



**Alexander Mostakov,**  
Chairman of the Board

# Avalon Group: Strength Through Diversity

Avalon Group is a privately owned Russian investment group with significant diversified interests in projects across the market sectors of Production, FMCG Distribution & Brand Management, Commercial Real Estate Development and Contract Logistics. The company was founded in 1991 by Alexander Mostakov and Alexey Gushcha; both founders are active in the business today and are instrumental in shaping the future together with the core team of management and the long term trusted partners. In his interview to World Finance Review Alexander Mostakov, Chairman, talks about the Company's present operations and plans for the future.

**Alexander, to briefly introduce Avalon Group, what are the Company's main areas of operation and the market position?**

Today, we enjoy leading market positions in each of our key market sectors and have a number of successful joint ventures with both our national and international long term partners. Our main operations can be summarised:

- FMCG food production facility within the Moscow region;
- Strong portfolio of local and international FMCG brands coupled with an extensive secondary supply chain distribution network;
- Pan Russia real estate development Company together with our JV partner branded under the "Megalogix" umbrella;
- Together with our JV partner we have a leading top 5 National Contract Logistics Operator, Avalon Logistics, offering a full suite of solutions to clients looking to outsource Customs, Transport and Warehousing requirements.

**What are the benefits of having such a diverse business? What would you highlight as your core strengths?**

The benefit is simply "Strength through Diversity". This was the key lesson for us from the 1998 financial meltdown in Russia. Our business is now a healthy balance between the independence of each business sector rather than the over dependency of one single area.

Our core values have remained constant throughout our history regardless of the dynamic changes we have seen on the Russian market place. They are Partnership, Spirit, Social Responsibility, Ownership and Leadership.

Our strengths which help support our businesses include us being a proven and trusted long term partner; having a wealth of experience operating in Russia and CIS; comprising of a strong committed team of professionals; adopting focused expansion plans and project selection criteria; and, believing in a transparent business model and systemised business planning.

**What are the major projects the company has accomplished so far and what projects are being implemented at present?**

We have accomplished a number of projects that have either stood the test of time or become a milestone in the development of our Group as we know it today.

- Avalon Group established one of the first multinational joint ventures in Russia in 1995 with the creation of a pan Russian trade marketing force and distribution network.
- We initiated several benchmarking three-way partnerships with Avalon Import, our clients and the State Central Customs to improve import and export transparency and simplified customs clearance procedures.
- We redeveloped and launched a leading edge WMS (warehouse management system) utilised both in-house and by leading 3PL providers from Europe.
- In 1999 we invested in redevelopment of a brown field production facility in the Moscow region, which was recognised as a leading benchmark for inward investment and classified as A grade rating by international companies and certification bodies.
- In 2002 we launched a national tea brand favourite "Golden Bowl" that quickly gained acceptance with the Russian consumer within a period of 18 months from launch.
- Together with our JV partner we delivered 3 class A Logoparks within Russia.
- Finally, we expanded our Contract Logistics JV, Avalon Logistics, which now is in the top 5 in the National Operator market.

We are currently working on several projects in parallel across all the four business sectors, the projects will be delivered during 2009 and 2010.

**What performance indicators for 2008 Avalon Group is particularly proud of?**

We have a number of achievements for 2008 that we can stand back and be proud of, but if there is one area where we have excelled that is in the form of partnership cooperation and understanding during 2008. We found the right gear which led us to productive and constructive strategic and operational management across all business sectors.

In production we have doubled our output of private label brands for our partners and this area now accounts for over 30% of total capacity.

In distribution, regional sales volumes now account for 75% of turnover demonstrating that our brands truly have a pan Russia scale and are considered national favourites.

As for development, we delivered over 300 thousand sq m of class "A" warehouse space to the regions with the completion of our Logoparks in St. Petersburg, Rostov and Novosibirsk.

In Contract Logistics we strengthened our position to one of the top 5 national operators and opened three new platforms during 2008. Year on year turnover was up 177%.

