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Annual Report

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Report Highlights:

Russia's economic improvement over the last five years has increased consumer purchasing power and demand for quality products -- pushing the Russian retail food market to \$68.1 billion in 2003, 25 percent more than in 2002. Final 2004 figures are not available, but food retail sales were probably above \$83 billion, up 22 percent. Russia is the fastest growing retail food sales market in the world, with the potential to again double in size by 2008, just as it did since 2001. With this growth and the participation of multinational retailers, the market for retail has become more competitive and quality counts. Suppliers now can face penalties for failing to provide agreed quantity and quality items to the retailers. This creates an advantage for U.S. high quality consumer ready products, especially: snacks, nuts, fresh and frozen fruits and vegetables, wine, beer, seafood, meat and poultry, among many others. U.S. exporters are invited to learn more by writing atomoscow@usda.gov or participating in the U.S. company pavilion at World Food Moscow in September 2005.

Includes PSD Changes: No
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SECTION 1. Market Summary

Russia today is the world's fastest growing food retail market. According to market experts, retail trade is on of the top performing industries of the Russian economy behind only two sectors - communications and construction.

The boom of Russia's retail sector started after the crisis of 1998 and has continued almost without interruption. The increase of the Russian's incomes has stirred consumer demand for better quality and a wider range of products. Russian consumer demand for new products is not yet saturated with the variety now available on store shelves. According to Interfax CNA and GosKomStat, total turnover of the retail market was \$148 billion in 2003, which was 25% more compared to 2002. In 2003, food comprised 46.3 percent of retail sales or \$68.1 billion and 53.7 percent was non food. Total retail sales turnover in Russia in the period from January to November 2004 was 4,954 billion rubles or U.S. \$169 billion (44 percent of which was food products -- \$77 billion). ATO/Moscow calculates that total 2004 food retail sales were above \$83 billion, more than doubling in three years. Though, retail Russian market experts claim that these figures are underestimated at least by 30 percent. Though growth will tend to slow, it will still move quickly upwards and the retail food sector can double by 2008 – provided Russia can pursue a more successful agricultural policy, domestic producers can become more efficient, and that product imports are allowed to continue.

Russia's overall food imports were up 16 percent in 2004 to well over \$12 billion. Russia's imports of intermediate, consumer-oriented, and fish/seafood products from the United States totaled above \$900 million in 2004, including transshipments of U.S. product through Europe (ATO/USDA estimate).

Table A. Retail Food Sales, 2000 –2003, Forecast 2004

| | 2000 | 2001 | 2002 | 2004 (forecast)* |
|--------------------------|------|---------------|-----------------|---------------------|
| Total Sales (\$ billion) | 36 | 47 up 31 % | 68.1 up 25 % | 83 up 22 % |

Table B. Total Retail Sales, food & nonfood by region, 2003

| | Total | Food products | Non-food products |
|--|----------------|---------------|-------------------|
| Russian Federation (\$ thousands) | 148,759 | 68,813 | 79,946 |
| Central Federal Region | 58,478 | 25,151 | 33,327 |
| North-Western Federal Region | 13,496 | 6,489 | 7,006 |
| South Federal Region | 15,637 | 7,455 | 8,182 |
| Volga Federal Region | 24,868 | 11,961 | 12,907 |
| Urals Federal Region | 12,553 | 6,210 | 6,343 |
| Siberian Federal Region | 17,429 | 8,307 | 9,121 |
| Far East Federal Region | 6,298 | 3,239 | 3,059 |

Table A and B Source: GosKomStat, Interfax CNA

*/Note: 2004 Forecast Table A by ATO based on 11 months Jan-Nov 2004, plus average Dec. sales.

The Russian retail market has attracted the attention of not just domestic retailers, but also of foreign retail chains. The largest Russian retail chains, such as "Pyatyorochka", "Diksi" and

"NTA" continue to launch new stores, but also large foreign retailers, such as IKEA, Metro, Auchan are launching new stores not only in Moscow, but in regions as well.

In Moscow starting from 2002 a large number of shopping malls were opened, such as "MEGA", "Atrium", "Mosmart" and others, uniting under their roofs large retail chains, both Russian and foreign. Such trading centers have become not only shopping centers, but also places of entertainment and spending free time together with the whole family. A German company Marktkauf launched its first trading center in Russia at the beginning of 2003, soon followed by Real, and other Western Europe chains (First among them German and French).

