

Coffee market in Russia.

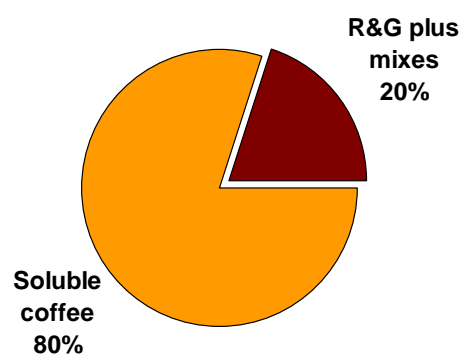
Past, present and future.



1. The coffee market at the time of the 1998 financial crisis

- Coffee consumption in Russia:
 - 1998 - 400 grams/capita.

Russian coffee market in 1998

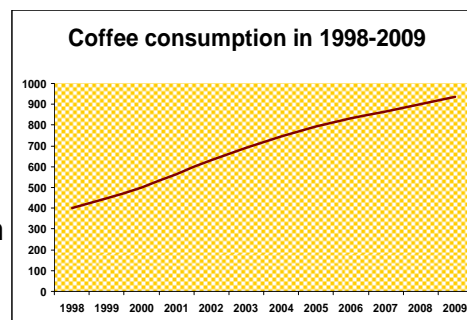


1. The coffee market at the time of the 1998 financial crisis

- Soluble coffee producers:
 - Nescafe;
 - Kraft Jacobs;
 - Tchibo;
 - café Pele (by Cacique).
- R&G coffee producers:
 - Paulig;
 - Kraft Jacobs;
 - Kuppo;
 - Russkyi Product;
 - Grand.

2. Growth in ten years, changes in consumer tastes

- 1998-2003 – growth by **10-12%** a year.
- 2004-2009 - growth by **4-6%** a year.
- Coffee consumption in **2009 – 900 grams per capita.**



2. Growth in ten years, changes in consumer tastes

- ❑ Promotion of coffee consumption.
- ❑ Coffee became a basic-needs product.
- ❑ Changes in lifestyle (led to opening of hundreds of coffee shops).
- ❑ Overall increase in consumer spending.
- ❑ Soluble coffee consumers moved to higher-quality freeze-dried coffee.
- ❑ Growth of R&G share in overall coffee consumption.

3. Investments in production and opening new plants

- ❑ Nestlé and Kraft - first multinationals to build manufacturing facilities in Russia.
- ❑ Other multinationals with plants:
 - Tchibo;
 - Paulig (started construction of roasting facility);
 - Strauss Group.
- ❑ Over \$600,000,000 were spent by foreign coffee companies on manufacturing facilities in Russia.

4. Development of Russian roasters

- 1992 – two small roasters started to roast coffee in Russia:
 - Montana Coffee;
 - Blues Coffee.

- 2009 - around 70 companies roast coffee in Russia.

Roasters in Russia today (producers of R&G coffee)

- Large roasters (3000 tons and over a year):
 - Orimi Trade;
 - Strauss Group;
 - Product Service.
- Medium size companies (from 500 to 3000 tons per year):
 - Kuppo;
 - Moskovskaia Kofeynia na Paiakh;
 - Russky Produkt;
 - Renaissance.
- Smaller companies (500 tons and under per year):
 - Montana Coffee;
 - Safari Coffee.
- Over 50 small roasters (10 to 100 tons a year).

5. Boom in café business and peculiarities of its development

- 1998 - only one coffee shop and one coffee cart operated in Russia.
- Today - around 500–600 cafés and coffee shops in Moscow alone, including:
 - local chains
 - Shokoladnitsa;
 - Coffee House;
 - Coffeein;
 - Cofemania;
 - Coffee Bean.
 - multinational chains:
 - Starbucks;
 - Costa Coffee;
 - and others.



