FOOD AND BEVERAGE PRODUCTION IN RUSSIA

Results of 2018 and Trends for 2019
Forecast up to 2021

- Industry Current State
- Key Economic Events
- Condition in Specific Branches
- Market Survey of FMCG Chain Suppliers
- Rating of Food Manufacturers
- Profiles of Leading Manufacturers
- Prospects for Industry Development
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PART I. MAIN INDICATORS OF FOOD AND BEVERAGE PRODUCTION IN RUSSIA

Full version of Research «Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021»:

- GDP dynamics and breakdown
- Main indicators of food and beverage production in Russia
- Main indicators of trade in food, beverages and tobacco
- Household financial status
- International business: export and import
- Lending to food and processing industries
- Analysis of investment activity in food industry

Full version contains 6 slides, 16 diagrams
PART I. INDUSTRY PERFORMANCE INDICATORS
Results of 2018 and Trends for 2019

1.2. MAIN INDICATORS OF FOOD AND BEVERAGE PRODUCTION IN RUSSIA

- In 2018, growth in food production in comparable prices amounted to 4.9%. The increase in food production volume in the Russian Federation was promoted by growing raw material base, existing food embargo, more competitive prices of domestic products on foreign markets and restoring retail turnover within the country.
- Beverage production grew by 2.6%. Positive dynamics of the beverage market is associated with an increase in the production of beer, mineral and drinking water and soft drinks provided by the hot summer and the FIFA World Cup held in the country.
- According to INFOLine estimates, in 2018, food consumption in physical terms showed an increase of 1%.
- In Russia, food expenditures make up 32% of the total household budget. It is significantly higher if compare with residents of developed countries where they spend maximum 15% of household spending on food. For instance, this figure is 6.4% in the USA, 8.7% in Switzerland, 10% in the Netherlands, and 11% in Great Britain.

*Until 2013, production of food including beverage and tobacco

Source: FSSS

Food and Beverage Production

Per Capita Consumption of Major Food Groups of The Population, kg/yea

Source: FSSS, INFOLine estimates
1.7. LENDING TO FOOD AND PROCESSING INDUSTRIES

- At the end of 2018, lending to food and beverages manufacturers decreased by 31.2%, thus, the branch returned to its pre-crisis level in terms of loan granting.
- Lowered lending in the food industry is fraught with a reduction in investment activity due to the completion of a number of large projects, saturated domestic market, inadequate export potential utilization of high value-added products and insufficient consumer demand. In addition, as INFOLine predicted, the positive effect of ruble devaluation has ceased to be significant.
- In 2018, loan indebtedness grew by 3.3% compared to the past year, while the share of overdue debt continued to increase and amounted to 11.5% that is 2.9 pp higher than a year earlier, which indicates deterioration in the payment discipline on previously received loans.
- The branch is among the top five branches with the highest hare of overdue debt. In the corporate sector across the country, the share of overdue debt in all sectors is 6.5% (-0.2 pp compared to the previous year).
PART II. INDUSTRY MILESTONES

Results of 2018 and Trends for 2019

GOVERNMENT REGULATION: EEC BOARD DECISIONS AND PRODUCT SALES

LARGEST M&A DEALS

RESIGNATIONS AND APPOINTMENTS: GOVERNMENT SECTOR AND CORPORATE SECTOR

Full version contains 12 slides
### 2.4. LARGEST M&A DEALS

<table>
<thead>
<tr>
<th>Deal participants</th>
<th>Asset</th>
<th>Value, RUB bn.</th>
<th>Closing date</th>
<th>Deal format and description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Elkamo Trade &amp; Invest Ltd</strong></td>
<td>Sergey Barabanov, Viktor Firsov, Andrey Sotnikov</td>
<td>Russky Losos PJSC</td>
<td>0.9*</td>
<td>April 2018</td>
</tr>
<tr>
<td><strong>DMK Deutsches Milchkontor GmbH</strong></td>
<td>RichArt GK</td>
<td>40% shares of three cheese factories (Bobrovsky Cheese Factory LLC, ChizArt LLC, FlamanFrakht LLC)</td>
<td>N/A</td>
<td>May 2018</td>
</tr>
<tr>
<td><strong>BELUGA GROUP</strong></td>
<td>Andrey Romanov</td>
<td>80% Villa Romanov</td>
<td>1.2*</td>
<td>July 2018</td>
</tr>
</tbody>
</table>

