

The Russian Fashion Retail Market

macro-economics / consumer behaviour/ retail development/ commercial real estate
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1) Economics

1.1. Key Macro-Economic Indicators first ten Months of 2010

cisstat Jan.-Nov. 2010/ November 17, 2010, n-tv,
December 1, 2010, RIA News/December 2, 2010, lenta.ru

Obviously, the Russian economy is growing stronger than expected. According to Elvira Nabiullina, Minister of Economic Development of the Russian Federation, the Gross Domestic Product (GDP) registered in October 2010 rose by 3,9 % compared to 3,6 % over the first nine months of last year. The minister expects a growth of 3,8 % for the full year 2010. A major reason for this is explained by an unexpected rise of industrial production in Russia. This indicator increased at a rate of 8,9 % over the first three quarters of 2010. Capital Investments accounted for a growth of 3,8 % from January till September 2010 and rose by 5,8 % in October. Whereas exports to non-CIS countries surged by 40 % over the first nine months of last year, imports increased at 35,5 per cent. Consumer prices saw a considerable down-turn from a rise of 11,7 % in 2009 to 6,4 % at the end of the third quarter of 2010. In October consumer prices remained quite stable at a slight increase of 0,5% against the third quarter. Unemployment kept falling from 2,202 million persons to 1,528 million persons in October, representing a decline of 31 %. The exchange rate of the Russian Ruble against the US \$ remained stable at RUR 30,7 in October 2010 against RUR 30,4 in January 2010.

Despite reasonable growth registered for main economic indicators retail trade turnover is still lagging behind. Whereas revenues of retailers reached an increase of 4,4 % over the first nine months of 2010, September saw a depreciation of 1,9%. Retail sales picked up again in October by 2,9 % but fell again in November at a rate of 1 %. According to Andrey Klepac, Vice-Minister of Economic Development, recovery of consumer demand is slower than expected. It will definitely not reach the forecasted overall growth of 5,2 % for 2010 and it may not even turn out at the revised forecast of 4 %. "We are expecting positive changes in consumer demand next year, but expectation on double digit growth are not realistic" Klepac said at the Russian Banking Forum which was held at the beginning of December 2010 in Moscow.

1.2. Russian Visa Applications tightened for EU-Citizens

November 5, 2010, n-tv

The Russian government has tightened a number of prerequisites for obtaining visa for private applicants like tourists such as for business travellers holding an EU passport. According to the Russian Embassies business travellers have to provide a

document on the letterhead of their company indicating the function of the applicant in the company, the person's monthly salary such as a written confirmation that the applicant is travelling to Russia for a business mission on behalf of the company. Russian authorities explain, that implementation of such rules follows the "principle of reciprocity". As a matter of fact, European Embassies in Russia apply similar conditions for Russian visa applicants, travelling to the EU. In order to avoid negative influence on the development of business relations, bilateral talks between Russian and EU-officials are planned to improve visa application on both sides.

1.3. Market Reform Status of Russia under Depreciation

November 5, 2010, lenta.ru

In 2010 Russia lost seven steps in its ranking on market economy oriented reforms, falling from position 116 to 123. This is a result of an annual research conducted by the World Bank and its affiliated International Finance Corporation (IFC) among 183 countries under the title of "Doing Business in ...". According to the study, the best country for doing business in CIS is Kazakhstan. Last year this country improved its position from rank 74 to 59. The worst CIS- countries are Ukraine positioned on rank 145 as well as Uzbekistan, placed on position 150. Kazakhstan achieved its better ranking by simplification of business registration, customs procedures and faster authorization procedures for construction works.

1.4. Ban on Daytime Truck Deliveries alarms Muscovite Retailers

November 17, 2010, Kommersant

With the aim to fight ever growing traffic congestion in Moscow, the Department of Transport and Communication of the capital put forward a decree to ban truck traffic on the Moscow Ring Road for vehicles of more than 1,5 tons from 7 a.m. to 10 p.m. proposed to start from January 15, 2011. The two largest Russian associations ACORT representing the large grocery retailers and RATEK serving the largest electronic goods retailers heavily opposed such plans arguing that this should increase cost of logistics by 70 %. The proposed change to night time deliveries is also said to increase cost of personnel and energy at shopping centers located within the area of the City Ring Road. The associations also announced that such additional cost will force retailers to increase consumer prices up to than 5 % with a negative impact on the inflation rate.

Transport and delivery logistics in Moscow happen to develop into an extremely serious problem, right now, after phasing out of the economic crisis. According to Michael Goetz, Managing Director of Praedium Oncor International, a consulting and service provider for all sectors related to commercial real estate, the warehouse capacity in Moscow of around 4,5 mn. square meters of storage space is too small by far to stock merchandise for delivery to existing shopping centers in Moscow covering a gross lease area of well over 7 mn square meters. Therefore space rates for storage are at the point of exploding. The ban on truck deliveries over daytime would turn out as a disaster for the organization of storage of inbound and outbound freight, said Mr. Goetz.

