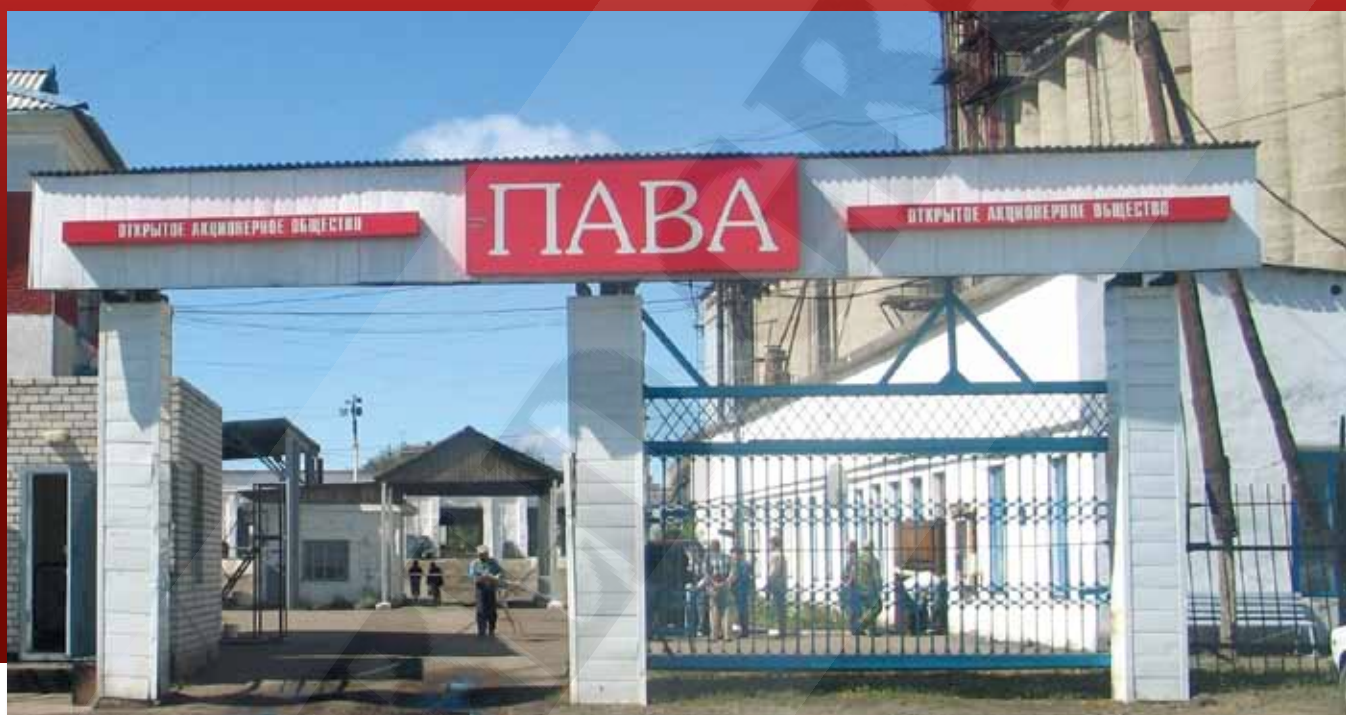


# PAVA

## PAVING A PATH TO SUCCESS



**O**JSC “PAVA” is one of the largest and fastest-growing grain processors in Russia. Its main business is manufacturing flour of different grades and animal feed, as well as purchasing, storing and distributing cereals.

Sales of PAVA products cover 68 Russian regions, which gives the company a majority of the domestic market, and lately export turnover has increased at a high rate with partnerships in 13 countries.

PAVA Director General Andrey Ananin said that among the strengths that distinguish PAVA in the marketplace are its favorable geographic location in the heart of the country’s agricultural wealth, large-scale activities, access to railroads, and in-depth industry knowledge and innovative approach.

Its expertise spans many areas such as land bank develop-  
 PAVA’s Rebrikha mill was put into operation in 2001, and the company has been conducting a gradual production capacity expansion ever since.

by Evgen Vortnikov

### Fast-growing Russian company expanding its reach into international markets with flour milling business

ment, agricultural production and flour milling. A project the company is working on includes deep processing of wheat for production of high value-added ingredients, which is to be launched tentatively by 2011.