* According to INFOLine estimates
2.5. RESIGNATIONS AND APPOINTMENTS: GOVERNMENT SECTOR

- In May 2018, Russian President Vladimir Putin approved Aleksey Gordeyev as Deputy Prime Minister for Agriculture. Gordeyev held the position of Minister of Agriculture in 1999-2009. From 2000 to 2004, he also served as Deputy Prime Minister.

- In May 2018, Russian President Vladimir Putin approved Dmitry Patrushev as Minister of Agriculture. In 2004-2011, Patrushev worked at VTB Bank, PJSC. Since 2007, he served as Senior Vice President of the Bank. Since May 2010, he is Member of the Supervisory Board and Chairman of the Board of Rosselkhozbank JSC. Since 2016, he is Member of the Board of Directors of Gazprom PJSC. Patrushev replaced the head of the Ministry of Agriculture, Aleksander Tkachev, who held this position since April 2015.

- In June 2018, Boris Listov was appointed Chairman of the Board of Rosselkhozbank OJSC. Listov has been working at the bank since October 2009 in the position of First Deputy Chairman of the Management Board, he has chaired the credit committee for risk management, the headquarters for organizing financing for seasonal work. In addition, he oversaw the activities of a number of the Bank’s structural units.

- In July 2018, Igor Olegovich Aleshin was appointed head of the Federal Service for Alcohol Market Regulation. He replaced Igor Chuyan, who has held the post since 2009. Earlier, Igor Aleshin was CEO of Soyuzplodoimport, and in the CEO position he headed the Moskovsky Zavod Kristall, and served as First Deputy General Director of FSUE Rosspirtprom.
PART III. SITUATION IN SPECIFIC BRANCHES

Results of 2018 and Trends for 2019

Full version contains 72 slides, 109 diagrams

Meat and Meat Products
Milk products
Fish and Seafood
Vegetable Oils and Fats
Sugar Beet processing
Grain Products

Bakery and Flour Confectionery
Chocolate and Sugar Confectionery
Canned Vegetables and Fruits
Beverages
Coffee and Tea
Tobacco and Tobacco Products

Full version contains 72 slides, 109 diagrams
PART III. SITUATION IN SPECIFIC BRANCHES
Meat and Meat Products / Results of 2018 and Trends for 2019

3.1.1. MEAT AND MEAT PRODUCTS: MAIN INDICATORS

- The Russian industrial meat processing market features a low consolidation level – share of five largest companies accounts for just over 20%. This increases competition among manufacturers.
- At the end of 2018, manufacturing of sausage products (including sausage products for baby food) showed a slight decline continuing the negative trend observed for several years. For example, Cherkizovo Group, one of the leading manufacturers of sausage products in the Russian Federation (according to INFOLine estimates, its market share exceeds 6.5%), reduced output by 3.7%. At the same time, Cherkizovo launched a robotic sausage production plant in 2018 and plans to occupy 30% of the Russian market of dry sausages, and AIH Miratorg in 2018 launched the production of sausages and wiener from its own raw materials for the first time.
- Canned meat production continued its decline in 2018, and, according to INFOLine, a significant local growth in the production of canned food recorded by FSSS in 2017 was associated with a change in the accounting data statistics.
3.1.1. MEAT AND MEAT PRODUCTS: MAIN INDICATORS

- Lowered consumption of sausage products in 2018 was due to not only a decrease in household incomes and resulting "lean consumption", but also a healthy lifestyle trend. Consumer opinion about sausage products does not correspond to their idea of a healthy diet and contributes to reorientation to other types of meat products such as semi-finished and ready-to-eat meat products.

