Consultancy & Research
Prospective et Stratégie

An invitation for Founder Clients to subscribe to Gira's second study of

Meat Market Opportunities in Russia

Import and consumer markets for beef and pigmeat

The meat companies and the route to their retail and catering clients

Commercial pig and cattle production

Traders, wholesalers and logistics suppliers

And an overview of poultry markets and trade

Opportunities for imports and investment in Russia's rapidly changing raw and processed meat markets

Contact: rbrown@girafood.com Tel. +44 1323870144

Why Buy a study on Meat in Russia now?

Russia produces just 4% of the world's total meat (excluding China), yet it is the world's second largest meat importer (after the USA), with 15% of all pigmeat and 13% of all beef traded inter-regionally.

In the last 5 years it has gone from being the lowest-cost importer of meat to a high price producer and importer, supplying an increasingly affluent middle class that is still willing to spend a large part of its income on animal proteins.

This recent change has had a profound impact on the whole Russian meat chain, increasing even further the need for importers and investors to possess up to date insight and information on both markets and operators.

BECAUSE

- It is a unique and comprehensive analysis and description of the whole Russian beef and pigmeat chain - integrating all the key micro- and macro-economic aspects: companies, distribution, imports, regions, consumer trends...
- It provides unique short and medium-term forecasts for production, trade and consumption (2016f, 2020f)
- It evaluates the future competition to pigmeat and beef from poultry
- It explains and quantifies the sources and routes-to-market of domestic production and imports, with detailed flow-charts and trend anlyses
- It shows who is importing beef and pigmeat, how, and under what conditions and prices
- It analyses and forecasts the strategies and needs of the major Russian meat processors – with profiles and SWOTs and an analysis of their purchasing needs and supplier choice criteria
- It assesses the present and future needs of modern retailers and chain caterers

Only GIRA has the experience to translate Russian *reality* into commercial insights for Western meat operators

Scope

Products: Beef and Pigmeat, with an overview of Poultry
The whole meat chain: Farming & imports – processing – wholesaling – retailing & catering
Timescale: 2000 to 2010 – current 2011/12 – quantitative & qualitative to 2016f – qualitative to 2020f

The Report

1. The Executive Summary (40-50 pages)

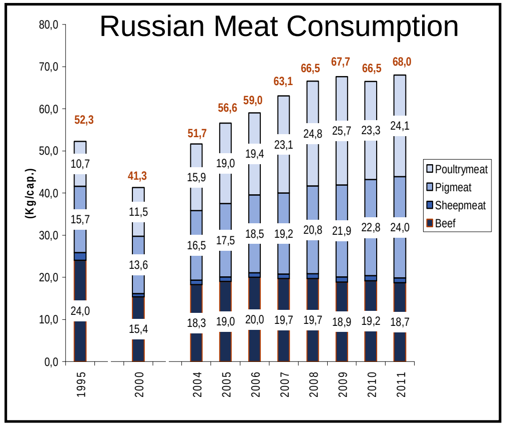
Key results, forecasts for the economy & agriculture as a whole, accelerators & brakes on production and imports (including the impact of Russian Government policy), short & medium term forecasts for consumption & production of each meat (including poultry), conclusions & recommendations for beef & pigmeat exporters and investors in the sector.

2. Body of the Report (150-200 pages)

Description and analysis of each stage of the supply chain for pigmeat & beef (with a summary analysis for poultry). Including, among many others, supply balance tables, product flow-charts through the processing and distribution circuits, industry structures, main producer and processor market shares, processor and retailer buying criteria, price formation, regulatory impact, and store-check results.

3. Company Profiles (30-40 pages)

For the major Russian beef & pigmeat processors – giving, where available: production by species & product type, brands, ownership & financials, strategies, supply, plants & farms, SWOTs.
Mini-profiles of importers, traders, wholesalers, and largest poultry processors.



Cost and Timing

Cost Euros 18,000 for the full report, including a tailored presentation
Timing Expected in June/July 2012
Language English.

Contents of the Proposal

1. Background
A new phase began just a few years ago

The Russian meat industry has gone through three distinct phases since the implosion of the old planned economy in the early 1990s:

Until the financial collapse at the end of the 1990s: chaos and disorganised downsizing
The collapse of industrial-scale farming, herd decapitalisation, breakdown of supply to the main cities, reliance on cheapest protein imports ("Bush legs") for the largest cities and, more generally, on backyard production.

