

Retail Update Russia

A prime source of market intelligence for retail professionals

www.russiaretail.com

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Market news

Russian retailers in world top 250

The Russian retailers **X5 Retail Group**, **Euroset**, **Magnit** and **Eldorado** were all ranked among the top 250 retailers in the world for the financial year 2008 (ending in June 2009) by Deloitte.

X5 was identified as the most successful of Russian retailers after reporting a year-on-year revenue increase of 57% – a performance sufficiently impressive to earn 107th place in the ranking. Euroset and Magnit were ranked 148th and 153rd, respectively. Eldorado, having registered the biggest losses and seeing its revenues fall by 13% y-o-y, was ranked 159th.

Wal-Mart remained the global leader with revenues of \$401.2bn. It was followed by **Carrefour**, **Metro Group** and **Tesco**.

Russian beer market to contract by 15% in 2010

In 2010 the Russian beer market will contract by 15% in volume terms as a result of the recession and the increase in excise tax, according to Troyka Dialog. By way of comparison, during the period January-November 2009 beer production fell by 6.1% year on year to 990 million dl.

Brewers fear a significant decline in production as a result of the three-fold increase in the tax rate applied to beverages with an alcohol content of 0.5-8.6%, which takes effect from 2010.

Russian food basket costs more

In December 2009 the cost of a basic food basket in Russia rose by 1.1% compared to November, reaching an average of RUB 2,131 (\$72.4), according to the Russian Federal Statistics Service (Rosstat).

The highest prices of basic foodstuffs among Russian regions remained in the Chukotka Autonomous District (RUB 6,611 or \$224.4), Magadan Province (RUB 3,831.5 or \$129.5), Kamchatka Territory (RUB 3,739 or \$126), Sakhalin Province (RUB 3,631.9 or \$123) and the Republic of Sakha (RUB 3,531.9 or \$119).

The lowest cost of food baskets were found in the Republic of Tatarstan (RUB 1,736 or \$58.9), Ulyanovsk (RUB 1,747.1 or \$59) and

Tambov (RUB 1,764.7 or \$59.6) provinces, the Republic of Chuvashia (RUB 1,772 or \$59.8) and Saratov Province (RUB 1,781.2 or \$60).

Grocery

Auchan exports Raduga business model to Europe

Auchan plans to use its new Russian hard discounter concept called **Raduga** for the company's expansion across Europe.

The Raduga concept was created especially for the company's development in Russia and was launched in December 2009 with the opening of two stores, one each in Kaluga and Penza. Raduga stores feature no cashiers and customers pay for goods using special payment machines. While unorthodox, this enables the retailer to keep costs down.

The European counterpart of the Russian stores will operate under the **Priba** name (from French "prix bas" which means "low prices"). The first store under the new banner is to appear in the east of France in March 2010.

Metro expands presence in Russia

In 2009 the German retailer **Metro Group** opened four new **Metro Cash & Carry** hypermarkets, three **Real** hypermarkets and six **Media Markt** consumer electronics stores in Russia.

In 2010 the company is to increase its investment budget for further development by \$432m to \$2.7bn. Despite the Eastern Europe region being the source of the group's largest year-on-year sales decline last year – by 12.8% – the number of openings in the region is expected to be more than in 2009.

Metro Group operates 86 outlets in Russia: 51 Metro Cash & Carry stores, 15 Real hypermarkets and 20 Media Markt stores.

Carrefour store in Moscow may be replaced by Auchan

An **Auchan** store may appear in the Filion shopping centre in Moscow on the premises occupied by a **Carrefour** hypermarket, *Retail Update Russia* has learnt. The compa-

ny has not yet revealed any details pertaining to its plans as negotiations continue.

As we reported recently, premises let by Carrefour in the Europa mall in Lipetsk, where the retailer planned to open its third store in Russia, will be occupied by an **O'Key** store. At the same time, hypermarket chains **Karusel** (operated by **X5 Retail Group**), **O'Key** and **Real** are all interested in acquiring the Carrefour store in Krasnodar, which was opened in September last year.

Carrefour entered Russia in summer 2009 and had opened two stores – in Moscow and Krasnodar – before deciding to withdraw from the country in October that year.

Carrefour 2009 sales in Russia reach \$37m

In the fourth quarter of 2009 **Carrefour** generated sales of \$21.6m in Russia, while, for the whole year, sales totalled \$37.4m. Worldwide, the company generated sales of \$138.4bn last year.

Ramstore supermarkets undergo rebranding

By the end of January 2010, all of the 17 **Ramstore** supermarkets in Russia belonging to the Turkish construction and retail company **Enka** will be rebranded as **Citystore** units. Other Ramstore retail units in the country belonging to the company – 10 shopping centres – have already undergone this process and, since the beginning of the year, have been operating under **Capitol** banner.

As *Retail Update Russia* reported in December 2009, Enka has been forced to refrain from using the Ramstore brand as it is the property of the Turkish entity **Koc Holding**, which withdrew from Russia in 2007 selling its Ramstore stores – but not the brand name – in the country to Enka. At present, Koc Holding is developing the Ramstore chain in Ukraine, Macedonia and Bulgaria.

Sedmoy Kontinent ends ProStore venture

The Russian grocery retailer **Sedmoy Kontinent** has sold its franchise rights for **ProStore** hypermarkets in Belarus to the **Traypl Group**.

Since 2006, when the company entered Belarus, Sedmoy Kontinent has only opened one store and does not currently have the funds required to develop the chain further due to debts of \$330m.

Traypl plans to extend the ProStore hypermarket chain in Belarus and also establish a **MiniStore** chain comprising 100-120 convenience stores.

Magnit revenues up 28% in 2009

According to preliminary data, in 2009 the grocery retailer **Magnit** reported net revenues of RUB 169.6bn (\$5.3bn) – a year-on-year increase of 28%. The company opened 646 stores last year, thus bringing its overall store count up to 3,228 units (3,204 convenience stores and 24 hypermarkets). These stores occupy a total combined area of 1,059,867 m² (823,507 m² in 2008).