- Against the background of growing consumption of this product, companies in the industry increased their investments in capacity expansion and development of new products in the category. For example, the Kursk Meat Processing Plant (part of Agropromkomplektatsiya, GK) in 2018 increased its semi-finished products output more than 3 times after site modernization.

- Miratorg Zapad, one of the largest Russian producers of frozen meat products and ready-to-eat meals, put 51 thousand tons of products on the market in 2015 that is 13% more than in 2017. In 2019 the company plans to increase its output by another 17% to 60 thousand tons.
3.1.2. MEAT AND MEAT PRODUCTS: EXPORT

- At the end of 2018, meat exports from Russia (EEU FEACN Category 02) grew by 25% in monetary terms and by 19% in physical volume. The share of meat exports does not exceed 4% of production.
- The share of 10 largest countries-consumers of meat and meat products account for 93% of Russian exports.
- The main volume of shipments accounted for poultry meat – 183.8 thousand tons (an increase of 12.3% compared with 2017). The share of poultry meat and its offal accounted for 63.5% in physical terms and 47% in monetary terms.
- At the end of 2018, the Chinese market was reopened for Russian poultry producers, which has been closed since 2005 after an outbreak of bird flu. The Ministry of Agriculture is planning to increase poultry meat exports to China in the near future to 150 thousand tons that makes 30% of all Chinese imports.
- The largest increase in exports was demonstrated by small cattle meat - an increase of more than 26 times, both in physical terms and in monetary terms, a significant increase is due to the low base effect and a significant increase in exports of this meat to Iran.

Main Types of Exported Products In Physical Terms in 2018

<table>
<thead>
<tr>
<th>Source: FCS, INFOLine calculations</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<th>2018</th>
</tr>
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<td>150</td>
<td>200</td>
<td>250</td>
<td>300</td>
<td>350</td>
</tr>
</tbody>
</table>

Rating of Meat Consumer Countries in Monetary Terms in 2017-2018

<table>
<thead>
<tr>
<th>Source: FCS, INFOLine calculations</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>2017, USD mln</th>
<th>2018, USD mln</th>
<th>Dynamics in 2018/2017, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>100</td>
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<td>90</td>
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<tr>
<td>500</td>
<td>600</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: FCS, INFOLine calculations
3.1.3. MEAT AND MEAT PRODUCTS: IMPORT

- At the end of 2018, imports of meat and offal (EEU FEACN Category 02) showed a fall of 23% in monetary terms and 25% in physical terms, due to the development of domestic production and the effect of food embargo. Pork (-78.2%) and other meat offal (-58.8%) showed the largest decline in physical terms.

- The share of 3 largest countries in terms of meat and meat product exports accounts for 72% of all Russian imports. The largest suppliers of meat to the Russian Federation are Belarus (38%), Paraguay (18%) and Argentina (16%). In 2018, Brazil reduced exports to the Russian Federation by 82.2% in physical terms due to the ban on the pork and beef supply from December 1, 2017 to November 1, 2018 due to a muscle growth stimulant identified in meat. Poultry meat import to the Russian Federation from Brazil that was not banned amounted to 65.1 thousand tons.

- The largest share in imports is still taken by beef (46%) due to insufficient domestic production. The share of pork imports decreased in 2018 to 8% (28% in 2017).

**Meat and Offal Import to the Russian Federation**

**Main Types of Imported Products in 2018**

**Rating of Meat Importing Countries in Monetary Terms in 2017-2018**

- Source: FCS, INFOLine calculations
### 3.1.4. MEAT AND MEAT PRODUCTS: MAJOR COMPLETED PROJECTS