“PAVA is located in one of the bread baskets of the country, and the quality of grain produced by our farms is a major factor

of the products popularity with domestic and overseas customers,” Ananin said. “Just as important is excellent compat-

“The company equipment allows us to meet various specifications regarding gluten, moisture level, ash content,

popularity with domestic and overseas customers, being also a great solution for profitability enhancement due to its moderate price.

In 2007, PAVA said it chose to target overseas markets and develop exporting on a continuous basis. Coordinated endeavours were rewarded, and the company became the leading national exporter in the flour industry

Galina Balaenkova, head of the company’s international business department, said PAVA’s core overseas markets, which have shown remarkable

*“Being a prominent player in the Russian milling market, we have definitely strengthened our international presence and will proceed to develop in this direction.”*

— Galina Balaenkova, PAVA

ibility of PAVA flour with the local eating habits in many partner countries.”

Headquartered in Barnaul, the Altay Territory (Western Siberia), PAVA has more than 2,000 employees. When the company was formed in 1999, the chosen corporate name was “Khleb Altaya” (Bread of Altay). In June 2005, the company underwent a re-branding effort and was renamed PAVA.

#### FLOUR MILLING

One of the largest flour millers in Western Siberia, PAVA operates three flour production plants and has yearly processing capacities of up to 400,000 tonnes of wheat. The overall annual grain storage capacity stands at 570,400 tonnes.

Ananin said the wheat used in PAVA’s mills is processed using Swiss milling equipment. He said PAVA constantly upgrades production facilities to enhance performance, increasing output and quality of wheat and rye flour, semolina, pearl barley and other products.

etc., and fulfill tailor-made orders for commercial shipments as well as participation in tenders and food aid,” Ananin said.

The Rebrikha mill was put into operation in 2001, and since then the company has performed a gradual increase and upgrade of production capacities.

The assortment is distributed under two nationally recognized brand names — “PAVA” and “Altay-Batyushka.” They have a different style of package and are marketed in different segments. “PAVA” is a more expensive range, offering exclusive quality and a more luxurious look.

In 2008, PAVA extended the product mix with a grade of flour called “Zhitnitsa.” Ananin said the production technology of Zhitnitsa is unique in that it preserves live grain cells in flour, with the amount of nutrients surpassing that of wholemeal flour. Furthermore, it increases the output and health value of baked goods. He said this flour found



Balaenkova

Amandus Kahl

demand for Russian grain processing products, are Tajikistan, Uzbekistan, Kazakhstan, Azerbaijan, Afghanistan and Mongolia. She added that the company has had an experience of cooperation with South Korea, Lebanon, Thailand and Bangladesh, and it has shipped fortified flour within the UN World Food Programme to Kenya, Somalia, Ethiopia and others.

“Being a prominent player in the Russian milling market, we have definitely strengthened our international presence and will proceed to develop in this direction,” Balaenkova said. “Today, PAVA considers the Asia-Pacific region among strategically important markets and focuses its efforts on nurturing a long-term cooperation, which may extend to setting up trade representative offices.”

In 2007, the Russian Ministry of Economic Development granted PAVA the status of the “Leading Exporter of the Industry,” when the company shipped 17% of the total national flour exports. In 2008, there was an upswing of 84% in PAVA overseas sales, and it became the most rapidly developing exporter in the industry.

Balaenkova noted that the company set up a separate structural unit — PAVA Export — which provides coordination of logistics and pricing. She said this allows an individual approach to orders and modification of flour product characteristics so they better suit the needs of national cuisines.

“We have high expectations of the streamline structure and anticipate strong international demand for the new range of products,” Balaenkova said. “Export of high value-added ingredients has already proven its market potential. We signed off-take contracts for the total future output with large Russian and European companies.”

**STRATEGIC VISION**

Over the next two years, PAVA said it is looking to transition to a vertically integrated agro-industrial holding structure and realize margin improvements, expanding to the industries where the

company foresees growth.

PAVA President Andrey Igoshin said vertical integration will reduce dependence on volatility of prices and help deliver superior value creation.

PAVA established two new businesses — Russian Agricultural Division

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(RAD), which actively invests in the first level of the food chain (farmland and primary crop production), and Graininvest, a deep wheat processing plant that recently completed a pre-engineering stage. They are consolidated under PAVA’s subsidiary GlobalAgro.