Until the oil price surge in 2007/8: preparing for growth
Creation of major conglomerates with strongly branded further processed meat products, upstream integration to improve supply, start of protectionism against imports (quotas), introduction of western technology and methods, recapitalisation of meat processing and poultry production, rapid expansion of modern multiple food retailing.

Now: consolidation & growth of domestic pig & poultry production - the search for self-sufficiency

Large subsidies for production, mega meat conglomerates making lots of money, strengthening of protectionism, very high producer prices, upstream integration, and solvent demand expressed through still growing modern retail chains.
BUT not for beef, which still depends almost entirely on the relatively stagnant dairy sector, and where fragmentation, inefficiency and a continuing need for over a million tons of imports persist … at internationally attractive prices.

And a big question about the real impact of **CIS customs union & WTO membership**

The Russian market for Meat and Meat products has changed radically since Gira's last, groundbreaking study of 2005.

Our new study of Meat in Russia will look in particular at where the markets for raw and processed beef and pigmeat are going, who is driving supply & demand and what their needs will be over the next five years in terms of imports, added value and investment. We also analyse the competition to these meats from poultry.

Poultry & beef – very different markets and industry structures

Besides their competition for stomach-share, the supply structures of the three main meats have little in common.

Poultry is by far the most "advanced" meat, with >50% of production in the hands of just 8 companies

- But it is now a totally "protected" market, with imports more than halved from well over a million tons per year in 2001 through 2009, down to 550KT in 2011. Imports will continue to decline in the future.
- Russia is the only country in the world where consumption per capita has actually declined, -2.4 kilos in 2010, as imports were amputated by quota reduction to protect high levels of investment and the very high profitability for local integrators.

The Russian *poultry* market is of decreasing importance for Western operators: its role being mainly that of a competitor to the other meats. Coverage will therefore be less than that given to beef and pigmeat.

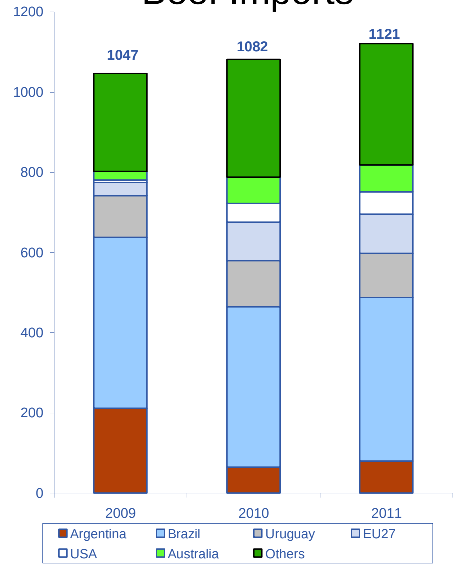
Beef imports have been steady at 1.1 million tons since 2006

This is in spite of a doubling of the import price since then.
There is no reason to expect the situation to change in the near future.

- Russian beef is almost exclusively a sub-product of dairy, and since the dairy herd is continuously declining (due to increasing milk yields & uneconomic production), beef production has declined to around 1.6 MT, which is far below domestic demand.
- Domestically produced beef is often of low quality, essentially destined to further processing. There is a permanent shortage of animals which keeps prices very high.

The chronic shortage of beef, the generally low quality of domestic cattle, the absence of major domestic investment in the sector (even if some high profile investment is starting), and the high popularity of beef with consumers (around 19 kg cwe per capita) all mean that the Russian beef market will remain of major interest for beef importers and suppliers of services for the foreseeable future.

Beef Imports



Background (3)

Pigmeat – the new star? What role for imports?

Pigmeat has been the great success story of the last 5 years: domestic production increased 30% over the period, while imports remained stable (but still a high 900 KT per year, plus large amounts of fat & offal).

(Commercial) herds are rebuilding strongly, and per capita consumption, at 24 kg cwe, is double what it was in 2001 – even if the disease question has not yet been solved and although regularity of feed supply (and cost) and productivity is still a problem.