1.5. Russian Companies planning to grow outside their Home Country

November 18, 2010, RBC Daily

Whereas foreign companies keep an interest in the Russian market, Russian companies look at investing in foreign markets. In a study on both aspects, the Russian research and consulting firm BDO investigated on the reasons about Russian companies going international. Although respondents did not so much express serious concern about Russian inherent problems like bureaucratic hurdles and corruption, the main cause for them to expand business to outside their home

market are lack of experienced managers and well trained employees (62 %) as well as deficit of finding reliable and professional local partners in the area of management consultants, auditors and lawyers (59 %). Altogether 77 % of Russian companies addressed by the study responded that they are planning access to international markets in 2011. Priority region for Russian entrepreneurs is Europe, with the United Kingdom in the lead, followed by CIS-countries with Ukraine as a most favoured market place. Ranking third is the Asia-pacific region, followed by Turkey and the Middle East.

1.6. Federal Customs Service under Pressure from Ministry of Economics

December 12, 2010, Lenta.ru/Kommersant

Serious Commercial problems arising from customs clearing in Russia seems to be a never ending story. Terminals for customs clearing in Russia are usually built, provided and operated by private transportation companies co-operating with the Federal Customs Service (FCS), a state institution, accrediting authorization over the terminals . St. Petersburg one of the most important hubs for shipments of imported consumer goods used to offer several terminals for customs clearing of many thousands of trucks per day. In Spring 2010, two important terminals, "Vyborg" and "Piskarevsky" were closed by order of FCS, causing shipping companies a nightmare in re-routing trucks to other terminals outside the city. Again, in fall 2010, the head of FCS, Andrey Belyaninov, ordered to close "Sovavto" a large terminal in the South of St. Petersburg designed to clear 800 trucks per day. He also ordered to substitute the "Sovavto" terminal by a much smaller terminal named "Ruslan", ready to service 100 trucks. Interesting to note that "Ruslan" is a subsidiary of ROSTEK, the so-called Federal State Unitary Enterprise which is under the control of FSC. On December 1, when the order entered in force, traffic in the south of St. Petersburg collapsed and customs clearing got paralysed because "Ruslan" was out of operating. According to a comment made by the Russian economic newspaper, Kommersant, this type of occurrences, caused by "sudden unilateral" decisions of FCS is supposed to get stopped by a change of the federal law on customs regulations, which prohibits FCS from closing down or change customs clearing terminals. The change was initiated by the Federal Ministry of Economic Development in an attempt to protect the business community from protectionist actions.

1.7. Russia's Tax System among World's best?

December 7, 2010, GAAP-IFRS.com

Analysts from BKR International, an auditing firm, claim that Russia's corporate revenue taxation system is one of the world's best, because shareholders may count on high net income. BKR made a study on the amounts of after tax revenues of shareholders and investors in 19 different countries. As results show, shareholders in Russia, Mexico, Turkey and South Africa are left with in between 55,7 to 61,7 percent of after tax income, only topped by Saudi Arabia with 80 percent. Least attractive countries are Spain, France, the United Kingdom and Germany where after tax entrepreneurial income ranges below 43 percent. According to Alexey Kudrin, Federal Minister of Finance, the tax burden in Russia even goes down to 26 percent, if export duties on oil and gas such as the mineral extraction tax get deducted. However, the tax system in Russia is not that friendly to investors if other indicators are taken into account., like taxation risks and speed of recovery of V.A.T. As World Bank and IFC report in their latest "Doing Business" survey, Russian corporate tax payers spend an average of 320 hours in talking to their tax inspectors, against 120 hours in the United States or 82 hours in Singapore.

1.8. WTO Access of Russia likely for Conclusion in 2011

December 14, 2010, RIA NOVOSTI/ITMM-comments

Elvira Nabiullina, Russian Federal Minister of Economic Development and Karel de Gucht, EU Trade Commissioner, signed the Memorandum of Understanding between Russia and the European Union on completion of negotiations for Russia's access to the World Trade Organization (WTO) on December 14, 2010 in Brussels, prior to the opening of the 26th Russia-EU Summit. Negotiation with Russia on joining the WTO took partner countries 17 years. Although Jose Manuel Barroso, Chairman of the EU-Commission, expects a strong development of trade and investment between Russia and the EU, *economic experts express scepticism whether the WTO membership of Russia will help the country to overcome its heavy structural deficits in administration, economic diversification, infrastructure, civilization of customs and trade, legal security and the mental recognition of competition as a main driving force of economic growth. It looks as if it will take at least one more generation for Russia to become a "normal" country within WTO.*