Sberbank puts for sale Alpi stores

Sberbank Capital is to auction off 24 stores previously belonging to the Siberian grocery retailer **Alpi**.

Ownership of the stores was transferred to the bank in January 2009 after Alpi failed to repay its debt of RUB 6.5bn (\$220m). The auction is scheduled to take place on 1 February 2010 in St. Petersburg and the starting price of the lot is RUB 6.5bn (\$220m).

The stores in question occupy a total combined area of 324,000 m² and are located in the Krasnoyarsk Territory, the Republic of Khakassia, as well as in the Kemerovo and Novosibirsk provinces.

In all, Alpi operated 57 stores in Russia. In December 2009, as reported recently by *Retail Update Russia*, the company was declared bankrupt.

V dvukh shagakh expands to Saratov Province

At the beginning of February 2009, the Rostov grocery retailer **V dvukh shagakh** is due to open its first stores in the Saratov Province.

The outlets will be launched on the premises previously occupied by **V Yablochko** (44) discounters and **Smartkauff** (8) supermar-

kets, which were closed at the beginning of the year. V dvukh shagakh has already agreed on the transfer of lease rights for 32 stores with the chains' owner **Lia-Lev**. Talks over the remaining units continue. V dvukh shagakh plans to invest up to RUB 30m (\$1m) on the launch of the stores.

V dvukh shagakh was founded in 2003 and currently operates over 60 convenience stores in the Rostov Province, the Krasnodar Territory and the Republic of Kalmykia.

Mosmart aims for revenues of \$593m in 2010

In 2010 the grocery retailer **Mosmart** expects to generate revenues of RUB 17.5bn (\$593m). In the second half of the year the company aims to reach a positive EBITDA index, and by the end of the year, to post a net profit. In addition, Mosmart plans to open 10 new hypermarkets in 2010.

Since autumn 2008, Mosmart has experienced financial problems and accumulated significant debts. Thanks to the granting of financial support by Sberbank, the company had managed to repay 70% of its debts to suppliers by the end of last year. As a result, over 1,000 suppliers have resumed deliveries to Mosmart.

Mosmart currently operates 23 hypermarkets in Russia.

Tamerlan opens 107 Pyaterochka units in 2009

Tamerlan Group, the franchisee of the **Pyaterochka** soft discounter chain in the Volgograd Province, opened 107 stores under this banner in 2009.

The company plans to further develop the chain and intends to reach a store count of 140 Pyaterochka outlets by 2011. Each franchise store operated by Tamerlan features over 10,000 SKUs and occupies a trading area ranging from 350 to 1,500 m².

X5 Retail Group, the owner of the Pyaterochka brand, operates 952 Pyaterochka discounters while a further 533 units operate on a franchise basis.

Grinn invests \$16.5m in hypermarket in Belarus

Grinn Corporation, the owner of the **Linia** grocery chain, is to invest \$16.5m in its first

hypermarket in Belarus, the construction of which has recently commenced.

The store, which will occupy a total area of 14,000 m², will be located in the city of Gomel and is scheduled to be completed in Q3 2010.

The **Linia** grocery chain comprises 18 units located in Central Russia. The chain includes **Linia** hypermarkets, **Linia Super** supermarkets and cash & carry outlets operating under the **Linia** banner. As previously reported by *Retail Update Russia*, Grinn plans to construct two **Linia** outlets in Russia – one each in Ryazan and Novomoskovsk.

Dominium to expand to Russia and Ukraine

The Polish pizzeria chain **Dominium** intends to expand on the foreign markets. By the end of 2010 several of the company's establishments are to appear on the Russian and Ukrainian markets. **Dominium** is planning to open its own outlets and to launch a franchise model. The latter system will allow the company to reduce costs and to speed up development. In Poland, **Dominium** also develops its chain mainly through a franchise system.

The chain will raise the money needed for investments on the stock exchange. Its debut is scheduled for the second half of 2010 or the first half of 2011.

At present, **Dominium** manages around 60 establishments, of which four are located abroad, in Lithuania, Ireland and Romania.

Moscow increases lease rates for McDonald's

The Moscow Arbitration Court has upheld the claim filed by the City Property Department against **McDonald's** and, with effect from 1 January 2010, the fast-food operator will pay RUB 1,400 per 1 m² annually for the lease of premises in the centre of Moscow.

The decision pertains to the two **McDonald's** restaurants located in the city centre locations of Arbat Street and Nikolopeskovsky Lane. Previously, the annual lease rate for these premises was RUB 1 per 1 m², which was the figure included in the lease contract agreed and signed in 1992. It is worth noting that RUB 1,400 per 1 m² is, as stipulated by law, the lowest rate for which real estate in Moscow can be currently leased.

Consumer electronics

Vympelcom signs new contract with Euroset

Vympelcom, the mobile phone network operator has signed a new agreement with the mobile phone retailer **Euroset**.

Under the terms of the deal, **Euroset** (of which **Vympelcom** owns a 49.9% stake) is expected to sell 6-6.5 million **Vympelcom** contracts in 2010 – a reduction from the 8 million previously agreed. **Euroset** will earn \$22-32 for each **Vympelcom** contract sold.

Euroset currently operates some 4,300 stores in Russia, Ukraine, Kazakhstan and Belarus.

Sottele grows its retail business in Russia

The St. Petersburg mobile phone wholesaler **Sottele** has been actively developing its own retail chain across Russia. In just half a year, the company increased its store count from two to 30 units. The majority of **Sottele** stores are located in St. Petersburg, although others operate in Moscow, Samara, Penza and other Russian cities.

According to information reported by the Russian media, **Sottele** is developing its retail business with the intention of selling it to one of the major mobile phone operators on the market, such as **Megafon**.

Clothing & accessories

Savage to undergo rebranding

The clothing retailer **Savage** plans to change both logo and the interior design of the stores under the same banner. In addition, the range of products available will be extended by adding designer clothes in an attempt to attract a more mature and wealthy clientele.