The commercial pig production sector is growing at a remarkable rate, as government incentives assist the large integrated corporates in their efforts to produce more and better pigs at home.

Indeed, the large pigmeat processors are the driving force of the industry. They are often integrated from feed through to branded further processed meat products, and they have been exceptionally profitable:

- Russia's largest meat company, Cherkisovo, is a multi-species group with an EBITDA of 18% in 2010 from global sales of $1.2 billion. The company is quoted as saying that pigmeat is "high margin business".
- Although still fragmented, the pigmeat industry is consolidating rapidly, with horizontal and regional acquisitions,

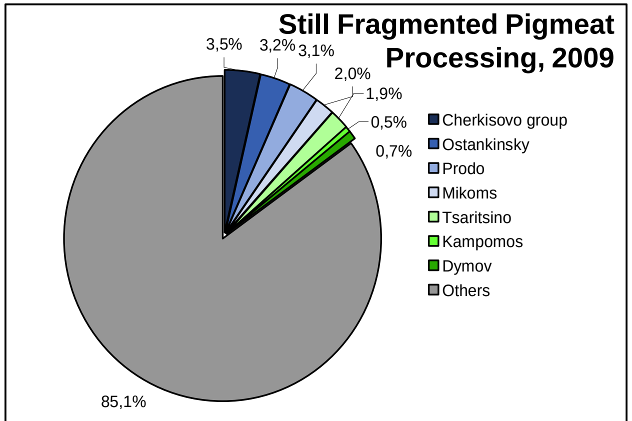
All driven by a live pig price that, at around $2,40/kg in mid 2010, Western producers could only dream of!

The Russian pigmeat market is both a major import market and a highly dynamic investors' market, including for foreign investment.

But the real strength of Russian meat markets is domestic demand.

- GDP growth has resumed at around 5% for the foreseeable future, and Russians are willing to spend a large share of income on food.
- They want more and better quality meat, increasingly including fresh meat.

Meat importers and investors in Russia must be aware of the major structural changes taking place in this no longer purely price-driven, increasingly sophisticated, and added value market.



Source: Gira from trade press

2. Objectives

Strategic insight and an operational data bank

The need today is assess to what extent and how growing demand for meat will be satisfied.

This requires a strategic analysis of all the drivers and brakes operating in the short and medium term on production, imports, further processing and distribution and market regulation.

This will require us to address all the following elements for both beef and pigmeat:

- **Demand**: products (species, degree of processing) – retail and catering offer & buying criteria
- **Production**: farms (commercial vs. private) – inputs & technologies – investment – efficiency – subsidies – selling & collecting
- **Imports**: products – sources (including Belarus) – principal importers – regulations (quotas, sanitary etc.)…
- **Intermediaries**: route-to market, and the role and activities of traders and wholesalers, mini-profiles
- **Primary & further processing**: products – industrial structures – operators; activities, ownership, strategies, horizontal and vertical integration, profiles, SWOTs etc.
- **Retail & catering**: buying criteria, packaging – marketing – negotiating strengths & weaknesses – regional expansion

Poultry will be analysed as a part of the overall meat demand equation, with zooms on the largest processors, and the relevance of its 'model' of growth as a precedent for pigmeat & beef.

An important element of all the above will be the analysis of drivers of Price Formation & Outlook at production, import and retail level.

Quantitative and qualitative forecasts will be made for 2016 and 2020.

Detailed flowcharts will show volumes of beef and pigmeat flowing from farm/import through the processing and distribution chains to end users.

3. Methodology
Tried & tested

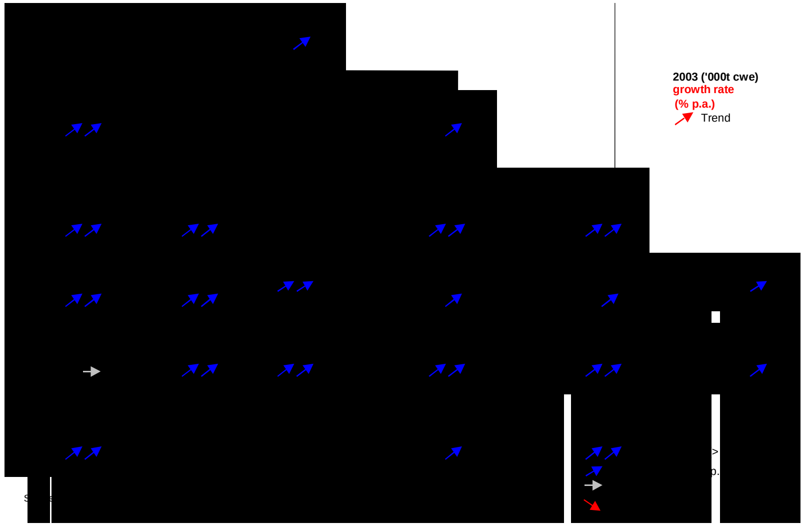
Gira will use its three, tried and tested research methods