1.9. Russia plans Single Body for Financial Supervision

December 27, 2010, GAAP-IFRS.com

According to a law draft introduced to the Russian State DUMA by the federal Ministry of Finance, it appears possible that all financial organisations in Russia including joint-stock companies, insurance companies, stock exchanges or credit-unions will be supervised by one single authority. The Ministry of Finance has excluded banks and auditors from the draft, because these are suggested to remain under the supervising authority of the Central Bank (Bank of Russia). Insiders expect that the new authority will be built on the basis of the existing Federal Insurance Supervision Service (FISS) and not on the Federal Financial Service Institution (FFS) so far controlling the financial market in Russia. FFS will be possibly dissolved. *(Comment by publisher: It looks as a general policy of the Medvedev administration to break up the power of old administrative institutions which often go back to Soviet times and to replace these by new institutions managed by new and younger people.)*

1.10. European Clothing Exports to Russia on the Way to Recovery

December 30, 2010, EFTEC/CITH, Brussels

After a drastic slump of 29 percent on a year to year 2009/08 comparison, European Clothing Exports (HS-codes 61 and 62) have shown a consistent process of recovery over 2010. Although clothing exports from the EU-27 saw a still hefty decline of 17 percent at the end of the first semester of 2010 against the same period of 2009, strong rising deliveries into the Russian retail season Autumn/Winter 2010/11 helped to reduce depreciation to just 3 percent over the period from January to September 2010. According to the European Fashion and Textile Export Council (EFTEC) there is a good chance for total EU-27 clothing exports to turn to positive one digit growth for the full year 2010.

However, as EFTEC further explained, there remain strong discrepancies from member state to member state and from product category to product category. Whereas the traditionally leading clothing exporters to Russia still registered two-digit and one-digit decline rates over the first nine-months of 2010 new-comers reached spectacular two-digit growth, with Spain and the United Kingdom in the lead. **Spain** was good for an increase of 20 percent (€ 75,4 mn), but was topped by the **UK** having achieved a growth of 52 percent representing a shipment value of € 74,7 mn. Clothing exporters from **Italy** to Russia registered a moderate decline of 2 percent (€ 692,3mn) over the first nine months of last year. **Germany** ranking second as supplier belonged to the worst performers with an ongoing decline of 15 percent (€ 382,7 mn) together with **France** from where deliveries of clothing

depreciated by 14 percent (€ 133,5 mn). As EFTEC further assessed clothing exports from the new Eastern European Member States to Russia succeeded to rise by 14 percent to a total of € 225,8 mn. with **Lithuania, Poland, Estonia** and **Latvia** in the lead. Shipments from Lithuania alone registered a growth of 10 percent representing a value of € 100,4 mn. Given this result Lithuania moved ahead to the fourth position of all EU clothing supplier nations to Russia, after France and followed by Spain, the United Kingdom, Poland, Finland, Netherlands and Austria. In terms of product segments EFTEC analysed a growth of exports of **Menswear** from the EU-27 to Russia at a rate of 3 percent to € 387 mn with Italy (€ 136 mn) and Germany (€ 130 mn) in the lead, far ahead of other member state. Shipments of **Womenswear** from the EU-27 to Russia registered a minimal increase of 0,7 percent (€ 831 mn) with Italy, Germany, France, Spain and the United Kingdom ranking as the first five important suppliers, followed by Lithuania. Exports of **Intimate Apparel** from the EU-27 to Russia rose at 0,6 percent over the first nine months of 2010 to a total shipment value of € 259 mn with Italy, Lithuania, Germany, Estonia and France in the lead. As EFTEC explained Lithuania's second rank as intimate apparel supplier results from this country' strong rising position as supplier of panty hose to Russia, representing a share of 43 percent of its total clothing exports to Russia.

1.11. Russian Designers featured at next CPM

December 30, 2010, IGEDO Company

The organizers of the 16th edition of Collection Premiere Moscow (CPM), IGEDO Company, will set a focus on the presentation of six Russian Fashion Designers which participate as exhibitors in the premium section of CPM from 21 till 24 February 2011. IGEDO and MESSE DUESSELDORF keep sponsoring Russian Designers since seven years. Such talents are supported for a period of twelve months, offering them opportunities to get connected with the international fashion world. This time the selection fell on ELENA TEPLITSKAYA; the team of ELENA SHUMILO and OLGA ELAGINA; KHAVA ARAPIEVA; EKATERINA SMOLINA; SERGEY MOSKALENKO and LARISA VLADIMIROVA presenting each their creations for the season Autumn/Winter 2010/11 at their stands in pavilion 8.1. of Expocenter fair grounds. The best outfits selected by a jury will be presented in the framework of two special catwalk shows on February 21 and 22, 2011, at the Hall of Design of CPM in pavilion 8.3.