During the last year and a half most Moscow chains from various retail market sectors launched their stores in different cities of Russia. These are such food selling chains as "Paterson", "Perekryostok", and "Ramstore". Foreign retailers are also expanding their influence further outside Moscow. IKEA and Metro already have several stores working in regions, and Auchan is planning to launch its first store in St. Petersburg this year. Most Moscow region's retail business is estimated up by 30 percent, and with some companies, even higher, up to 50 percent.

The number of retail outlets throughout Russia is rapidly growing, this trend being typical not only for Moscow or St. Petersburg, but also for other large Russian cities.

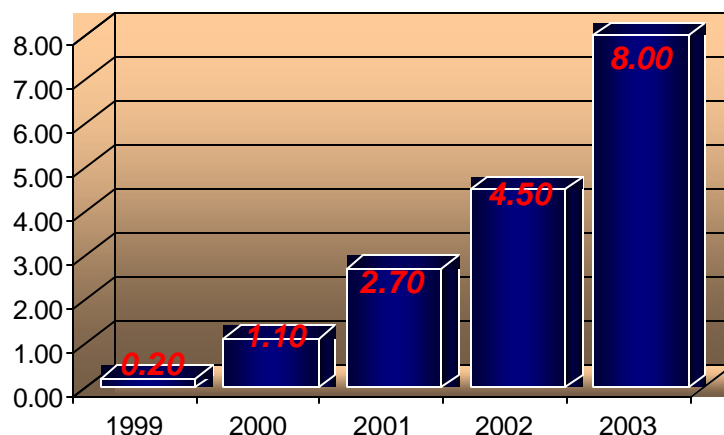
Table C. Total Number of Retail Outlets, 2000-2003

| | 2000 | 2001 | 2002 | 2003 |
|-------------------|---------|---------|---------|---------|
| Number of Outlets | 200,200 | 204,200 | 211,900 | 220,400 |

The retail sector is also a top performer for the Russian real estate industry. The amount of retail space doubled last year, creating additional work for the construction sector practically all over Russia and in Moscow as well. In Moscow alone 800,000 sq. meters of new retail space were established, though yet retail space estimated per 1,000 inhabitants is considerably lower in Moscow than in Europe - 42 vs. 198 sq. meters, respectively. Throughout Russia this figure is even lower, being not more than 30 sq. meters in large Russian cities. It is obvious that the prospects of for an increase in the retail market in Russia are still rather promising.

Over the past three years retail chains have started aggressive expansion into the market for goods, increasing their share by more than 2 times, as store formats begin to formalize from common rynoks (wet markets).

Graph 1. Growing share of retail chains within Russia's total retail turnover, percentage



At the same time, international retail chains have started actively to enter the Russian market, presenting competition to domestic retail chains and changing the market situation. Russian domestic retailers face the challenge of a possible redistribution of the retail market and maintaining their brands. The experience of Central Europe (Poland, Hungary, Czech Republic) in this respect shows that domestic retail should not be very optimistic. In those countries foreign operators managed to overtake the local retail chains and within five years won the leading positions in the market. The key competitive advantage of transnational operators is their enormous financial power. Large chains have access to inexpensive, long-term credit and the capacity to attract large investments, being able to work with the least possible profitability over very long terms and even plan losses. The typical example is IKEA, the pioneer among foreign chains to enter the Russian market. It started its work in Russia in 2000, allowing itself to plan its positive profitability only for the end of 2004. Russian companies are far from having an opportunity for such a cash flow plan. In the future, Russian retailers face the following outcomes: selling their business; moving into the regions (most of the Russian chains chose this way); search for specific market niches ("convenience stores", stores of organic and biological products); competition with foreign chains (stores "Pyatyorochka" owned by YUKOS OIL company); integration and absorption of chains (trading pool of retail chain "Six Sevens"); or expanding the business ("Perekryostok")

The market for organic and environmental aware products is developing in Russia retail. The first specialized stores of bio-products were launched in Russia under Grunwald brand in spring 2003, with the total retail space of over 3,000 sq. meters. Bio-supermarkets were open on Rublyovskoye Shosse and on the territory of Expocenter -- selling in their stores environmentally aware products as furniture, food, and cosmetics, produced in Europe. The project leaders consider that potential demand for such products in Russia is very high, as Russian consumers remember well enough the taste of natural products from the Soviet times. The other bio-supermarket project -- 'Ryzhaya Tykva' -- was open in summer 2004. The supermarket offers a selection of European organic food products, including juices, soy products, dried legumes, various spreads and dips, fresh cheeses, soups, baby food, crackers, breads, and chocolates. Besides, nowadays many consumers of expensive supermarkets are oriented at high quality. However, the Russian market offers a very narrow range of bio-products, just a few brands within some product categories at one Western chain Kalinka-Stockmann, for example. The current market of bio-products in European countries amounts to \$25 billion (constituting

