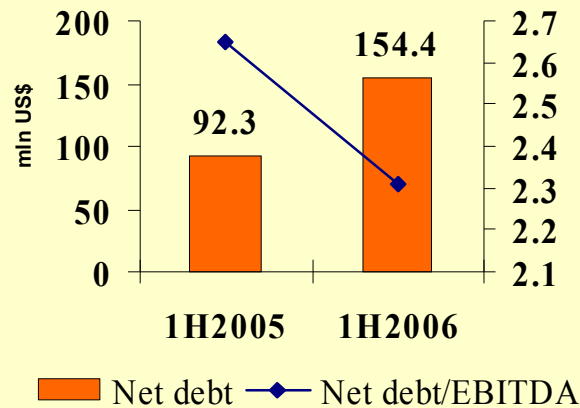
# 1H2006 Financials results



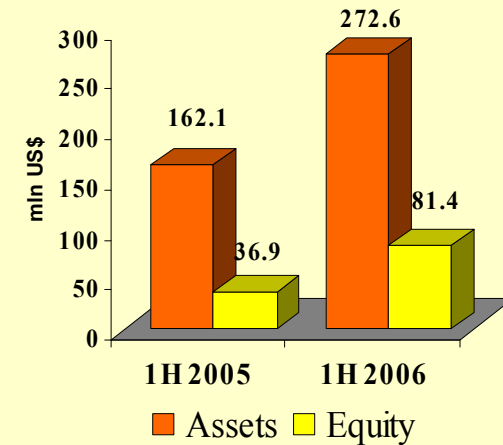
**Sales и EBITDA**



**Debt coverage**



**Balance sheet items**



- **The reduction of sales is a technical issue due to a change in consolidation principals: the distribution companies become subsidiaries, so their turnover is now accounted for excluding VAT**
- **Focus on profitability: EBITDA margin doubles from 8% to 17% due to increases in efficiency of sales**
- **Debt burden is under control: Net debt/EBITDA ratio sunked to 2.3 from 3.5 in 2005**
- **Total assets in 1H2006 amounted to USD272.6m, up 29% from 2005, equity doubled**

# Overview of certain ratios



	2003	2004	2005	1H 2006
<b>Profitability</b>				
<b>Gross Margin</b>	8,4%	12,3%	13,9%	15,6%
<b>EBITDA Margin</b>	4,6%	6,7%	10,0%	17,0%
<b>Net Profit Margin</b>	1,9%	2,0%	3,6%	8,6%
<b>Debt Load</b>				
<b>Net Debt to EBITDA</b>	4.2	3.8	3.5	2.3
<b>Net Debt to Equity</b>	2.5	2.9	2.5	1.9
<b>EBITDA to Interest Expense</b>	3.5	2.4	2.8	4.0



# Conclusion



- **Country risk profile - investment grade ratings by all major rating agencies**
- **Investing in JFC gives diversification from traditional oil, telecom and banking sectors in Russia**
- **Big upside potential for the fruit market consumption in Russia - growing disposable incomes of population**
- **JFC strategy is to focus on higher added value services with smaller price volatility**
- **JFC is rated B-/stable by S&P**
- **JFC has impeccable track record with servicing credit facilities**



# Conclusion (cont'ed)



- JFC is fully transparent and investor-friendly JFC has experienced management team
- JFC owns modern property and infrastructure
- JFC has unrivalled distribution coverage and offers full-service product offering to retail chains
- Strengthening financials:
  - 5% turnover growth in 2005.
  - Steady improvement in profitability: EBITDA margin surged up from 7% in 2004 to 10% in 2005 and 17% in 1H2006
  - Declining pattern of leverage – net debt sunked to 2.3xEBITDA in 1H2006 compared to 3.5x in 2005



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# Offering Summary



- Issuer:** • ZAO “JFC Group”
- Guarantor according to Russian law:** • ZAO “National Fruit Company JFC”
- Amount:** • 2 bln RUR (~74 mln USD)
- Tenor:** • 5 years
- Put option:** • In 2 years at par
- Coupon:** • Semi-annual, will be fixed until put option
- Joint Lead Managers:** • UralSib Bank, ABN AMRO
- Paying agent:** • UralSib Bank
- Use of proceeds:** • Refinancing of existing indebtedness



**JFC**



**WE HAVE DONE A LOT, BUT WE ARE PLANNING MORE...**