Documentary research: All available documentary sources will be exploited, both Russian and Western

- Trade journals, the press, published studies, websites

Interviews: Completing and checking the documentary research and "putting flesh on the bones".
We would expect to carry out around 120 interviews (face to face or telephone) split among:

- Large farms
- Meat processors
- Exporters to Russia (Western and Belarusian)
- Traders, wholesalers, logistics operators
- Russian & western meat associations/boards
- Retailers
- Chain caterers
- Feed, packaging, genetics, etc.



Store-checks: our in-store "reality checks".
We will sample a total of 16 multiple retail stores:
6 each in Moscow and St Petersburg, 4 in Yekaterinburg.
Also a few open markets.

- The main raw meat cuts and further processed products
- Main packaging types and pack sizes. Labelling.
- Pricing
- Presence of brands and retailers' own labels.

4. Coverage

The full picture, with all necessary backup

Products

- Raw beef and pork (and light coverage of raw chicken): fresh and frozen
- All major further processed products made from beef and pork: sausage, salami, pelmeni, kotleti etc.
- Brands and retailer own-label where relevant

The whole beef and pigmeat supply chain

- Feed (and inputs), genetics, farms, collecting, processing, logistics, retail and catering, consumers
- Relevance of the precedent shown by the dramatic expansion of Russian poultry production
- Route-to-market, prices and margins within Russia: who is who, how it works … and how it pays

Geographical

- Demand and distribution in the Russian Federation; for route-to-market coverage, we will concentrate on the main cities, but also with an analysis of growth potential in the Regions
- Production in Russia and Belarus
- Exports to Russia from the major exporters: primarily EU, USA, South America, Australia, Belarus

Operators

- The main Russian integrated processors; industry structures, profiles, SWOTs
- The main exporters to Russia; strategies, their infrastructure in Russia

Time horizon

- Base year 2011 for statistics (2010 where 2011 not available)
- Historical from 2000
- Estimates for 2012e (volumes and prices), and forecasts through 2016f & 2020f (volumes and qualitative).

5. The Report & Presentation
Clear and user-friendly

The Presentation

Purchasers of the full study will receive a tailored, half-day presentation of results and conclusions in their offices in Europe. They will only be asked to pay the presenter's travel and accommodation costs.

The Report

The Report will be in English in electronic form: the Executive Summary will be in Powerpoint and the Body of the Report in Word. PDF versions will also be available.

1. The Executive Summary (40-50 pages)

Key strategic elements from the Body of the Report, forecasts for the economy and agriculture as a whole, accelerators and brakes on production and imports, short and medium term forecasts for consumption and production of each meat (including poultry), conclusions and recommendations for beef and pigmeat exporters and investors in the sector.

2. Body of the Report (150-200 pages)

Description and analysis of each stage of the supply chain for pigmeat and beef (with a summary analysis for poultry). Including, among many others, supply balance tables, product flow-charts through the processing and distribution circuits, industry structures, main producer and processor market shares, processor and retailer buying criteria, price formation, regulatory impact, and store-check results.

3. Company Profiles (30-40 pages)

For the major Russian beef and pigmeat processors, and in as far as they are available – production by species and product type, brands, ownership and financial results, strategies, supply, plant and farms, SWOTs.
Also mini-profiles of major importers, traders and wholesalers, and of the largest poultry processors.

The exact contents of the Report will be developed as the research progresses, but as an indication of what we would expect, the following pages contain the shortened table of Contents of Gira's 2004 Meat in Russia study.