approx. 2-3 percent of the whole retail market in general), being in recent years one of the most rapidly growing market at not less than 25 percent per year. The major problem related to processing bio-products in Russia was and remains the absence of high quality raw materials, especially for producing meat and dairy products, and lack of the Russian regulations on this type of products as well. According to Grunwald to launch the bio-industry in Russia it is necessary to establish vertically integrated holdings that include producing organic products and this will appear only when newly established stores show their real demand for bio-products, and when the current retail market is saturated and will start looking for unique market niches.

Single store niches

Single stores will be able to compete with retail chains only if they find narrow specific niches at retail food market. The dynamics of retail market development in 2003 and 2004 showed that there is little time left. Currently new retail structures have yet assimilated only about 10 percent of the retail food market, but retail market experts forecast that their share will soon reach up to 60 percent.

Another possible way out for single store retailers is establishing a network of highly specialized or high quality stores. Most product groups currently demanded by consumers are included in the product lines offered by retail chains. The range of products within each group, as a rule, is rather limited, which presents good opportunities for single retailers. One very popular specialization is launching "gourmet food boutiques".

Table D. Largest retail chains by number of stores in Moscow, St. Petersburg and Yekaterinburg by number of stores

| Name of Retail Chain | Headquartered City | Number of Stores in 2004 |
|----------------------|--------------------|--------------------------|
| Pyatyorochka | St. Petersburg | 409 |
| Viktoriya | Kaliningrad | 104 |
| Perekryostok | Moscow | 100 |
| Seventh Continent | Moscow | 79 |
| Diksi | Moscow | 74 |
| Kopeyka | Moscow | 60 |
| Samokhval | Moscow | 49 |
| Kirovskiy | Yekaterinburg | 42 |
| Paterson | Moscow | 45 |
| Kupets | Yekaterinburg | 35 |
| Stolitsa | Moscow | 30 |
| Ramstore | Moscow | 28 |
| Petrovskiy | Moscow | 26 |
| ABK | Moscow | 24 |
| SPAR | Moscow | 20 |
| 12 Month | Moscow | 15 |
| Metro Cash & Carry | Moscow | 14 |
| Azbuka Vkusa | Moscow | 8 |
| Lenta | St. Petersburg | 6 |
| Auchan | Moscow | 6 |
| O'Key | St. Petersburg | 4 |
| Alye Parusa | Moscow | 3 |

Since the Russian trade keeps developing at a tremendous rate, the number of retail chains is subject to constant change. As the table shows, most of the retail trade is concentrated in Moscow and St. Petersburg with 34 percent of Russia's total retail trade turnover.

Table E. Largest retail chains by turnover

| Chain | Sales Turnover (Million of Dollars) | | | |
|----------------------|-------------------------------------|------|------|--------------------|
| | 2001 | 2002 | 2003 | 2004 (forecast) |
| Pyatyorochka | 212 | 512 | 630 | 1,400 |
| Metro | N/A | 290 | 560 | 960 |
| Ramstore | 250 | 320 | 450 | 560 |
| Perekryostok | 261 | 339 | 448 | 750 |
| Seventh Continent | 200 | 300 | 445 | 668 |

Despite the rapid expansion of both foreign and domestic chains (50-100 percent per year), there still remain considerable opportunities for further growth. Modern retail outlets (hypermarkets, supermarkets, and convenience stores) provide not more than 25 percent of total retail sales of food products in Moscow, and less than 10 percent throughout Russia.