5. Boom in café business and peculiarities of its development

- Quality of the product and service is still relatively low.
- General consumers perceive all R&G coffee as a gourmet product but don't demand quality.
- Limiting factors of out-of-home coffee consumption growth:
 - Promotion of small foreign brands as the best coffees in the world, which developed a taste for certain kinds of coffee;
 - Lack of competition.

“People drink more coffee not because it is cheaper, but because it is higher quality.”

Doctor Ernesto Illy

6. State of the market today (due to economic realities)

- ❑ **115,000 tons** is the total amount of coffee consumed in Russia in 2009.
- ❑ Soluble coffee market is now comparable with traditional for Russia tea market.
- ❑ In soluble coffee, the segments of powder and spray-dried had declined, but the freeze-dried segment grew.
- ❑ R&G coffee is still considered to be a gourmet product.

6. State of the market today (due to economic realities)

- ❑ The import of green coffee to Russia in 2009 was about **235,000 tons**, which is considerably higher than in 2008.
- ❑ Split between Arabica and Robusta:
 - Equal in total import
 - Import of R&G coffee: 80% Arabica, 20% Robusta.

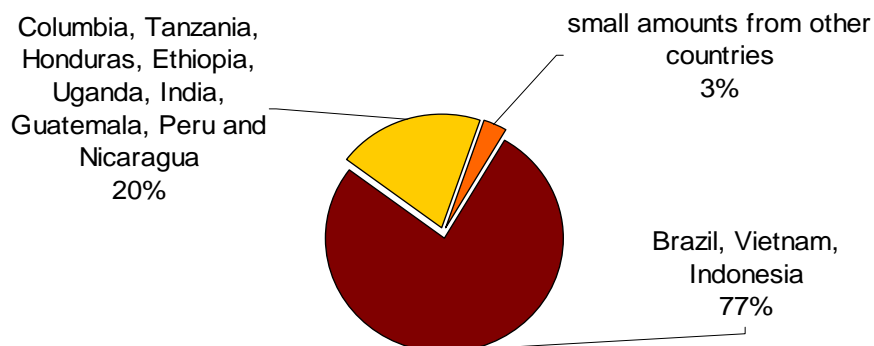
6. State of the market today (due to economic realities)

- Largest importers (about 97% of all green coffee imports to Russia):
 - Nestlé;
 - Kraft Foods;
 - KLD Coffee Imports;
 - Orimi Trade;
 - Russky Product;
 - SFT Trading.



6. State of the market today (due to economic realities)

The largest coffee origin countries for imports to Russia



7. Perceived trends in further market development

- ❑ Considerable consolidation of the market.
- ❑ Difficult to see what will be the future of micro roasters in Russia.
- ❑ The increase in consumption for the next few years will continue.
- ❑ Out-of-home consumption will continue to increase.
- ❑ R&G coffee consumption will grow faster than soluble coffee consumption, but overall balance will not change in the next few years.

8. Pros and cons of investment in the Russian coffee market

- ❑ Coffee consumption per capita is still very small in comparison to that of many other countries.
- ❑ The market is still new and additional demand can and will be created, either by you or someone else.
- ❑ With a territory equal to 10% of the world's dry land, having 40% of the world's natural resources, Russia has huge potential for an increase in its population's buying power, which in turn could provide a demand for a more Western lifestyle, where coffee consumption is an integral part of everyday life.
- ❑ The notion that coffee is bad for you is still a widely held belief. If we, the coffee industry in Russia, continue to dispel this myth, and when younger people who know more about coffee become buyers for their families, we might see another boom in coffee consumption.

8. Pros and cons of investment in the Russian coffee market

- ❑ If you decide to do it — take it seriously. Anything you want to do will require serious resources in terms of expertise, time and money.
- ❑ Don't do anything before you select a partner with local expertise and a good track record.
- ❑ In selecting a local partner do not assume that their success in business in Russia is the most important asset for you. Look carefully at who they are and what contributed to their success.
- ❑ You have to be aware of the level of corruption among Russian government officials and be ready to deal with it.

That concludes my
presentation.
Thank you.