The first **Savage** outlet of this new kind is to commence operations in Moscow's Yevropeysky shopping centre in March 2010.

Savage operates over 220 stores in Russia, Ukraine and Kazakhstan under the banners **Savage**, **People** and **Lawine**.

Geox to work in Russia independently

The Italian footwear manufacturer and retailer **Geox** has decided not to extend its agreement with its official distributor in Russia, **New Step**. The previous deal expired at the end of 2009 and Geox has taken the decision to operate independently. The company will take responsibility for supplying stores in Russia so that it can obtain information about the market firsthand.

There are currently over 50 Geox stores in Russia.

New Yorker opens 36th store in Russia

The German clothing retailer **New Yorker** has opened its 36th store in Russia. The unit occupies 880 m² in the Ikea-Mega shopping and entertainment centre in Omsk.

The company has been operating in Russia since 2005. Worldwide, the company operates 750 stores in 27 countries.

Cosmetics & pharma

Rigla to sell private-label goods

Following the success of other Russian pharmaceutical retailers, **Rigla** is to start selling private-label goods.

The company plans to offer 60 different kinds of healthcare and personal hygiene products aimed at the mass market. The first goods will appear on sale across the chain's 578 pharmacies in March this year. Rigla estimates that private-label goods will account for up to 2% of its total revenues by the end of 2010.

The first pharmacy chain to launch private-label goods in Russia was 36,6 in 2005. The company currently sells 900 different kinds of private-label products and these accounted for 8.4% of the company's revenues in

2009. Other pharmaceutical retailers already selling private-label goods in their stores include **Zdorovye Lyudi** and **Pharmacor**.

CIA International obtains 25% stake in 36,6

CIA International, one of the largest Russian pharmaceutical distributors, has become the owner of a 25% stake in the 36,6 pharmacy chain.

The company, through its subsidiary **Arkada Established Limited**, acquired a stake in 36,6 as part of the retailer's share issue at the end of December 2009. The acquisition of the stake is likely to have served as part of a debt settlement as, at the end of 2009, the retailer owed CIA approximately RUB 3.2bn (\$108.6m) for goods that had been delivered, but not paid for.

36,6 operates 1,026 pharmacies in Russia.

Nizhny Novgorod pharmacy chain for sale

The Nizhny Novgorod authorities have failed for the second time in their attempts to sell a 74% stake in the **Nizhegorodsky Pharmacy Chain** (NAS). The value of the stake has fallen by half since 2008 as a result of the recession. In December 2008 the chain was put up for sale with an asking price of RUB 1.03bn (\$34.8m), however, on that occasion, no buyer could be found. The next attempt to sell the stake – an auction – is scheduled to take place on 19 January with a starting price of RUB 466m (\$15.8m).

NAS currently operates 44 pharmacies, 24 pharma points and three opticians. The company also owns 80 properties and two land plots (926 m² total). The chain enjoys a 27.8% share of the Nizhny Novgorod Province pharmacy market. The city authorities are looking to sell the chain in order to reduce the municipal budget deficit, which currently stands at RUB 510m (\$17.3m).

Other

Doritis opens first gardening centre

At the end of 2009 the flower retailer **Doritis** opened its first larger-format store in Russia – a gardening centre operating under the **Greenlandia** name. The unit is located in the **Metrika** DIY store in St. Petersburg on an area of some 2,000 m². The company is currently in negotiations with Metrika over the opening of another three stores.

Moy Dom to open in St. Petersburg

The DIY retailer **Moy Dom** plans to open a store in St. Petersburg and to continue its expansion in the Leningrad Province. The store will occupy 2,000 m² in the Piter retail centre. The company's next unit – occupying 4,000 m² – is due to open in the Oka shopping centre in Kolpino in April 2010.

Moy Dom has been present on the Russian market since 2007. The chain currently consists of two stores, in Tosno and Gatchina, which occupy an average of 5,000 m² and stock 30,000 SKUs.

Adamant plans two projects for 2010

Adamant Holding, the St. Petersburg commercial property developer, plans to deliver two projects in 2010. One of these is the new stage of the Balkansky shopping centre, a 31,000 m² development. The second is the 8,000 m² extension of the Zanevsky kaskad shopping centre. The two projects will require a combined investment of some \$55m.

In 2009 the company did not open any new shopping centres. Prior to this, the company increased its portfolio by 150,000 m² in 2007 and 170,000 m² in 2008. ■

Supplier news

Louis Roederer successfully defends right to use Cristal brand in Russia

The French champagne producer **Louis Roederer** will continue to sell Cristal champagne to Russia, after it won a case against the Russian state vodka producer **Soyuzplodoimport**.

Louis Roederer was granted the right to register the Cristal brand in Russia in 2006. However, in 2008 Soyuzplodoimport filed a claim with the Chamber of Patent Disputes (Rospatent) demanding the annulment of the brand's registration in the country, stating that it was confusingly similar to its own Kristal vodka brand, which had been registered as far back as 1974. In April 2009 this claim was upheld, however, in autumn of the same year Louis Roederer successfully appealed the decision in the Moscow Arbitration Court. The previous ruling was reversed and legal protection of the Cristal brand in Russia was reinstated. A subsequent counter appeal by Soyuzplodoimport in January 2010 failed.

Efes sales in Russia down 3.6% in 2009

In 2009 **Efes Breweries International**, a subsidiary of the Turkish brewery **Anadolu Efes**, saw its volume of beer sold in Russia fall by 3.6% year on year to 10.7 million hectolitres. Sales in Russia accounted for 78.5% of the company's total worldwide sales which, at 13.6 hectolitres, represents a decline of 3.1% compared to 2008. The company cited the drop in consumer demand – a development caused by the recession – as the main reason for the decline.

Efes Breweries International operates five breweries in Russia – located in Moscow, Rostov-on-Don, Ufa, Kazan and Novosibirsk. Together, these breweries have a total annual production capacity of 25 million hl. Efes produces several brands, including Efes, Stary Melnik, Bavaria, Gold Mine, Bely Medved and others.