SECTION 2. ADVANTAGES AND CHALLENGES FOR U.S. EXPORTERS

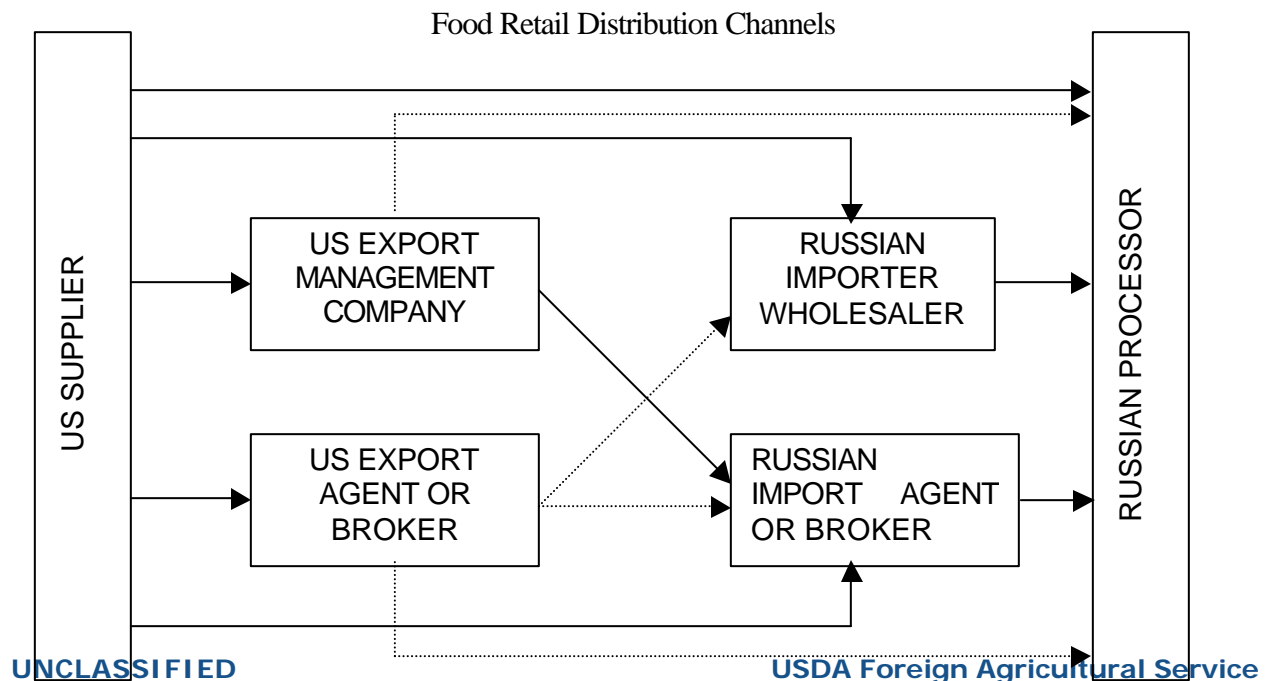
| Advantages | Challenges |
|--|---|
| Economic situation in Russia has generally stabilized, which naturally has increased consumer incomes. | Russian consumers' incomes are growing in general, yet sometimes not sufficient enough to catch up with current inflation. Outside Moscow many consumers still have very limited budgets. |
| Russian consumers demand better quality food products and beverages, as well as a greater variety of products. | Most Russian consumers are loyal to domestic and often local producers (some polls find that 70% of Russians prefer domestic products if they can find the product). |
| Increasing competition forces Russian retail food chains to search for new ways of strengthening their positions; sales of new, innovative food products being one approach. | Russian government policy aimed at supporting Russian producers obliges Russian retail food chains to buy products of domestic production. |
| Expanding retail chains offer a large variety of products with the aim to be able to compete in the current market. | Retailers seldom import products directly, preferring to rely on local importers/distributors. |
| Due to the busy and active lifestyle of Russian consumers, demand for semi-processed and convenience food products is increasing. | Russian producers started aggressive expansion of retail food market of convenience products. |
| Russian consumers increasing demand healthy and nutritious, enriching foods. | Due to a lack of information from the United States many Russian consumers have a negative attitude towards American food products, considering them to be unhealthy. |

Entry Strategy and Advice to Exports

While the best entry strategy for new-to-market exporters depends on their goals, the following are several main recommendations for a more successful entry into the Russian market:

- One of the main challenges to overcome while entering a new market is the absence of information about a newly launched product. Most Russian consumers and retailers are unaware about the quality characteristics of U.S. food products. The least expensive way in this respect is to participate in specialized exhibitions. Moscow's Prodexpo (February) and World Food (September) are the two largest general food and beverage exhibitions. Practically all large food and beverage producers, as well as importers of food products participate in these exhibitions. If market entry is aimed at regions, participation in regional exhibitions is recommended; the participation fee for regional exhibitions is much lower, and such exhibitions being are aimed at local consumers and retail food chains.
- Regardless of availability or absence of its own representative office (RO) in Russia, it is preferable to have well-established contact with a Russian importer, which becomes especially important if the exporter operates without an RO. Having a local partner in Russia significantly widens business opportunities, as there is no need for establishing direct contacts with a large number of retail chains. The choice of such a company should be better based on references from retail chains. Besides, a local Russian partner could help in solving different problems, as often business at the Russian market depends on personal relationships. Moreover, local Russian partners help the exporter understand local market conditions, for better decision-making, which would, undoubtedly, make the difference between success and failure of your business in the market in general.
- The exporter must market the products they sell. The Russian importer and wholesaler will expect the exporter's participation in the sales process, either by providing event marketing support, advertising assistance, training, packaging/handling advice, and point of sales materials. Selling to retailers is competitive in Russia; its important to build time in your calendar to visit and funds in your sales plan to market.
- Besides having a local business partner, it is also necessary to establish direct contacts with Russian and foreign retail chains, especially with large and rapidly developing ones. The best location for such a RO is Moscow, where a large number of retail companies and representative offices are concentrated. Most large distribution networks have their representative offices in Moscow.

Market Structure



Retail chains operating in Russia prefer working directly with domestic producers, since this allows decreasing expenses for purchasing products. At the same time, dealing with imported food products retail chains give preference to working with importers/distributors, in order to avoid problems with customs. Most large importers are concentrated in Western Russia, which is not very convenient for regional retail chains, as their transportation expenses to inland regions make imported products less competitive. Moscow and St. Petersburg are the most popular transshipping points for transferring consolidated cargos further to Russian regions by rail or truck. Vladivostok is a similar center for the Far East Region and Siberia.

To lower their expenses importers/distributors generally carry a wide range of products. In order to increase their competitiveness many importers sign exclusive distribution agreements with a certain brand. This is especially popular for alcohol market in Russia. At the same time, even large importers deal with several distributors in the regions. However, currently there is a trend when importers expand directly to regions, without building up additional links in "producer-consumer" chain.

The following retail sales outlet formats exist in the Russian market:

- **Hypermarket.** A store with retail space of over 2,500 sq. meters, where not less than 35 percent of the space is used for sales of non-food products. As a rule, a hypermarket is located in the outskirts of large cities, or is the key lessee of a large trading center inside the city (e.g. Mosmart, O'Kay, Auchan).
- **Supermarket.** A retail outlet with sales space from 400 to 2,500 sq. meters, where 70 percent of products are food products and day-to-day goods (e.g. "Perekryostok", "Pitersky", "Patterson", "Max-Mix").
- **Cash&Carry.** A retail outlet of 1,500 sq. meters, working under the principles of small wholesales (e.g. "Lenta", "Metro").
- **Discounter.** As a rule, is a store with sales space from 300 to 900 sq. meters, where the range of products varies from 1,000 to 4,000 items, and most popular goods are low priced. (e.g. "Nakhodka", "Dyoshevo", "Pyatyorochka", "Kopeika", "Diksi").
- **Convenience stores.** A retail outlet with small sales space (up to 300 sq. meters), located in residential areas of the city or at gas stations. The store serves the local market, and is often open 24 hours. In Russia, such retail sales points have just started to develop substituting more and more kiosks located in city microdistricts. ("ABK" (Moscow), "Samokhval" (Moscow)).
- **Coordinated Sales Space.** Retail space - up to 10,000 sq. meters with a large number of independent retail operators sharing a building's sales floor and each offering a wide range of products.

History of Retail

After the Soviet Union collapsed, Russian retail sales were in a pitiful state. The retail structure formed in the Soviet times was totally disrupted, and was already low functioning. The company

employees privatized most of the formerly state-owned retail companies. This resulted in even greater fragmentation in the Russian food retail market. At that time the main retail formats were small stores, kiosks, and large unorganized outdoor markets.

The first stores that could be regarded as "supermarkets" appeared in Russia in mid 90-s. At that time Russian retailers did not yet know what a Western supermarket should look like, and which product categories should be presented. But retailers already aspired to better retail sales. In 1995 "Seventh Continent" stores were launched, becoming the pioneer among real supermarkets in the Russian market. The 1998 economic crisis turned out to be the time when Russian retailers had to reassess their positions. Foreign retail chains were not in a hurry about their entry into the Russian market.

By 2000, the Russian retail market already looked more civilized, especially noticeable in large cities. Russian retail chains started to launch new stores more aggressively, not only in Moscow or St. Petersburg. The Russian government supported domestic retailers in the regions by providing many retail sectors with renting discounts and preferential tax conditions.