2) Consumer Characteristics

2.1. E-Commerce tripled despite Obstacles

November 3, 2010. GAZETA.RU

According to a research conducted by Citibank in co-operation with Google, internet sales in Russia rose from RUR 200 bn (€ 5 bn/US \$ 6,7 bn) in 2008 to RUR 600 bn. (€ 15 bn/US \$ 20 bn) at the end of September 2010. Basis for the study were data on purchases made by 450.000 Russian consumers using Citibank credit cards. In term of value of purchases the first rank went on the account of education services including books, air-and rail travelling and freight, hotel accommodation, music and consumer electronics as well as on clothing and footwear purchases. The share of expenditures for wearing products against the total average spending represents 10,6 percent, based on average checks of RUR 5.294 (€ 132,35/US \$ 17,65).

The bulk of online purchases and payments in Russia falls on Moscow (57,2 %), St. Petersburg (27,3 %) and Ekaterinburg (2,6 %). The most active online-consumers are young, single and educated men. The balance of 12,9 % is purchased from the large Russian Cities with Novosibirsk (1,1 %) in the lead. The biggest problem for E-Commerce in Russia is payment and delivery time. Although international internet providers for payments like iTunes, Skype or Paypal are registered in Russia, the

majority of Russian consumers are still against disclosing their credit card details for safety and transparency reasons. The majority of goods delivered get payed by cash on delivery. Quite open it happens that the freight charges are higher than the cost of the purchased product. There are reasons why Russia is still far away from the turnover reached in leading e-commerce nations. "Very rarely a Russian consumer would commit to 40 % of his budget for purchases on the internet but in the US this figure reaches 70 %" said Konstantin Kuzmin, director of marketing for Google Russia who also compared the share of e-commerce against GDP of several countries: Whereas in the UK online commerce has reached 7 % of GDP, the share in Russia is just 0,5 %. Therefore and according to Kuzmin growth prospects for e-commerce in Russia are huge, despite of obstacles.

2.2. Muscovites shocked by Parking Ban on Key Center Highstreets

November 12, 2010, lenta.ru/Kommersant

The City Government of Moscow imposed a ban on car parking along the pavement of the busiest high street of the capital, Tverskaya, from Okhotniy Ryad to Triumph Square. Since November 10, 2010, retail stores and restaurants located on Tverskaya struggle against heavily reduced frequency of shoppers, right ahead of the most important pre-New Year retail season. Retailers are extremely aggravated because sales are badly affected by the ban on parking. For example, revenues of the flagshipstore of BOSCOSPORT on Tvesrkaya fell threefold compared to the week before the ban entered into force. Similar results were reported by fashion stores like FABI, CALZEDONIA or PODIUM. DIKAYA ORCHIDEYA with two multi-brand lingerie stores on Tverskaya considers to abandon Tverskaya. If the parking situation remains as it is, real estate brokers expect a down turn of rents on Tverskaya, where shops in the size of 100 square meters get charged € 5.000 per square meter per year.

2.3. Russians buying more Cars

November 29, 2010, auto.lenta.ru/Global Times.cn/Wikipedia

After a cut by half in 2009, Russian car sales recovered over the first nine months of 2010 at a growth of 18 per cent against the same period of the year before, adding up to a total of 1.32 mn. vehicles, excluding trucks. The recovery of the Russian passenger car market was confirmed by the CEO of VOLKSWAGEN Group, Martin Winterkorn, in an interview with RIA Novosti news agency at the end of November 2010. According to him sales of Volkswagen's imported luxury car brands AUDI and PORSCHE picked up considerably. From January till October 2010, AUDI sold 15.600 new cars and 1.283 Porsche vehicles, mainly Cayenne SUVs. At the same time Winterkorn noted that the investment of Volkswagen in its plant in Kaluga worth one billion € is now turning out as a very successful venture. With a capacity of an annual 150.000 vehicles the Kaluga plant assembles VW Tiguan, Skoda Octavia, Skoda Fabia and VW Polo Sedan. In the crisis year 2009 the assembling capacity of the Kaluga plant reached just 30 %. The investment of VW in Kaluga is seen as a tremendous asset for the economic development of this city, located 190 km south-west from Moscow with 327.500 inhabitants. Apart from Volkswagen Kaluga allocates a factory assembling VOLVO and RENAULT trucks such as a joint venture factory between CITROEN, PEUGEOT and MITSUBISHI, assembling middle class passenger cars.