Unimilk to launch products under Disney brand

The Russian dairy producer **Unimilk** plans to launch a range of children's products under the Disney brand.

The company is to sign a licence agreement with the Russian representative office of **Walt Disney Pictures** and obtain the rights to use almost all of the Disney characters on its product packaging.

The production of these dairy products, which will take place at the company's Petmol plant in St. Petersburg, is scheduled to begin in Q1 2010.

Unimilk was founded in 2002 and operates 32 dairy and baby food plants in Russia and Ukraine. Its main brands include Bio Balans, Prostokvashino, Letny Den, Aktual, Dlya Vsey Semi and Tema.

Verevo files for bankruptcy of Karelsky

At the end of 2009, **Verevo**, a part of **Faeton Holding**, filed its request for the **Karelsky Dairy Plant** cheese producer to be declared bankrupt. The producer currently has debts

of over RUB 200m (\$6.7m). Production was stopped several months ago and the company's equipment is under distraintment.

According to the Supreme Arbitration Court, Karelsky owes Verevo the sum of RUB 2m (\$67,000). At the same time, the St. Petersburg Arbitration Court has received over 20 claims from other companies, mainly milk suppliers, against the producer.

Karelsky dairy farm was declared bankrupt in December 2005. In May 2006 it was acquired by private investors who funded a €4m modernisation of the plant and restarted operation. Prior to its recent closure, the plant produced cheese, sour cream and milk under the **Salmi** brand.

Karat plant in Voronezh to continue production

The Moscow-based cheese producer **Karat** will not now suspend production at its **Kalacheyevsky** plant in Voronezh, as it had previously announced.

Kalachayevsky had been set a deadline of 1 December 2009 to repay its debts – amounting to over RUB 78m (\$2.6m) – to creditors, however, the company failed to do so. A decision was taken to suspend production until April 2010 (when the seasonal decline in the price of raw materials typically begins), however, local authorities later convinced the company to continue production.

In addition to the Kalacheyevsky plant, Karat Group is made up of **Syranmoloko** (in the Samara Province) and **Kalininsky Cheese Plant** (in the Krasnodar Territory). ■

In brief

- The Russian government has introduced a minimum price for vodka of RUB 89 (\$3) per half litre as part of President Medvedev's attempts to crackdown on excessive alcohol consumption in the country.
- A ban on the night-time sale of drinks with an alcohol content of more than 15% has been introduced in the Voronezh Province. The ban has been introduced with the aim of reducing alcohol consumption and alcohol-related offences in the province.
- In 2009 sales of mobile phone handsets in Russia fell by 24% to 27.5 million units, according to the independent analyst Vladimir Bogdanov and cited by *Rbc Daily*. The market was valued \$4.2bn.
- The DIY retailer **Start** is to build a new store in the Krasnoselsky District of St. Petersburg. The company currently operates two outlets, one each in St. Petersburg and Chelyabinsk. Over the next two years, the company plans to open five new stores in different districts of St. Petersburg.
- By the end of 2011 **X5 Retail Group** plans to launch a **Karusel** hypermarket in Zelenograd, in the Moscow Province. The store is to occupy premises in a shopping centre which is being built at the intersection of Panfilovsky and Tsentralny avenues. There are currently 56 Karusel hypermarkets in Russia.
- In December 2009 the Russian consumer electronics and household appliances retailer **M.Video** reported revenues of RUB 12.4bn (\$419.4m). These figures represent a year-on-year increase of 2.4%.
- **Ocean**, the Russian chain of kiosks selling the traditional British dish of fish and chips, is to expand internationally, according to *Rossiyskaya Gazeta*. The first outlets opened abroad will be located in London, Berlin and Paris.

A D V E R T I S I N G

Retail

in Russia 2009



Market analysis and development forecasts for 2009-2012

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Ukraine

Bosco di Ciliegi enters Ukraine

The Russian sportswear manufacturer and general sponsor of the 2014 Winter Olympic Games in Sochi, **Bosco di Ciliegi**, has registered a representative office in Ukraine under the name of **Bosco Dnipro**.

By 2016 Bosco plans to have developed a retail chain comprising over 35 **Bosco Sport** outlets selling sportswear in Ukraine. The stores will be both company- and franchise operated. The first Bosco Sport unit in the country will appear in Kiev in the summer of 2010.

In addition, the company has concluded an agreement with the Ukrainian Olympic team for the supply of its official team sportswear.

Bosco di Ciliegi operates 16 Bosco Sport units in Russia. In addition, it operates some 100 stores under the brands of **D&G**, **Kenzo**, **Ermenegildo Zegna**, **Hugo Boss**, **Moschino** and others.

Sandora launches Pepsi production

In December 2009 **Sandora**, the largest Ukrainian producer of juice, began production of Pepsi and 7Up beverages.

The beverages are produced at Sandora's plant in Meshkovo-Pogorelovo in the Nikolayev Province, where in autumn last year two production lines for carbonated drinks were installed specifically for this purpose. Sales of Pepsi Light, Pepsi and 7Up produced at the plant began on 1 January 2010.

Sandora was acquired by **PepsiCo** in 2007. It operates four plants in Ukraine.

No more Action in Ukraine

The Polish consumer electronics distributor **Action** has announced its withdrawal from Ukraine.

The company abandoned the development of its **Shok** and **Krez** retail chains by selling

51% of shares in its joint venture, **Action Ukraine**, to its local partner **Blue Mare**. According to the company, the main reason for leaving Ukraine was the unstable economic situation in the country.

Action entered Ukraine in 2005 and, since that time, has opened nine Krez stores and six Shok units, the majority of which are located in the western part of the country.

Henkell&Sohnlein to produce cognac in Ukraine

Henkell&Sohnlein, the German producer of wine and owner of the **Stolichny** sparkling wine production plant in Kiev, plans to start bottling cognac under its own name in Ukraine, at the **Simferopol Cognac Plant**. The product, which will go on sale in April, will be positioned in the mid-price segment.