Starting from 2000, many international retail chains actively entered the Russian market, creating additional competition for Russian retail chains. The first launched international chains, such as Ramstore, Metro, Auchan, and Spar were pioneers, exploring the Russian market, and experienced many challenges related to dealing with Russian consumers and making business with Russian suppliers and official Government bodies. The Western chains stirred up the retail market, by giving it an additional push for further development.

The entry of these international retail companies brought fundamental changes into the Russian retail food sector, by introducing Western business and generally new management practices. Starting from this period the Russian retail market has become more structured, improving its services and undergoing improvement due to competition. At this time merchandizing and promotion took on an added urgency. International retail chains often offered considerably lower prices, compared to their Russian competitors, attracting to their stores not only the middle class consumers, but also lower income consumers.

Facing growing competition from foreign retailers, local chains started to form strategic alliances, a union of retail chains, the "Six Sevens", was established in 2001, and was the most successful of these unions. The participants are from various different market sectors: supermarkets, "Seventh Continent"; household appliances, "Video"; sporting goods, "Sportmaster"; construction goods, "Starik Khotabych"; cosmetics, "Arbat Prestige"; car sales, "AutoOkay"; car maintenance, "MBO"; and a tour company – "Kuda.ru". This union created a single information space, joint marketing policy, expanding and uniting the client audience, and construction of joint trading centers. For its customers the pool "Six Sevens" offered special discounts that could be used in every store belonging to the union.

In 1994, "Lenta" located in St. Petersburg, became the first warehouse-retail store to be launched in Russia. At that time Russian consumers were yet unaware of such trading format as the cash and carry sales to small businesses and restaurants. In 2001, Metro was launched in Moscow. At present these two are the brightest examples of the cash and carry sales format in Russia.

The most dynamically developing discount chains are "Pyatyorochka" and "Kopeika". The key sales strategy of such stores is the offering popular goods at lower prices, especially attracting middle class consumers. For "Kopeika", its success in the Russian market mainly is the result of its major shareholder being Yukos Oil Company, which had given it an excellent access to investment capital. "Pyatyorochka" expanded its influence using the benefits provided to it by the Russian government, as a chain responsible for serving low-income population of the country. The low-income population is not so low as in the past, in Moscow and some cities it represents a large group of people, maybe 20 million with significant amounts of income for quality food product purchases.

The largest retail food sales in Russia are made by convenience stores, by different estimates amounting up to the range from 40 to 60 per cent of the total retail food market output. This sector is still continuing, but this is probably the only sector in which not initially existing stores but also many supermarkets try to operate. Thus, the retail chains "Seventh Continent" and "Perekryostok" gave their attention to this sector in 2002 and actively developed their chains by opening convenience stores in the residential districts of the city, to diversify, maintain and expand their market share. They consider this to be a good investment of capital. The major advantage of convenience stores is their location in Moscow and other large cities in Russia, with populations over 1 million people. In cities with a lower population the niche of such stores is occupied mainly by private single trading companies, which are actively developing. The majority of "convenience" stores are aimed at the following groups of consumers:

- Busy professionals who have no time for shopping
- Senior citizens who cannot drive and are forced to shop near home
- Consumers who do much of their shopping in supermarkets or hypermarkets on weekends, but prefer buying perishables (dairy, bread, fruit and vegetables) at local convenience stores
- Students and youth who buy food products for immediate consumption.

It should be noted that a large share of the convenience store sector belongs to traditional stores, with formats converted from the Soviet period, which are especially widely spread in the Russian regions. Such food stores are usually supplied either by wholesalers or by the stores themselves, who buy their food products in cash and carry stores. It is becoming more and more difficult for such stores to compete with large retail chains that have a wider range of food products.

Gas mart stores have recently become another widespread format of retail food sales. This retail food sub-sector started its active development in 2000, along with the entry of international gas station chains into the Russian market. Such stores are becoming increasingly popular among Russian consumers, creating wide opportunities for further development not only in large cities, but also along Russian highways. Such stores could be very helpful not only in developing retail sales in Russia in general, but in particular in terms of launching new food products and beverage products in Russia at minimal expense. Most stores are open 24 hours a day. Besides car related products, the products in these stores include food, pet food, and beverages. In most stores consumers can pay for mobile phone and Internet services.

The following are suggestions for US exporters who are willing to supply products to gas station stores:

- Products must be price competitive with similar products imported from Western Europe
- Packaging sizes should be relevant for gas marts.
- Products should be innovative, as most of the purchases made in such stores are by impulse.
- Incentive promotion support should be undertaken, which would help expand sales.