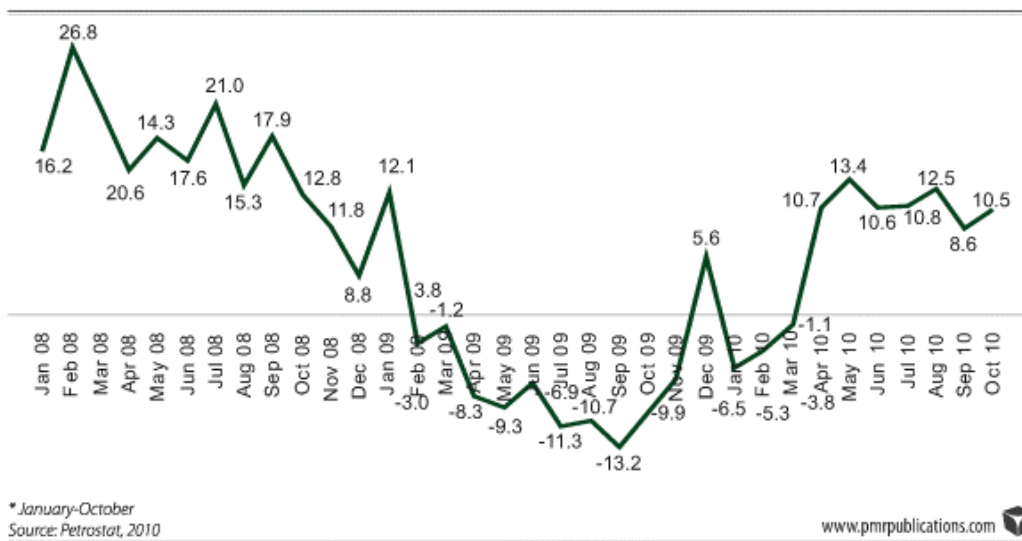
2.4. Citizens of St. Petersburg rediscovering Shopping Pleasure

November 30, 2010, GAZETA

According to PETROSTAT, the official statistics department of the St. Petersburg Government, consumers of the second largest city of Russia tend to spending more since September of 2010, because employers ceased from laying-off workers and staff. Disposable income over the first nine months of last year rose by 17,5 % at

nominal terms. In September alone income surged by 24,2 % compared to September 2009. In the field of clothing, the need oriented mass retail market has shown a recovery to pre-crisis levels since early Summer 2010. In September 2010 consumers came back to the medium priced clothing retail market showing an increase of 10,5 % against September 2008. Growth of sales in the premium and luxury segment is expected to materialize over the months of November and December prior to the New Year holidays. As it was reported by the director of the local office of Alfa Bank, Olga Goncharova, better job prospects and the increase of wages encouraged consumers in St. Petersburg to increase applications for target loans by 15 % and for smaller amounts in express loans by 40 %. According to CBR, St. Petersburg banks have issued loans worth RUR 239,4 (€ 6 mn/ US \$ 8 mn) over the first ten months of last year. Around 70 % of the total loan portfolio went on the account of consumer credits, out of which 60 % covered express credits.

Retail turnover change in volume terms in St. Petersburg (% , y-o-y), 2008-2010*



2.5. Consumer Demand keeping a Focus on Open Markets

December 2, 2010, RIA Novosti

More than half of retail sales of clothing and footwear (50,4 %) went on the account of open markets over the period from January to September 2010. This was reported by the Russian Federal State Statistics Department at the end of November. As of October 1st, 3.483 open markets were registered in Russia, 36 % less than in 2009 due to closures ordered by local administrations. Although open markets offer self employed dealers opportunities for jobs it is the declared will of the Russian government to reduce open markets because they are centerpoints for retail of clandestine merchandise and faked products.

2.6. New Year's Sales: preferred Gifts for Russians

December 3, 2010, GAZETA

According to a survey conducted by Deloitte among 1.200 people in November 2010, Russians intend to spend an average of RUR 15.785 (€ 385/US \$ 526) for special New Year purchases, only RUR (€ 5/US \$ 6.67) more than Deloitte surveyed in November 2009. More than half of this budget (58 %) is said to go on the account of gifts, 18 % on food and 23 % on entertainment. In November 2007 the average spending for the New Year accounted for RUR 19.200 (€ 480/US \$ 640). Elizabeth Totunova, PR Director of DETSKIY MIR, the largest Russian retail chain for children's wear, accessories and toys commented such figures in stating that the

company expects a holiday revenue of up to 10 to 15 % more than in 2009. Her estimate is based on November retail sales of 2010 which picked up "pretty well" against the year before. Drawing force is expenditures for children's toys, which are forecasted to increase by in between 30 and 40 %. According to the study of Deloitte Russians preferred gift for family members, relatives and friends is money. 54 % of interviewed persons responded positively to this option.

2.7. Optimistic Forecast on December Purchases of Clothing

December 21, 2010, Russiaretail.com

Customer expenditures for consumer goods in December 2010 are expected to grow at a rate of 42 % per person in comparison to indicators valid for December 2009. This is the result of a study recently published by Citibank among 450.000 Russian credit card holders serviced by this financial institution. Citibank comments that this growth in consumer spending is to be considered as a "final confirmation" that the crisis mood in Russia is about to being replaced by a favourable sentiment on robust growth over next year. Such growth is expected to emerge in large Russian cities, excluding Moscow, where forecast on growth of expenditures is 36% comparing to 46 % average in the large Russian cities with more than one million inhabitants. On the other hand, Muscovites will still spend the maximum in terms of absolute value. According to the research, the average Moscow citizen will spend RUR 19.000 (€ 475/US \$ 633) in December 2010, 36 % more than the average St. Petersburg consumer, estimated to spend RUR 14.000 (€ 350 / US \$ 456). The average amount valid for the large provincial cities is estimated at RUR 10.000 (€ 250 / US \$ 326). The study also projects that spending by women is to grow at a much higher rate than men's. Female customers are suggested to spend 46 % more in December 2010, while males are said to spend 7 % more than during the New Year sales season of 2009.