Despite the recession, the company is also interested in acquiring Ukrainian alcohol producers, particularly Crimean companies, according to the CEO of Stolichny, Valery Romansky.

ATB-Market to open over 80 stores in 2010

In 2010 the grocery retailer **ATB-Market** aims to open over 80 discounters in Ukraine, mainly in the Lugansk, Donetsk and Kharkov provinces. In addition, the company plans to start the construction of two logistic centres, in the north and south of the country.

In 2009 ATB-Market increased its store count by 83 new discounters and currently operates 372 units in 14 provinces of Ukraine.

Elektron opens first store

The Ukrainian producer of television sets **Elektron** has opened its first flagship store in

the country. The unit is located in Lvov and stocks over 20 models of TV sets. Longer term, the company plans to open several other stores in Ukraine.

Mareven Food to build plant in Ukraine

The Russian producer of instant food **Mareven Food** is to construct a plant in Ukraine in cooperation with the Japanese company **Nissin Foods Holdings**.

The plant is to be located in the Kiev Province and will produce 40,000 tonnes of instant noodles, 1,500 tonnes of mashed potatoes, 10,000 tonnes of spices and 3,000 tonnes of egg noodles annually. Construction of the plant is scheduled for completion by the end of 2010. By 2012 the plant is expected to reach its maximum production volume.

Goods produced at the plant will be sold on the domestic market and exported to neighbouring countries. ■

Map of latest openings



Retail outlet openings referred to in the current issue of Retail Update Russia

Place	Retailer	Format	Number of outlets	Current store count
Omsk	New Yorker	Clothing store	1	36
St. Petersburg	Doritis	Gardening centre	1	1

Source: PMR Publications, 2010

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Business activity of retailers in Russia remained unstable in Q4 2009

Business activity of retailers in Russia remained unstable in Q4 2009 – a result of both negative and positive factors influencing the retail sector. However, compared to the situation observed at the beginning of the year, a significant improvement has been observed.

While at the end of 2009 the Russian retail sector saw some signs of recovery, instability continued to be prevalent with indicators

from the fourth quarter of the year being not as positive as those observed in Q3 2009.

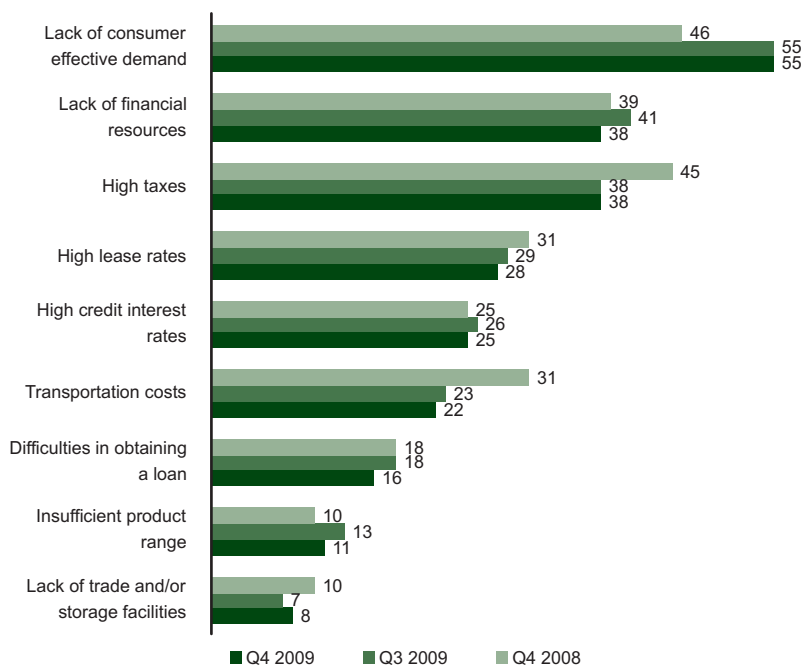
Dynamics of assessments of key indicators of the business activity of retailers in Russia (%), Q1 2008-Q4 2009

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Retail sales value	+18	+26	+20	+12	-7	-10	-3	-9
Retail sales volume	+10	+18	+13	+5	-8	-14	-9	-8
Retailer orders for goods	+15	+23	+16	+9	-3	-8	-2	-1
Range of goods on offer	+22	+24	+27	+20	+10	+9	+13	+13
Number of employees	-1	-1	-5	-4	-15	-17	-13	-9
Provision of own financial resources	+1	+2	+2	-4	-10	-15	-11	-9
Competitiveness	+4	+8	+5	+3	+2	-2	-1	+2
Profit	+6	+15	+8	+1	-10	-17	-14	-13

Note: based on survey conducted among 4,200 retailers in Russia
 Source: Institute for Statistical Studies and Economics of Knowledge (ISSEK), 2010

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Factors hindering activity of the retailers in Russia (%), Q4 2008, Q3 2009 and Q4 2009



Note: based on survey conducted among 4,200 retailers in Russia
 Source: Institute for Statistical Studies and Economics of Knowledge (ISSEK), 2010

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On the one hand, the business climate surrounding the Russian retail sector in Q4 2009 is believed to have been significantly healthier than it had been in the first half of the year, according to a survey of 4,200 retailers in Russia conducted by the Institute for Statistical Studies and Economics of Knowledge. The results of the survey indicate a slowdown in the decline of sales volumes, retailer orders for goods and employee redundancies, as well as an increase in the range of products available. In volume terms, retail sales improved slightly (by 1 p.p.) in comparison with the previous quarter, to -8% in Q4 – a result of a general improvement of conditions on the supply side of the retail industry. The same quarterly increase also applies to retailer orders for goods, which, at the end of the period was -1%. The highest rise among these three indicators – that of 4 p.p. against Q3 and by 8 p.p. against Q1 – was found in the assessment of employment levels in the retail sector, which came to -9% in Q4 2009.