Open markets, traditional during the Soviet and immediate post-Soviet periods, are still holding their relatively strong positions in the Russian retail market. In the majority of cases the range of products in such markets is limited, products being of lower quality. However, the majority of consumers are confident that such markets offer products at lower prices. These sales spaces are in decline due to pressure from formal retailers, and recently in large cities local governments have started an active struggle to offer alternatives to consumers by constructing roof-covered markets with the aim to make such type of retail sales more civilized.

Development of regional projects

The major trend of the last year was active development of regional projects by Moscow based retailers. Retail food chains alone are planning to open in 2005 more than 20 stores outside Moscow. "Perekryostok" and "Mart" opened the first regional stores. "Ramstore", "Paterson", and "Pyatyorochka" simultaneously launched their several stores in regions. In 2004 Kaliningrad company "Viktoria" opened a store in Tula, and the chain "Avos'ka" obtained three spots for outlets in Novossibirsk. The regional expansion of Moscow-sited retailers has a rather chaotic character. All retailers, regardless of their retail sales format or brand popularity, are willing to develop their chains in St. Petersburg, in the 14 large cities with populations over 1 million people, and to expand to small cities located in the suburbs of Moscow, as well.

Care for consumer

Year after year caring for your customer is becoming more important for retailers; this is particularly in evidence since 2003. More and more food stores offer convenience food products to consumers, such as ready to eat meals, frozen bakery products, etc. Convenience packaging, free-of-charge plastic shopping bags, promotion materials, discounts, and promotion activities accompanied by gifts and incentives, have become common practices for Russian retail chains. Retail chains have started conducting independent surveys to study consumer preferences, with the aim to not only improve quality of their services, but also to better understand consumer demands in terms of products they would like to see in stores.

Future Development of Retail

Transnational retail chains have a number of advantages over Russian retailers, allowing them to pursue considerable competition in the market. At present, Russian retail chains will face acute challenges as market redistribution has already started and the process could expand into the

regions in the near future, the key competitive advantage of transnational operators is their enormous financial power.

In the coming five years the following trends in the retail sector are expected:

- Retail space for food will double in size and then the growth pace of the sector on average will decline by 2-4% annually;
- Increase of competition between existing formats of chain operators;
- Geographical expansion of regional coverage, transition from local to the status of national operators;
- Difficulties in acquiring quality, wide ranging assortments for retail shelves.
- Increase of internal organizational expenses and decrease of profitability. Competition with western chains leads to decrease of profits per product item and as a result, per square meter of sales space;
- Increase of number of foreign operators of chains WalMart, Rewe (discounter Penny), Obi, and Carrefour. The market participants foresee a time in the future when Russian operators would count for not more than 25 percent of retail sales.

Table F. Stores that are to be launched in future

| <i>Project name</i> | <i>Store name</i> | <i>Location</i> | <i>Launch year</i> | <i>Store format</i> |
|---|--------------------|---|--------------------|------------------------------|
| PROJECT: DP "Kvisa-Trade" | Velikaya Kishenya | Moscow | 2005 | Hypermarket |
| TD "Perekryostok" | Perekryostok" | 40 outlets all over Russia | 2005 | Supermarket |
| "Pyatyorochka" | Pyatyorochka | Voronezh, Chelyabinsk, Perm', Ufa, Ekaterinburg, Ulyanovsk, Saratov, Volgograd, Omsk | 2005 | Discounter |
| Seventh Continent | Seventh Continent | 20 outlets in Moscow | 2005-2006 | Supermarket |
| Auchan | Auchan | Moscow, St. Petersburg | 2005 | Hypermarket |
| Metro Cash & Carry | Metro Cash & Carry | 10 outlets throughout Russia | 2006 | Hypermarket Cash & Carry. |
| Ramenka | Ramstor | Krasnoyarsk, Kazan', Nizhny Novgorod Moscow (4 outlets), Rostov-on-Don, St. Petersburg | 2005 | Supermarket |
| LIAT-DIKSI company (St. Petersburg) | O'Kay | Moscow, St. Petersburg | 2005-2006 | Supermarket Hypermarket |
| Sberbank of Russia + group of companies "Hyper center" | Rosmart | Moscow | 2005 | Hypermarket |
| TD "Kopeika" | Kopeika | Moscow, St. Petersburg | 2004-2005 | Discounter |
| Group of companies "Viktoria" | Kvartal | Kaliningrad Region, Moscow, St. Petersburg | 2004-2005 | Convenience store. |
| Group of companies | Dyoshevo | Kaliningrad Region, Moscow, St. Petersburg | 2004-2005 | Discounter |