According to Citibank, the share of spending money on purchases of better clothing is expected to be on the high side with an estimated 11,7 % of holiday budgets to go on the account of fashion. This implicates an overall average growth of 53 % compared to December of the crisis year 2009. The relative assessments were compiled by Citibank in Moscow, St. Petersburg, Nizhny Novgorod, Rostov-on-Don, Volgograd, Samara, Kazan, Ekaterinburg, Novosibirsk and Ufa. It remains without saying that the category of consumers assessed as credit card holders of Citibank belong to the upper medium middleclass including well-to-superior earning people.

3) Retail Development

3.1. Russian BAON goes Casual

November 2, 2010, retailer.RU

The Russian chained retailer BAON , originally specializing in active wear, restructures its concept setting its focus on casual wear. Whereas previously the proportion of active wear had reached 70 % of the offer, this share will be reduced to 10 % in favour of casual clothing increasing to 80 %. The balance of 10 % will feature ski-outfits. The restructuring of BAON goes in parallel to a new shop design and an increase of the average store size from 200 to 500 square meters. According to Irina Postnikova, Retail Sales Director, the two first new stores based on the restructuring process are planned to open in December at the new Mall of Russia in Moscow and at the Shopping Center Evropeyskiy in Lipetsk. ZAO BAON was founded in 2007 incorporating two retails chains under the names of BAON and DESAM, owner is Ilya Yaroshenko. BAON operates 32 own stores and 47 with franchise partners, DESAM 17 own and 35 franchised stores.

3.2. American ABERCROMBIE & FITCH close to entering Russia

November 4, 2010, russiaretail.com

The renowned American clothing retailer, ABERCROMBIE & FITCH with 1.104 affiliated stores across the world, plans to enter the Russian Fashion Market. According to sources, the company started negotiations with the management of Moscow's most renowned Shopping Mall Evropeyskiy in October 2010 to launch its first store. It remains open whether the new venture will turn out as own investment or as franchising agreement with a local investor.

3.3. British RIVER ISLAND expanding from Russia to Ukraine

November 9, 2010, Kommersant

The popular British clothing retail chain RIVER ISLAND carrying young fashion with a focus on club wear is master franchised in Russia by MARATEX, also representing MEXX; ESPRIT, PEACOCKS, and ALDO. Over the past two years four stores were opened for RIVER ISLAND in sizes of 1.000 square meters average through franchisees. According to Georgy Shaldyrvan managing Director of MARATEX UKRAINE, rights have been reserved by MARATEX to develop RIVER ISLAND in the Ukraine as well. A first store was launched in November 2010 at the shopping and entertainment complex DREAM TOWN in Kiev. Two more stores are planned to open in 2011. RIVER ISLAND sells in the upper-to-high priced segment. For example, an evening dress retails in Russia at an average of RUR 2.500 (€ 625/US \$ 833), an outdoor coat at RUR 4.300 (€ 1.075/US \$ 1.433). MARATEX stated that the retail prices in Ukraine will be fixed at in between 10 to 15 % less to the Russian retail prices , due to a lower fix-cost burden in Ukraine.

3.4. German SIX Accessories opened first store at MEGA KHIMKI

November 10, 2010, fashioner.ru

The Russian distributor and chained casual and jeanswear retailer, JEANS SYMPHONY and German BEELINE Group, converter, wholesaler and retailer of a vast range of fashion jewellery and accessories concluded an exclusive franchise agreement on the basis of which JEANS SYMPHONY started developing a chain of SIX stores in Russia. The first SIX store opened at MEGA KHIMKI Shopping and Entertainment Center in Moscow owned and operated by Swedish IKEA. SIX is a European leader in medium priced fashion accessories. The company based in Cologne operates 185 stores and counts 1.700 wholesale customers with sales points of SIX in Europe.