According to retailers surveyed, in Q4 2009 the rise in retail prices of goods continued to slow in comparison with the previous quarter (44% against 51%). The margins applied by retailers during this period remained unchanged, with 60% of companies claiming to apply margins ranging from 16% to 30%. One-fifth of those surveyed claimed to apply margins of 31-50% with just 2% earning margins equating to 70% of the price of the product. It is worth noting that, in the opinion of 40% of retailers surveyed, the level of retail margins required to guarantee that both costs are covered and profits are made should be 31-50%.

In contrast, however, falling consumer demand during 2009 resulted in sales, in value terms, continuing to fall. As such, at the end of last year almost all of the main indicators of financial and economic activity of the retail sector remained far short of their pre-crisis levels. Russian retailers' assessment of the dynamics of retail sales value fell again, to -9%, which came after a significant improvement in Q3 compared to Q2 (from -10% in Q2 to -3% in Q3).

The financial condition of retailers did not improve significantly in 2009, with profit levels of -13% in Q4 being far from even the lowest indicators recorded in the pre-recession period. For the purpose of comparison, the indicator stood at +1% in Q4 2008. Almost identical trends were observed with regard to the provision of own financial resources. This indicator in Q4 2009 stood at -9%, while in Q4 2008 it was -4%.

Over half of the companies surveyed (55%) expressed the view that one of the main factors hindering retail activity at the end of 2009 was the lack of consumer effective demand. Over one-third (38%) of retailers claimed to be suffering from a lack of financial resources and the high level of taxes imposed on them. Among the other main factors perceived to be preventing the growth of retail activity were high credit interest rates, transportation

costs, difficulties in obtaining a loan, insufficient product range and a lack of trade and storage facilities.

Overall, despite the negative market trends prevalent in Q4, over three-quarters (78%) of Russian retailers have described the economic situation as satisfactory. PMR analysts believe that the height of recession has now passed and that stability will slowly return to the Russian retail market – a prediction sup-

ported by certain developments in the second half of 2009. However, despite this cause for optimism, it is still early to talk about large-scale market recovery due to the overall uncertainty that surrounds the country's economy.

Svitlana Barnes
PMR Russian Correspondent

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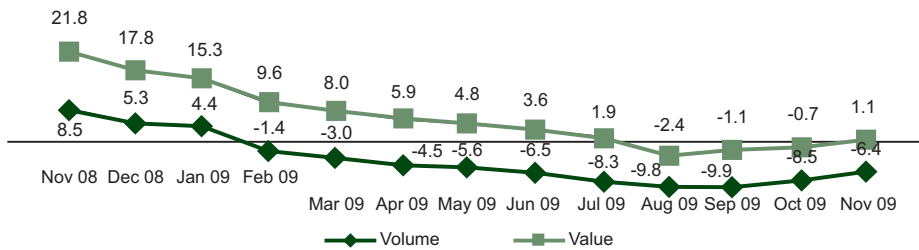
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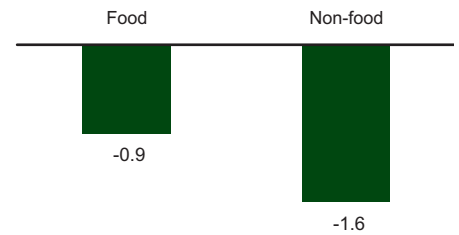
Retail sales turnover in Russia by volume and value (% y-o-y), November 2008-November 2009



Source: PMR Publications based on Rosstat, 2009

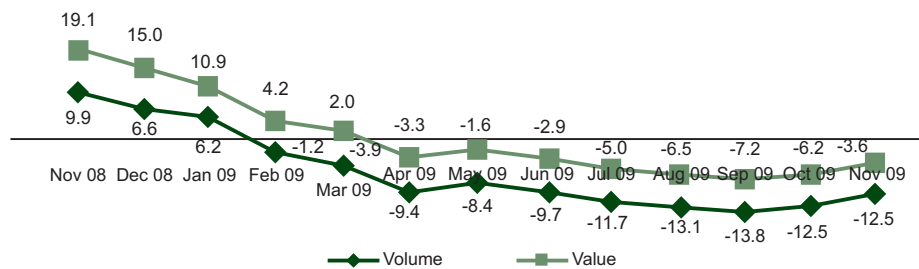
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Retail sales in selected categories of products in Russia by volume (% m-o-m), November 2009



Source: Rosstat, 2009

Retail sales turnover of non-food products (% y-o-y) in Russia by volume and value, November 2008-November 2009



Source: PMR Publications based on Rosstat, 2009

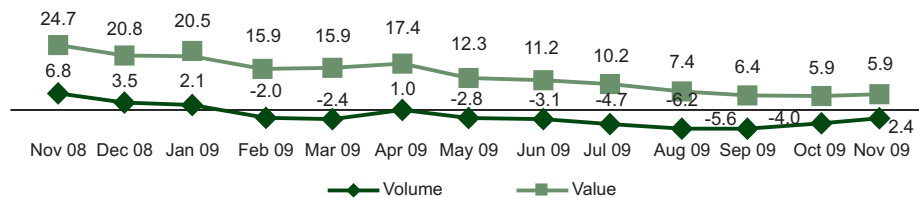
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Share in retail sales turnover in Russia by trade organisation, November 2008 and November 2009

	Nov 2008	Nov 2009
Retail sales	RUB 1,244.9bn = 100%	RUB 1,258.3bn = 100%
Retail trade organisations and private entrepreneurs	86.2%	85.5%
Commodity, food and mixed markets/bazaars	13.8%	14.5%

Source: Rosstat, 2009

Retail sales turnover of food products (% y-o-y) in Russia by volume and value, November 2008-November 2009