The company said it will finance the new strategy through a mix of debt and equity finance. PAVA is also conducting private placements of shares.

“The Group’s strategic targets coincide with the key industry trends, and we believe that vertical integration is a most effective solution to enhance margins,” Igoshin said. “Despite the impact of the (financial) crisis, we maintained the development pace, which was chosen originally. The increase of land bank is greatly facilitated by the situation in the Russian market of land assets — prices are highly undervalued and set to rise in the near future.”

RAD was incorporated in 2008 in order to consolidate PAVA’s existing farming enterprises and to acquire and cultivate agricultural land assets in a number of Siberian regions. Today, the RAD structure includes farming companies and storage facilities in the Altay, Krasnoyarsk and Omsk regions, as well as a grain trading facility Transagro Corporation.

As of Jan. 1, 2009, the total area of land controlled by RAD stood at over 160,000 hectares. PAVA said RAD aims to obtain control over at least 500,000 hectares by the end of 2010, focusing on such factors as quality of the soil, ratio-

nal logistics and opportunity to create vast clusters.

Following a long period when Russian agricultural resources were mismanaged through an inefficient farming system, Igoshin said the company now faces a number of major tasks related to upgrad-

ing machinery, creation of elite seeds bank and training qualified personnel.

He said RAD actively cooperates with western colleagues to purchase up-to-date aggregates, introducing precision agriculture techniques, no-till farming and modern crop rotation schemes. Moreover, the company is signing dealership agreements with world-known manufacturers planning to employ western agricultural machinery at all of its farming units.

“Global demand for land has accelerated lately amid food insecurity concerns, and Russia has all the resources to



Igoshin

## PAVA goes public

Being a relatively young market player, PAVA became the seventh in the list of Russian companies, and the first among agricultural and food companies to go for an IPO in 2005. Ten percent of the stock was free-floated and successfully sold out.

In 2006, OJSC PAVA was assigned national corporate governance rating of B+ by the Russian Institute of Directors, recognizing achievements in the quality of management.

The company is primarily privately held, and its main shareholders and founders are members of the Igoshin family. Chairman of the Board of Directors, Andrei P. Igoshin, owns 45% of the shares, Galina P. Balaenkova owns 26% and Irina M. Igoshina 18%. The minor (10%) share of the equity is in free float, owned by 480 shareholders.

The Board of Directors of PAVA consists of five people, including its main owners: Igoshin and Balaenkova. The board members determine the overall strategic guidelines and objectives of the company and are responsible for their execution.

establish itself as a major grain and food supplier,” Igoshin said. “We will continue to bring innovative farming methods and technology to realize the untapped potential.”

PAVA said RAD plans to grow high-value agricultural feedstock including wheat, barley, rye, sunflower seeds, buckwheat, oats and peas, and base its farming operations on the effective crop rotation scheme. The major part of wheat will be used as raw materials supply for PAVA’s own production. There is a long-term supply agreement between RAD and processing division Grainvest. The rest of the wheat and other crops will be traded on both domestic and foreign markets to grain traders, mills and vertically integrated holding companies offering the highest prices.

PAVA said it has recruited industry-experienced project leaders who undertake

the best efforts to open up a significant potential for increasing yields, which at present still lag behind the world’s major agricultural producers.

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— Andrey Igoshin,  
president, PAVA

### GRAINVEST

PAVA said the Grainvest project will be implemented by an SPC, based on PAVA’s flour milling facilities in the Rebrikha district. It is aimed on the output of high-value added products,

such as VWG, starches, syrups, alcohols of different grades, animal feed, liquid carbon dioxide and wheat germ oil. The plant’s design will incorporate leading-edge technologies and create synergies from integrating traditionally independent manufacturing processes, such as a flour mill, a gluten plant, starch plant and alcohol plant. This integration will allow the byproducts of one process to be utilized as feedstock for the next process.

PAVA specialists have already signed off-take contracts for the total planned output. The grain fractionation project has grand opportunities ahead of it, as both global and domestic demand for the named products has risen dramatically. It enables the company to diversify its markets by entering new, growing sectors as opposed to the oversaturated milling sector.

The company gets significant support from the government, which now assists the development of agriculture by implementing national projects. Along with other factors, this will ensure the company’s increasing role in the industry, as it accelerates domestic and global supplies of grain cereals and high value-added wheat ingredients. WG

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