**What is the management structure of Avalon Group; what principles of good corporate governance have been implemented in your company?**

Our management structure is a streamlined team comprising Russian and international specialists managing the key functions required to support both the development of the Group and the needs of the business sectors. The core functions are business development & strategy, tax advisory & audit, legal and financial control.

We have introduced a number of principles demonstrating good corporate governance over the years and now have an organisation that is run and based on Western business principles. All Group companies follow IFRS accounting practices have extensive internal audits and an annual external audit, run full Business Planning and review processes and adhere to quality ratings such as ISO 9001 or specific industry standards. For each venture we have a recognised and active Board of Directors which comprises of proportionate representation from the shareholders and investors coupled with non executive directors.

**What are your strategic plans for the future? Do you plan to expand into new sectors or new markets?**

We have a cooperation agreement for Contract Logistics with a leading European player and in their words "today is all about focusing on the short term operation, otherwise there may not be a long term to consider at all!" Our strategic plans will be built upon the foundations of the current four business sectors and how we can develop them over the medium to long term. We have opportunities of great synergy between our businesses and as they expand we can harness this to our competitive advantage.

# Industrial Production



## FMCG

To some extent we have developed through vertical integration and have built up a wealth of experience in the fields of activity where we currently operate. With this experience and background we are an ideal source for companies and businesses seeking to fulfill market entry strategies into Russia and the CIS markets. We offer a proven business model, track record and understand the true spirit of partnership. We constantly review both new business directions and new markets. Naturally for us we aim to strengthen and consolidate our position across the regions of Russia and the CIS countries where we have existing operations and spheres of influence.

**Has the financial crisis affected your current operations or future plans? Any particular difficulties you are experiencing and how do you plan to overcome these?**

I am sure that to a certain degree we have all been affected by the current financial crisis and uncertainty and, of course, we are not immune to the fall out and effects. We do, however, have a more positive view point on the current market conditions and learning from past economic downturns that we have faced in Russia we draw on experience which clearly demonstrates that the companies who survive through and take selected opportunity in difficult times are the ones that now drive towards market

leadership in Russia. I see this as a correcting effect and a test to our business model and sustainability. We are focusing on three areas right now in terms of current operations and they are intended to help us come through this storm leaner and stronger. The three areas are Cost, Customer and Communication. We must manage and optimise our cost base and look at opportunities, for example in structures, rotation policies and supplier base. Maintaining existing customers coupled with an aggressive approach to new business gains. Finally, in terms of uncertainty, it is important to improve communication at all levels. Nobody likes surprises and managing expectations is the key to gaining understanding and keeping one's reputation intact.

In terms of future plans it is important to point out that in all four fields of operations we took a cautious step by step approach to borrowing and financing even before the crisis and this has helped shelter us to a certain degree.

**Do you plan to attract investors into any of your projects? If so, what form of participation do you prefer?**

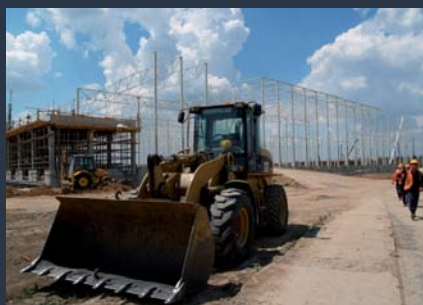
Yes, at the appropriate point and time, naturally, we are looking for investors to either join us in the development of existing

projects or to broaden the horizons of our current field of operations. We will assess each case on individual merits and we will only propose projects that we feel match our stringent selection process and have been thoroughly researched and deliver the security that both shareholders and investors, alike, are seeking. We are open to discuss various forms of participation that fit the requirements of the project and the expectations of the investors. Our preferred model is long term partnership and cooperation which can be on an equity base or project financing models.

**Finally, do you think there is a universal recipe for business success? If so, what is it?**

No, from my experience there is no universal recipe for success in business. The key drivers from my perspective are the ability to harness ideas for goods or services that people really need; being able to build upon these ideas through a streamlined route to market with timely implementation; development of a loyal well rewarded team; and of course, there is no substitute for good old hard work and clear and concise communication.

# Property Development



Contract Logistics