Source: PMR Publications based on Rosstat, 2009

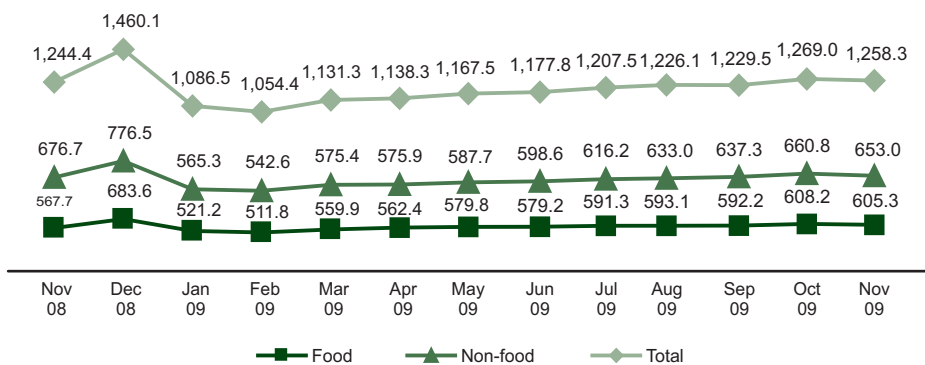
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Share in retail sales turnover in Russia by product category, November 2008 and November 2009

Retail turnover in Nov 2008		Retail turnover in Nov 2009	
RUB 1,244.9bn		RUB 1,258.3bn	
Food	Non-food	Food	Non-food
46.8%	53.2%	48.1%	51.9%

Source: Rosstat, 2009

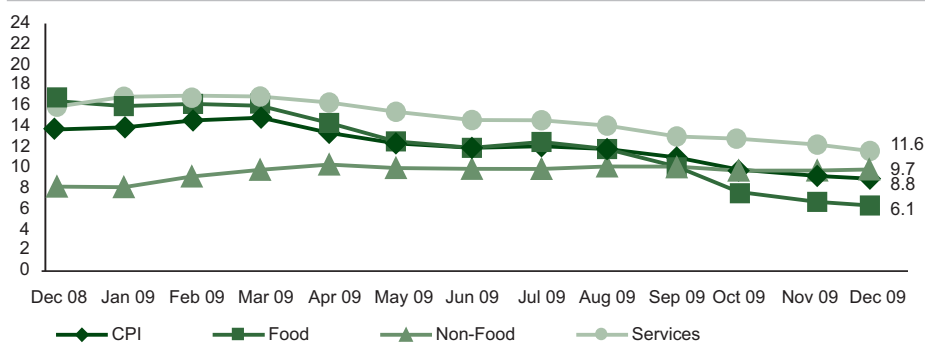
Retail sales turnover in Russia (RUB bn), November 2008–November 2009



Source: PMR Publications based on Rosstat, 2009

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Selected consumer price indices in Russia (% y-o-y), December 2008–December 2009



Source: PMR Publications based on Rosstat, 2009

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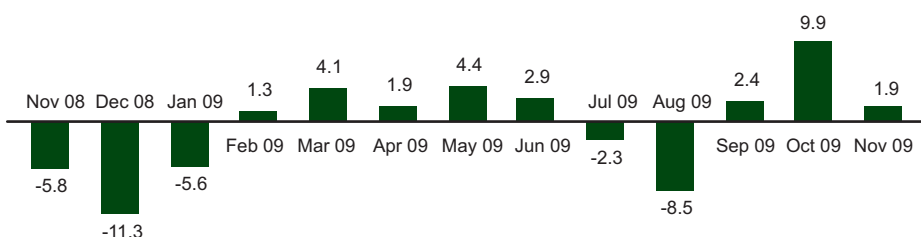
Consumer price indices in Russia for selected groups of products (% y-o-y), December 2008–December 2009

	Tobacco	Alcohol	White goods	Brown goods	Clothing	Footwear	Medicines	Perfumes & cosmetics
Dec 08	16.1	10.9	5.5	1.4	9.8	8.3	16.4	10.5
Jan 09	15.7	10.9	5.7	1.7	9.9	8.3	19.1	10.8
Feb 09	16.6	11.4	7.7	3.7	10.4	8.8	21.9	12.4
Mar 09	18.8	11.9	9.1	5.2	11.2	9.6	29.3	15.3
Apr 09	20.2	12.0	9.8	5.3	11.6	10.2	32.5	16.5
May 09	22.2	11.9	10.3	5.5	11.8	10.7	31.7	17.1
Jun 09	23.8	11.6	10.5	6.0	11.8	10.8	30.1	17.5
Jul 09	23.8	11.3	10.4	5.7	11.9	10.9	27.8	17.8
Aug 09	22.8	11.0	10.4	5.4	12.0	11.1	25.5	17.7
Sep 09	21.4	10.5	10.4	5.7	12.1	11.0	23.5	17.3
Oct 09	20.0	9.7	9.9	5.6	11.7	10.7	21.4	16.6
Nov 09	19.0	9.4	9.4	5.5	11.3	10.3	19.3	15.9
Dec 09	18.7	8.9	9.2	5.4	11.0	10.1	17.6	-

Source: Rosstat, 2009

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Yearly growth in average real disposable income in Russia (% y-o-y), November 2008–November 2009



Source: Rosstat, 2009

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Consumer price indices in Russia for selected groups of products (% m-o-m), December 2009



Source: Rosstat, 2009

Foreign trade (\$ bn) and yearly growth (% y-o-y), 2008 and September 2009

	2008		September 2009	
Foreign trade	\$763.5	32.1%	\$46.7	-34.2%
Imports	\$291.9	30.6%	\$17.6	-35.4%
Exports	\$471.6	33.1%	\$29.2	-33.4%

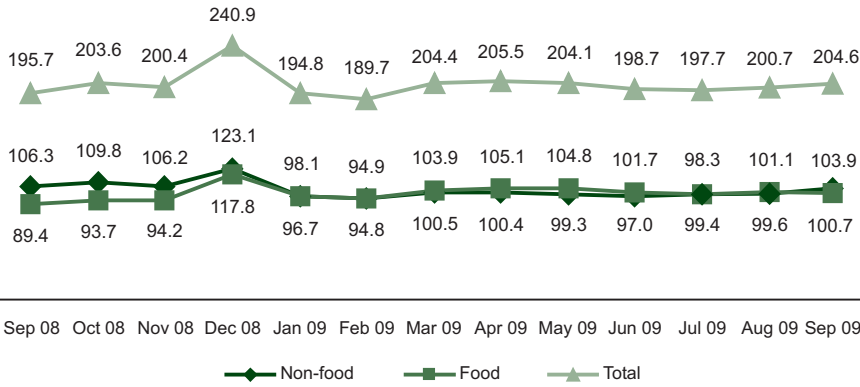
Source: Rosstat, 2009

Living standards (RUB) and yearly growth (%), November 2009

	November 2009	
Average per capita income	RUB 16,994	9.7%
Real disposable income growth	-	1.9%
Nominal monthly salary	RUB 19,174	8.4%
Real monthly salary	-	-0.7%
Unemployment	8.1%	
Population	141.9 million	