<table>
<thead>
<tr>
<th>Investor</th>
<th>Facility</th>
<th>Project start</th>
<th>Project finish</th>
<th>Investment, RUB bn *</th>
<th>Project description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ЧЕРКИЗОВО</strong>&lt;br&gt;Cherkizovo, GK</td>
<td>Dry sausage plant in the Moscow Region</td>
<td>Q4 2015</td>
<td>Q2 2018</td>
<td>6</td>
<td>A fully automated plant built for dry sausage production in Kashira. Plant capacity is 80 tons of finished products per day or up to 30 thousand tons per year. The site provides over 30% of the total Russian output of dry sausages.</td>
</tr>
<tr>
<td><strong>ABI PRODUCT</strong>&lt;br&gt;ABI PRODUCT</td>
<td>Sausage shop in the Vladimir Region</td>
<td>Q3 2017</td>
<td>Q2 2018</td>
<td>1,7</td>
<td>Phase I of the sausage shop in Vladimir was built. The company manufactures products under such brands as “Starodvorskiye Kolbasy”, “Vyazanka”, “Goryachaya Shtuchka”, etc.</td>
</tr>
<tr>
<td><strong>Firm Agrocomplex named after N.I. Tkachev JSC</strong>&lt;br&gt;Akashevskaya Poultry Farm in the Republic of Mari El</td>
<td>Meat-processing plant</td>
<td>2017</td>
<td>Q3 2018</td>
<td>1,2</td>
<td>A meat processing plant was built in the Medvedevsky district with a capacity of 6 thousand birds per hour (10.8 mln animal units per year).</td>
</tr>
<tr>
<td><strong>Rusagro, GK</strong>&lt;br&gt;Slaughterhouse shop Rusagro-Primorye in the Primorye Territory</td>
<td></td>
<td>Q2 2017</td>
<td>2018</td>
<td>0,5</td>
<td>The slaughterhouse was reconstructed with equipment purchased to arrange slaughter production with a capacity up to 120 animal units per hour in Ussuriysk.</td>
</tr>
<tr>
<td><strong>Khakasskaya Baranina LLC</strong>&lt;br&gt;Lamb processing plant in the Republic of Khakassia</td>
<td></td>
<td>2015</td>
<td>Q4 2018</td>
<td>0,5</td>
<td>A lamb processing plant was built in the Ust-Abakan Region with a production capacity of 60 thousand sheep per year (30 animal units per hour). The plant includes pre-slaughter, slaughter, deboning, chilling and freezing, packaging and shipping facilities.</td>
</tr>
<tr>
<td><strong>Damate, GK</strong>&lt;br&gt;Poultry processing plant in the Penza Region</td>
<td></td>
<td>Q4 2018</td>
<td>Q2 2019</td>
<td>11</td>
<td>A turkey processing plant was built with a capacity of 155 thousand tons per year in the Nizhnelomovsky district. Capacity of production lines is 6 thousand animal units per hour. The total area of the building exceeds 43 thousand sq.m, 51 production lines are launched. The total length of the conveyors is almost 11.5 km.</td>
</tr>
</tbody>
</table>

* According to INFOLine estimates
### 3.1.5. MEAT AND MEAT PRODUCTS: MAJOR PROJECTS IN PROGRESS