3.5. Italian PRADA changing structure in Russia

November 11, 2010, Textilwirtschaft/November 2, 2010, fashioner.ru

In Summer 2010 rumours were heard about PRADA Fashion Group searching a prominent venue in St. Petersburg to launch a first single PRADA store in Russia's second largest city. According to Russian media sources, PRADA is now planning to open three large mono-brand stores in Moscow following lease contracts which were signed in fall 2010 with CROCUS INTERNATIONAL for a 10 years lease period. The locations which PRADA has so far chosen are one free standing venue on one of Moscow's most prominent highstreets, Stoleshnikov Boulevard covering 1.371 square meters. A further free standing store, at present accommodating a Crocus owned UNGARO store will be dedicated to PRADA's second line MIU MIU. The third store will be opened in the CROCUS LUXURY MALL imbedded in CROCUS City on the northern Moscow Ring Road. Until recently PRADA fashion, footwear and accessories were purchased and wholesale distributed by MERCURY GROUP, the prominent luxury goods distributor and retailer. Rumours have come up that the business relationship between PRADA and MERCURY is phasing out. Other informations say that PRADA is about to create its own representative office in

Moscow similar to decisions taken by other world renowned fashion brands to become independent from traditional Russian partners. CROCUS is obviously involved as pacemaker for PRADA's new structure in Russia. Sources on CROCUS also say, that this company is on the way to reduce its own large portfolio of multi-brand and mono-brand stores belonging to the premium and luxury fashion and footwear segment. In May 2009, Emin Agalarov, President of the fashion division of CROCUS and son of the founder, Aras Agalarov, publically declared that CROCUS will gradually reduce its luxury fashion related business activities and concentrate on real estate development, like the group's VEGA MALLS.

3.6. Finish STOCKMANN opened its NEVSKY CENTER in St. Petersburg

November 12, 2010, Retailer.RU, December 3, 2010, Interfax

Located on the corner of Nevsky Prospect and Ulica Vosstaniya, STOCKMANN, the finish department store, opened its flagship in St. Petersburg on November 11, 2010. This is the sixth venture of its kind in Russia. The next opening of STOCKMANN department store number 7 is planned in Ekaterinburg, in Spring of this year. NEVSKY CENTER covers a gross lease area of 98.000 square meters, 20 % is taken by STOCKMANN department store. Other retail tenants occupy further 20 % and are spread across six floors. Anchor tenants in the area of clothing are Swedish H&M, Vero Moda, Next, Finn Flare among others. The seventh and eighth floors are reserved for leased office space. Altogether there are currently 77 tenants allocated. According to the real estate broker CVA Sawyer, lease rates vary around an average of US \$ 1.600 per square meter per year. STOCKMANN'S investment in the building accounted for € 185 mn of which € 20 mn. was spent on the reconstruction of the historic façade. As sources say, STOCKMANN did not abandon its former location on Nevsky Prospect no 25., which was originally planned. Considering that consumer demand in St.Petersburg has picked up quite satisfactorily, STOCKMANN might keep its older location or share the space with other tenants. This was commented by Lauri Veyyalainen, business development manager of international operations of STOCKMANN. As it was disclosed by Eugenia Loktionova, head of the Ukrainian real estate consulting UTG, STOCKMANN plans to open a department store in Kiev on a gross lease area of in between 4.000 and 6.000 square meters. STOCKMANN is already active in Ukraine as investor for the Finnish clothing brand SEPPALA and plans to develop a chain for Swedish LINDE.

3.7. German CALAMAR launched first store in Arkhangelsk

November 18, 2010, Textilwirtschaft

BUELTEL Group, headquarters based in Germany, opened its first store under its brand CALAMAR at the shopping center GRAND PLAZA in Arkhangelsk. With a population of around 350.000, this city is located in the far north of the European part of Russia. The city at a distance of 1.133 km from Moscow, is connected to the capital through a railroad via Vologda and Yaroslavl. On a floor space of 70 m² the store is located on the third floor of the shopping center and offers men's outdoor clothing under CALAMAR and the company's pants collection under HATTRIC. Operation of the store is under control of C.E.D.E.R., Berlin/Moscow, the agent for such brands of BUELTEL Group in the CIS.

3.8. French DECATHLON Competing SPORTMASTER in Krasnodar

November 18, 2010, Retailer.Ru

DECATHLON, the French sports goods chain is opening its eight hypermarket at the shopping and entertainment complex OZ-Mall developed by AUCHAN. The store provides a retail area of 8.100 square meters and is co-located with German DIS-hypermarket OBI and KIKA. In 2010 AUCHAN has already opened the sixth and seventh hypermarket DECATHLON in Rostov-on-Don and in Voronezh. According to Nicholas Yuskiv, Director of Real Estate development of SPORTMASTER, the largest

Russian competitor, it will be difficult for DECATHLON to find its niche in the Krasnodar market because the sports goods retail sector in Krasnodar is saturated with SPORTMASTER operating four stores of 5.000 square meters each, four shops of the local retailer MAJOR LEAGUE, four local discount centers under the name of SPORTS STYLE such as one store each of Russian SPORTLAND and German INTERSPORT.