Source: Rosstat, 2009

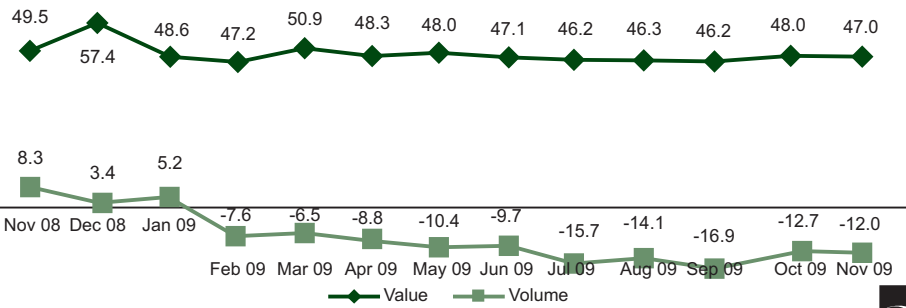
Retail trade turnover of non-food and food products in Moscow (RUB bn), September 2008-September 2009



Source: Rosstat, 2009

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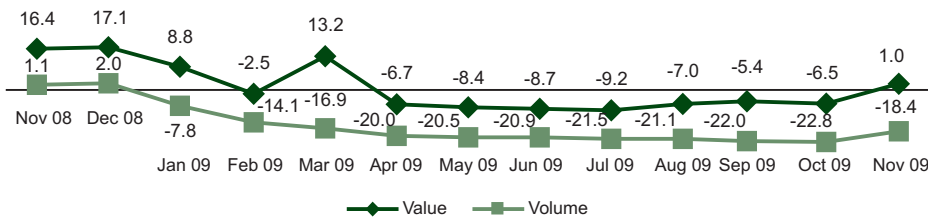
Retail trade turnover in St. Petersburg by value (RUB bn) and volume (% y-o-y), November 2008-November 2009



Source: Rosstat, 2009

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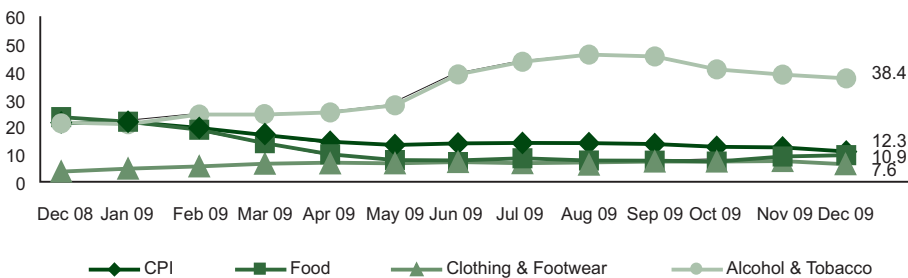
Retail trade turnover by volume and value in Ukraine* (% y-o-y), November 2008-November 2009



* Retail turnover of trade organisations excluding private entrepreneurs and outdoor markets
Source: PMR Publications based on Ukrstat, 2009

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Consumer price indices in Ukraine for selected groups of products (% y-o-y), December 2008-December 2009



Source: PMR Publications based on Ukrstat, 2009

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VENUE:	Warsaw International Expocentre EXPO XXI
DATES:	24-25 February 2010 ECP Communications ul. Karolkowa 66/74/62, 01-193 Warszawa Phone: +48 (22) 241-19-40 E-mail: robert.lapinski@ecp-communications.pl URL: http://www.retailshow.pl/
ORGANISER:	
EVENT:	Brand Licensing Central & Eastern Europe 2010
VENUE:	Corinthia Grand Hotel, Budapest
DATES:	8-9 March 2010
ORGANISER:	Advanstar URL: http://www.brandlicensing-budapest.com
EVENT:	Poland & CEE Retail Summit
VENUE:	Courtyard by Marriott Hotel, Warsaw
DATES:	25-26 March 2010
ORGANISER:	Blue Business Media Phone: +48 12 350 54 20 E-mail: lukasz.hincz@bluebusinessmedia.com URL: http://bbm.pl/index.php?id=104&L=2&tx_ttnews[tt_news]=501&tx_ttnews[backPid]=97&cHash=baa476ef95
EVENT:	Packaging Innovations
VENUE:	Warsaw, Poland
DATES:	13-14 April 2010
ORGANISER:	easyFairs Poland Phone: +48 12 651 95 25 E-mail: tomasz.slaski@easyfairs.com URL: http://www.easyfairs.com/EN/show-846/packaging-innovations-warsaw-warsaw-poland-packaging-2010-april/detail.aspx
EVENT:	FOOD-TO-GO 2010
VENUE:	Krakow, Poland
DATES:	18-19 May 2010
ORGANISER:	easyFairs Poland Phone: +48 12 651 95 26 E-mail: wojciech.pawlus@easyfairs.com URL: http://www.easyfairs.com/EN/show-854/food-to-go-krak%C3%B3w-2010-krak%C3%B3w-poland-food-and-catering-2010-may/detail.aspx

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Publishers: Richard Lucas, Kevin Fountoukidis

Translation: Argos Ltd. www.argostranslations.com

Marketing: tel. /48/ 12 618 90 20, marketing@pmrcorporate.com

Customer service: tel. /48/ 12 618 90 30, moreinfo@pmrcorporate.com