<table>
<thead>
<tr>
<th>Investor</th>
<th>Facility</th>
<th>Project start</th>
<th>Project finish</th>
<th>Investment, RUB bn *</th>
<th>Project description</th>
</tr>
</thead>
<tbody>
<tr>
<td>МИРАТОРГ</td>
<td>Meat packing house in the Kursk Region</td>
<td>Q3 2017</td>
<td>2023</td>
<td>68</td>
<td>A meat packing house built in the Oktyabrsky district in 2 stages: deep meat processing (by 2020); slaughter and boning complex for pigs (by 2023). Slaughter plant capacity will be 4.5 mln animal units per year, 346 thousand tons in slaughter weight. The plant plans to manufacture deep and heat-treated meat products.</td>
</tr>
<tr>
<td>AIH Miratorg</td>
<td>Meat product processing line of the cattle slaughter complex in the Bryansk Region</td>
<td>Q2 2018</td>
<td>Q1 2020</td>
<td>4.9</td>
<td>Construction of a meat processing line at Bryansk Meat Company LLC in the Vygonichsky district with a capacity of 14 thousand tons of products per year.</td>
</tr>
<tr>
<td>AGROЭКО Agroeco, GK</td>
<td>Meat processing plant in the Voronezh Region</td>
<td>Q2 2019</td>
<td>2020</td>
<td>14.5</td>
<td>Construction of a meat processing line at Bryansk Meat Company LLC in the Vygonichsky district with a capacity of 14 thousand tons of products per year.</td>
</tr>
<tr>
<td>ЧЕРКИЗОВО Cherkizovo, GK</td>
<td>Meat-processing complex Sausage Technopark Cherkizovo Kashira in the Moscow Region</td>
<td>2019</td>
<td>Q4 2024</td>
<td>19</td>
<td>Construction of the Kashira-2 complex of meat-processing plants with a capacity of 550 tons of products per day in Kashira. The complex will include: a plant for the production of frozen finished products, a distribution center with a sausage cutting line and refrigerated warehouses, a plant for ham and cooked sausage production.</td>
</tr>
<tr>
<td>Дамате Damate, GK</td>
<td>Plant for deep processing of turkey meat in the Penza Region</td>
<td>2018</td>
<td>Q3 2020</td>
<td>5.7</td>
<td>Construction of a plant for deep turkey meat processing in the Nizhnelomovsky district. Plant capacity will be 150 tons per day. 13 production lines will produce dry-cured sausages, hams, boiled sausages and wiener products, as well as semi-finished products.</td>
</tr>
<tr>
<td>AGROКУМ GROUP</td>
<td>Тавр sausage factory in the Rostov Region</td>
<td>Q4 2018</td>
<td>Q4 2020</td>
<td>3</td>
<td>Construction of a sausage factory in Bataysk with a total area of 20 thousand sq.m. Capacity of the meat processing plant will be 40-150 tons per day.</td>
</tr>
<tr>
<td>Деликетс AGRIKO, GK</td>
<td>Delikatesy Meat Processing Plant in the Stavropol Territory</td>
<td>Q2 2017</td>
<td>Q4 2019</td>
<td>2.9</td>
<td>Construction of Delikatesy Meat Processing Plant LLC in the Mineralovodsky district with a capacity up to 60 tons of finished products per day (up to 20 thousand tons of products per year).</td>
</tr>
</tbody>
</table>

* According to INFOLine estimates
PART IV. MARKET SURVEY OF LEADING FMCG CHAIN SUPPLIERS

Results of 2018 and Trends for 2019

Full version of Research «Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021»:

- Sales results of leading FMCG suppliers in 2016-2018 and forecast for 2019
- Factors impending suppliers development and criteria of successful retail chain operation
- Government regulation
- Share of leading suppliers sales through FMCG chains
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Promo sales and special range for FMCG chains in 2018 and forecast for 2019
Online sales of leading suppliers in 2017-2018 and forecast for 2021
Exports in sales structure in 2018 and forecast for 2019

Full version contains 8 slides, 29 diagrams
5.1. SALES RESULTS OF LEADING FMCG SUPPLIERS IN 2016-2018 AND FORECAST FOR 2019

- In 2018 retail turnover in the food segment increased by 2.1% to RUB 15.06 trln in physical terms (by 4.5% in monetary terms). At the end of 2017, the indicator in physical terms increased by 1.1%.
- In 2018, real disposable incomes of the population grew by 0.1%. In H1 2018, real disposable monetary incomes of the population showed significant growth for the first time since 2014. This was mainly caused by the pre-election first quarter when there was a local increase in payments in the public sector for implementing the "May Decrees".
- The overwhelming majority (80%) of leading food products suppliers noted an increase in sales in 2018 in rubles, and more than a third of respondents said that sales grew by 10% or more.
- The INFOLine forecast was confirmed: growth in sales of leading FMCG suppliers accelerated, despite the market stagnation as a whole, which is associated with consolidation (crowding out small players and replacing imports).
- Sales forecast for 2019 is somewhat more optimistic for the majority – also 80% of respondents expect an increase in sales, and only 5% of respondents expect a decrease.

Source: INFOLine analysis based on answers to questions: "How did sales of your company grow in 2018 (in rubles):" and "How will sales of your company grow in 2019 (in rubles):"
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