| <i>Project name</i> | <i>Store name</i> | <i>Location</i> | <i>Launch year</i> | <i>Store format</i> |
|--|-------------------|---|--------------------|-------------------------------|
| "Viktoria" | | | | |
| Duych trading retail chain SPAR | SPAR | 7 outlets throughout Russia will be built | 2005-2006 | Supermarket |
| Trading chain "Paterson" | Paterson | Expansion of the chain up to 60 supermarkets all over Russia | 2006 | Supermarket |
| Krasnodar retailer "Magnet" | N/a | 2,000 stores all over Russia | 2008 | Discounter |
| Company "Proviant" | Avos'ka | Novossibirsk Moscow | 2005 | Discounter |
| Company "Pyatyorochka" | Karusel' | Nizhny Novgorod, Samara, Chelyabinsk | 2005 | Hypermarket |
| Company Ernan | Azbuka Vkusa | Moscow | 2005 | Elite supermarket |
| Company Agrotorg | N/a | St. Petersburg and region, it is planned to build 250 outlets | 2008-2009 | Universal store |
| IKEA | Mega Mall | Nizhegorodskaya region, Kazan' | 2006 2005 | Trading- Commercial center |

SECTION III. COMPETITION

Table G. Major Supply Sources For Selected Product Categories

| Product Category | Major Supply Sours in 2003 | Strengths of Key Supply Countries |
|--|---|---|
| Poultry Meat Net Import 1,168,171 tons \$672 million | US – 67% Brazil – 17% Germany – 4% | US price competitive, provides tech support, benefits from country-specific TRQ; Brazil competes on price, offers favorable terms |
| Pork Net Import 469,567 tons \$540 million | Brazil – 59% Poland – 13% EU – 12 % US – 4% | US price competitive on some cuts/ trimmings; Brazil/ Poland compete on price/ credit terms |
| Beef Net Import 422,226 tons \$530 million | EU – 32% Ukraine – 19% Brazil – 18% US – less 1% | EU, Ukraine, Brazil enjoy historical trade ties, short shipping time |
| Offal Net Import \$149.4 million | US – 45% Denmark – 16% Germany – 13% | US price competitive; Denmark, Germany enjoy short shipping time |
| Fish & seafood Net Import 552.150 tons | Norway – 52% Latvia – 9% UK – 5% US – 1% | Norway enjoys quality reputation, traditional trade ties. Offers strong promotional support. U.S. competitive, sales growing. |

| Product Category | Major Supply Sours in 2003 | Strengths of Key Supply Countries |
|--|--|---|
| \$338 million | | |
| Fresh Vegetables Net Import 113,359 tons | Netherlands – 25% China – 18% US – less 1% | Europe enjoys quality reputation, traditional trade ties, offers strong promotional support. |
| Frozen Vegetable Net Import 12,677 tons | Poland – 70% US – less 1% | Poland dominates with frozen vegetables. |
| Fresh fruit, deciduous Net Import 877,000 tons | Poland – 18% China – 16% Argentina – 15% US – 3% | Poland, China and Argentina compete on price for fresh fruit. Growing interest in quality attracting buyers to U.S. products. |
| Dried Fruit Net Import \$42.4 million | Iran – 33.1% Turkey – 12.3% Afghanistan – 11% ? ? ? – less 1% | Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time |
| Tree Nuts Net Import 46,420 tons \$26.7 million | US – 28% India – 9% Iran – 8% | US dominates almond trade, which expands sharply; India and Iran dominate cashew and pistachio markets, respectively |
| Fruit Juices and Concentrates Net Import 376 million liters \$140 million | Brazil – 32% Netherlands – 20% US – less 1% | Bottled/ packaged juice imports typically sold in premium market; Brazil major supplier of orange juice concentrate for processing due to competitive price |
| Rice Net Import 428,000 tons | China – 57% Vietnam – 30% US – 4% | US enjoys premium image, but limited to niche sales |
| Wine Net Import 457,600 million liters | Moldova – 46% Georgia – 15% France – 12% Argentina – 3% US – less 1% | For Moldova/ Georgia, traditional trade ties, positive image. U.S. competitive faces strong European marketing effort. |
| Pet Food Net Import \$23.5 million | Austria – 28% Hungary – 15% Germany – 9% US – 5% | |