»Short Insights on the Russian Food Market«

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Source: Jacobsen

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▶ Russian Consumer - “I shop therefore I am.”

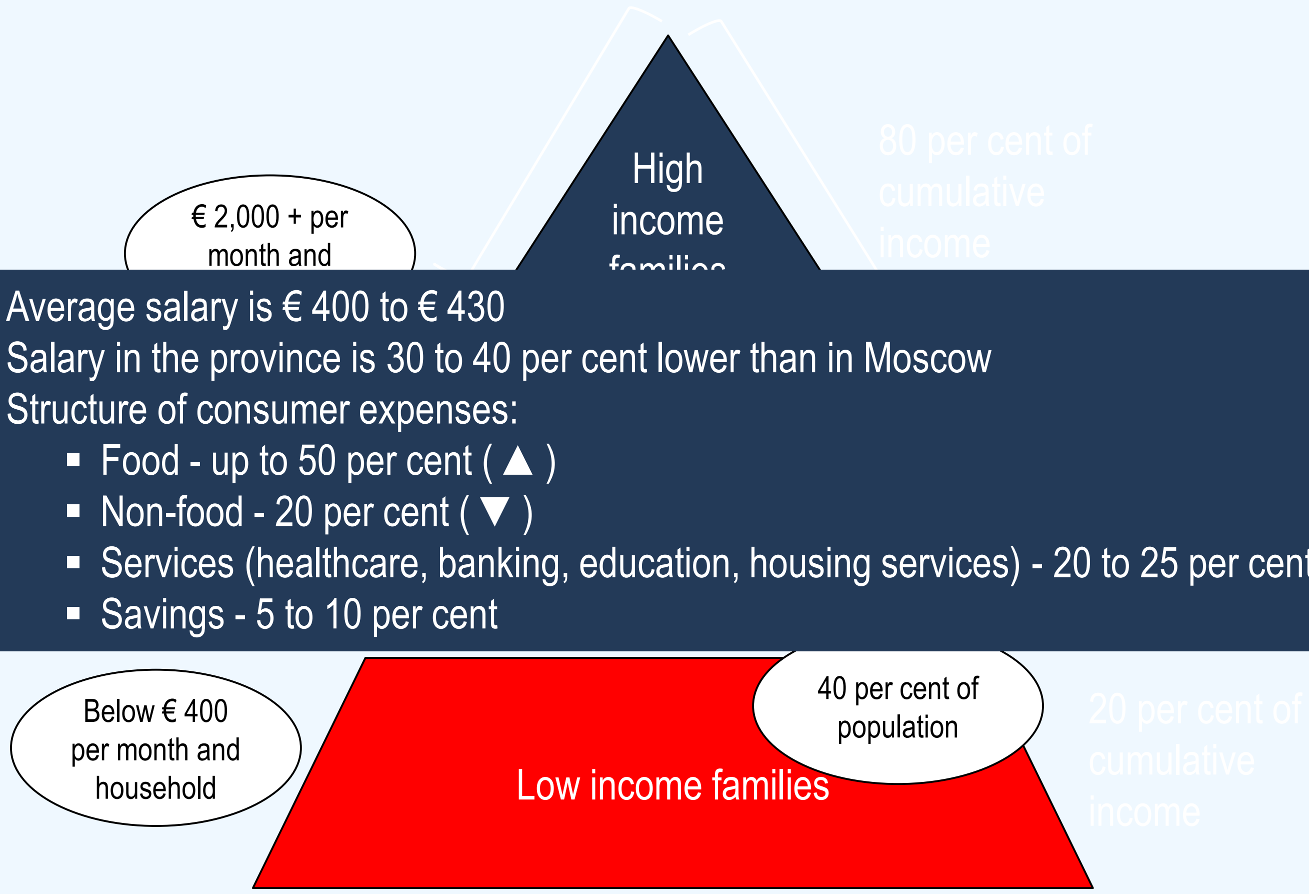
- Russia is the **9th largest country** in terms of population size: 143 million
- Russia has a **fast growing middle class** - reaching 40 per cent of population by 2020 - greater than all other BRICS countries.
- The average Russian **consumer allocates ~ 40 to 50 per cent** of the household budget towards food, which is double the European average.

- PepsiCo research showed that 42 per cent of Russians agreed with the statement **“The more I buy the happier I am”** versus 24 per cent of US respondents.
- Russian shoppers love new products and innovation. Russian manufacturers and retailers launched almost 7,000 new products in 2012.

- Russia has the **largest internet audience in Europe** with more than 81 million users (Germany 71 million) but very limited online shopping habit.

Source: USDA

▶ Russian Consumer - Purchasing Power in St. Petersburg … and Russia



- Average salary is € 400 to € 430
- Salary in the province is 30 to 40 per cent lower than in Moscow
- Structure of consumer expenses:
  - Food - up to 50 per cent (▲)
  - Non-food - 20 per cent (▼)
  - Services (healthcare, banking, education, housing services) - 20 to 25 per cent
  - Savings - 5 to 10 per cent

Source: Atria/GORTIS; baltfood

▶ Russian Food Retail Market - Organic, Healthy and Ready-to-Cook Products

- Busier lifestyles, has created growth in demand for products such as chilled ready meals and frozen ready-to-cook products. As a result, supermarkets, hypermarkets, and grocery stores have **improved offerings of chilled and ready-to-cook meals**.