Gira's 2004 Meat in Russia study Report Contents

Executive Summary

Body of the Report

6. Staffing
Tried and tested

The Study will be supervised by Richard Brown, Gira's Director responsible for its research and consultancy activities in the meat sector.
He is also a Board Member of the International Meat Secretariat, and a beef farmer in his own right.

- He will be assisted in the strategic analyses by Andrew Cookson, MD of Gira and responsible for a large number of studies of Russia and the ex-communist block over the last 20 years.
- Veijo Merilainen, until recently, International VP for the Finnish dairy cooperative, Valio – and highly knowledgable on developing food business in Russia: will also assist

The project head will be Véronique Aguera who has been with Gira for over 15 years and who manages Gira's research in Russia & the FSU. She is a regular visitor to Russia and she prepares the CIS section each year for the Gira Meat Club.

The research and interviews in Russia will be carried out by experienced Russian meat sector researchers and experts who have worked with Gira for many years.


Cherkizovo meat processing plant

Interviews with western companies and investment funds active in Russia will be carried out by Gira's experienced Western consultants.

7. Gira's qualifications

Excellent access to informed opinion in Russia and abroad

Gira has extensive strategic research experience in Russia, going back to the early 1990s.

- At all levels - from macroeconomic trade analyses to market due-diligence on meat companies. Throughout the whole meat supply chain, as well as in many other food areas.
- With excellent access to statistical sources and informed opinion.

Gira knows the main operators in the market.

- And has hands-on experience of importing into Russia
- As well as considerable experience of the multiple retailers.

We have produced a large number of international multiclient studies that include important analyses of the food Russian market

- As well as strategic consultancy assignments and dedicated market research.

Russia is also covered each year in the Gira Meat Club, and a chapter was devoted to its future prospects in Gira's most recent Long Term Global Meat Market Outlook study of 2010.

And above all, Gira produced its original and still unique study of Meat in Russia in 2004.

- Building up contacts and on-the-ground knowledge that will be fully exploited for the present update study.

Some of Gira's meat sector clients

Aia-Veronesi	IT	Irish Food Board	EI
Alberta, Government of	CA	IFP	EI/UK
Alic	JA	Intervet	Intnl.
ALFA	AU	McDonald's	Intnl.
Campofrio Foods	EU	Meat & Livestock Commission	UK
Canada Beef	CA	Meat & Livestock Australia	AU
Canada Pork	CA	Meat New Zealand	NZ
Cargill	US	Minerva	BR
Cebeco – Plusfood	NL	NPPC	US
ConAgra	US	Nutreco	NL
Danish Crown	DK	O.E.C.D.	Intnl.
DLMB	DK	Ofival	F
Danish Poultry Export	DK	Pharmacia	E
Danske Slagterier	DK	Various Private Equity Funds	Intl.
DSM	NL	P.V.E.	NL
Elanco	EU	Sadia	BR
European Commission	EU	Sun Valley	UK
Fedegan	Co	Swedish Meats	S
F.I.A.	F	Swedish Poultry	S
Glanbia	EI	Sygen	UK
Grampian	UK	Unic	IT
H K Ruokatalo	SF	Unicopa	F
I.M.S.	Intnl.	Uniq	UK
INAC	UR	USMEF	US
Inalca/Cremonini	IT	VION	NL
Inaporc	F	VLAM	BE
Interbev	F	ZMP/CMA	DE

Retailers, Caterers, Banks and Investment Funds

8. Timing & Subscription

Timing

Within 4-5 months of founder-client support. This study will be launched in February 2012, with completion scheduled for June/July.

Subscription

A Founder Client subscription to the study as described in this proposal is Euros 18,000 (before any applicable taxes). The price will increase to those who subscribe after project launch.

Payable 50% on go-ahead, 50% on completion.

The subscription covers:

- An electronic copy of the full Report.
- A tailored half-day presentation at the Founder Client's office for all subscriptions to the full study. The Member will receive an electronic copy of the Powerpoint presentation.
  Only travel costs (rebilled at cost) will be payable by the Member if the presentation takes place in Europe.

Partial subscription option:

- Just the Synthesis volume: Euros 9,000.

GIRA reserves the right not to start work on the Study in the unlikely event that it receives insufficient Founder Client support. In this case, existing Founder Member contracts will become nul and void.