- A health-conscious trend has led to a greater offering of healthy, low-fat, salt-and sugar-free foods, fresh exotic fruits and vegetables.
- The **demand for eco-brands and organic products is growing**. However, there is a lack of regulation concerning eco-brands; firms can freely label products as “bio” or “eco”. This is the reason consumers do not trust the quality of eco-brands. They are not ready to pay extra for them.

- Most **organic products are imported from Europe** and sold in specialty shops in areas where upper income Russians live, as well as in other premium shops, like Grunvald and Azbuka Vkusa

Source: USDA

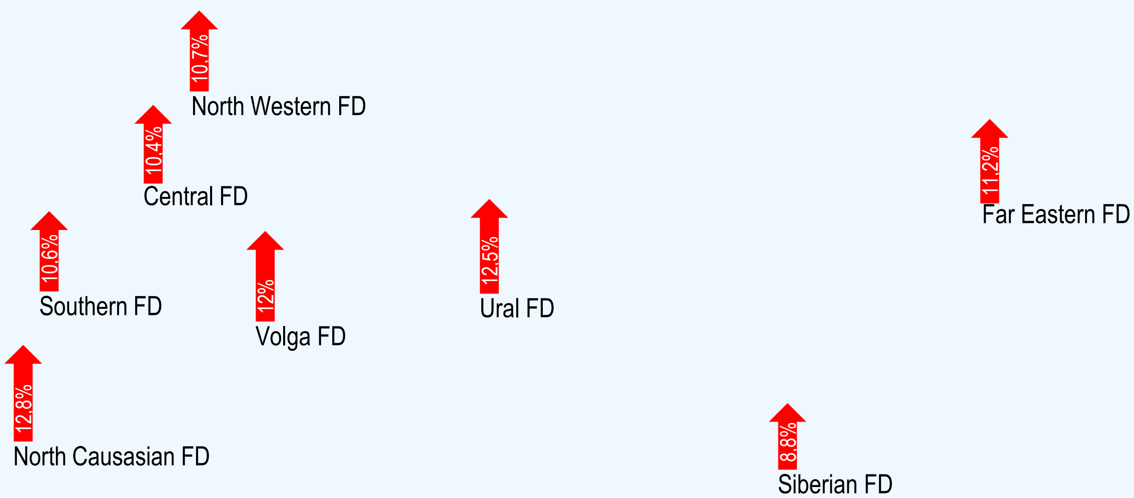
▶ Russian Food Retail Market - Private labels

- Private label makes up approximately 1% of retail sale (but up to 20% inside categories)
  - 85% of Moscovites know Private label “brands”
  - 60 % of Moscovites regularly buy some Private labels

- Most common Private label at retail chains include …
  - Food … such as milk and milk products, juices, groceries (rice, flour, sugar, …), mayonnaise, tea
  - Food … such as preserves and packed goods
  - Non-food … such as paper products (toilet paper, tissues, paper towels)

Source: baltfood

▶ Russian Food Retail Market - Overview



Growth of Retail Sales in 2013

- The Russian retail industry is a fast-growing, **US$ 300 billion** in-yearly-sales market and is one of the largest consumption markets in Europe (Germany: US$ 527 billion)
- The Russian retail industry is highly fragmented, with the TOP 8 international players controlling under 20 per cent of the market.
- In 2013 the total number of stores of TOP 120 retailers constituted 29,155 with total trade area of **11,108,000 m²** (Germany total: 123,000,000 m²)

Source: Destatis, HDE, Rosstat

▶ Russian Food Retail Market - TOP 7 characteristics

	Number of Stores, 2014	Selling Space tsd. m², 2014	Revenue RUB bn, 2014	Market Share %, 2014
Magnit	9.711	3.591	763,5	
X5	5.483	2.572	633,9	
Dixy	2.195	747	229,9	
Okey	108	552	152,0	
Lenta	132	701	194,0	
Auchan	85	789	338,0	
Metro	80	619	210,0	

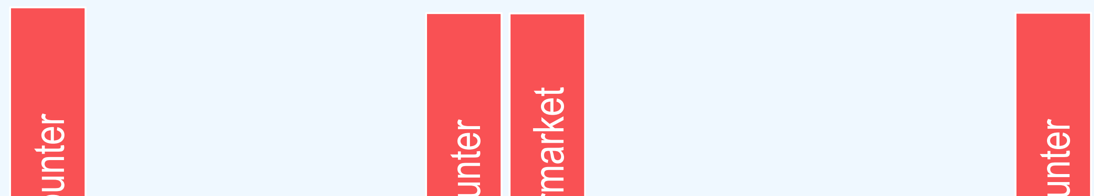
Source: Companies, Infoline, Thomson Reuters

▶ Russian Food Retail Market - TOP 6 retail formats

❶ Magnit

❷ X5
(Pyaterochka and Karusel)

❸ Dixy



- Their competences / specialty:
    - structured processes and organizations,
    - high entrance ticket & hard negotiations,
    - inapproachable top-management,
    - regional delivery centers & Most of HQs in Moscow

Source: Own reasearch | Note: Hypermarket 2,500 m^2 plus; Supermarket 500 to 2,500 m^2; Discounter 300 to 1000 m^2