3.9. Russian DIKAYA ORCHIDEA Lingerie reducing Number of Stores

November 18, 2010, Kommersant

Hit hard by the effects of the crisis and still struggling for survival under the shelter of Sberbank, the largest Russian lingerie retail chain, WILD ORCHID is now restructuring its retail business. According to Natalia Shlyaptseva, CEO of WILD ORCHID, the whole network of more than 300 stores in 5 different formats is under revision: In about six months the multi-brand network of luxury lingerie under the name of DIKAYA ORCHIDEA will be reduced from an original 58 stores to 43. The upper medium ranging multi-brand chain of BUSTIER will get downsized from 155 stores (2008) to 127. There are no changes expected in the continuation of VI LEGION, the specialized much smaller men's underwear chain. The discount centers under the name of BELYEVOY BAZAAR, with one outlet in Moscow and a further in St. Petersburg, will be abandoned.

3.10. Lingerie Exporters to Russia set to challenge illegitimate Retail at Open Markets

December 2010, UN COMTRADE/EFTEC/FCG

Lingerie retail in Russia was the worst affected sector of clothing by the economic crisis. Core lingerie products including HS Codes 61.07 (knitted day underwear and nightwear for males), 61.08 (knitted day underwear and nightwear for females) such as 62.12 (brassieres) faced a decline of officially registered exports from China by 84 % in 2009 against 2008, down from US \$ 551,7 mn to US \$ 86,4 mn. Supplies from the EU-27 to Russia decreased at 40 % from US \$ 216,1 mn to US \$ 130,1 mn. Given such data the retail market value of the two dominant core lingerie suppliers of Russia fell from a suggested US \$ 1,804, bn to US \$ 732 mn, not including the retail market value of lingerie and panty-hose not regrouped under the HS-codes indicated.

According to an interview of Kommersant with Fashion Consulting Group (FCG) on November 18, 2010, this leading fashion consultancy in Russia stated that the retail market value of lingerie accounted for RUR 138 bn (€ 3,45 bn / US \$ 4,6 bn) in 2009, down by 8 % against 2008. The enormous discrepancy between this result and the extraordinary slump of officially registered core lingerie exports from China and the EU-27 to Russia can be only explained by the suggested fact explained by FCG, that illegitimate non-registered low-priced lingerie flooded the Russian market in the crisis year to supply well over 3.000 open markets and ten thousands of kiosks where a large majority of need oriented purchases of lingerie traditionally materialized. In other words this means that a projected 70 % of lingerie retail sales went on the account of open markets and kiosks in 2009, up from a suggested 54 % in 2008. At this point it seems as being quite a challenge for regular European and Chinese lingerie exporters to Russia to recover their market position from before the crisis. However, as the most recent statistics for officially registered exports of lingerie from the EU-27 to Russia confirm supplies did not continue to depreciate but rose by 6 % for men's day-and-night underwear, by 23 % for brassieres, by 10,6 % for female underwear and by 21 % for female nightwear from January till September 2010. Experts from the sector forecast a continuation of growth of European lingerie exports to Russia at an average rate of 15 % in 2011.

3.11. Russian KANGAROO opened in Ufa

November 18, 2010, Retailer.ru

The Russian multi-brand retail chain KANGAROO, specializing in upmarket clothes, accessories and hardware for children and apparel for pregnant women, opened its 18th store in Ufa on Ul. Chernyshevski as a stand-alone format on 500 square meters of retail space. KANGAROO, owned by Sophia Svetlosanova and Jenya Karpiskaya started building their chain in Moscow in 1996. Since then the company increased its network to 9 stores in Moscow, three in St. Petersburg and one each in Nizhny Novgorod, Omsk, Krasnoyarsk, Ekaterinburg and Krasnodar.

3.12. Launches of new foreign Clothing Brands in Russia

November 19, 2010, Kommersant

On September 17, 2010, four new fashion brands opened their first shops in Russia at the Shopping Centre GAGARIN in Moscow, on Vavilova street. Polish children's goods retailer COOL CLUB, German APART women's wear, Danish IGUANA kid's and youth wear, such as LC WAIKIKI, the former French now Turkish young fashion brand. (see chapter 3.19 of this newsletter). Whereas COOL CLUB and IGUANA launched their stores through Russian partners, APART and LC WAIKIKI are self-investors. APART belonged to German Otto Group until the end of 2009 but was acquired by means of a management buy-out by Bernd Houllion, who acted as CEO of APART under the umbrella of OTTO. APART had built its presence in Russia before through catalogue sales and wholesale to the chained multi-brand shops of SNOW QUEEN. Polish COOL CLUB has experience in the Russian fashion market, where the company operates a retail chain under the name of SMYK, managed by SMYK RUS, an affiliated company to EMPIK MEDIA & FASHION in Moscow.

3.13. Russian DETSKIY MIR opened 131st Store at GAGARIN Mall

November 22, 2010, Kommersant

DETSKIY MIR, the largest Russian children's goods chain in Russia added a further new venture to its chain of 130 stores: Opening was held on November 20, 2010 at the new GAGARIN Shopping and Entertainment center in Moscow. The store holds a retail space of 1.500 square meters and offers around 50.000 items. DETSKIY MIR, incorporating chain "S-TOYS" is present in 68 cities of Russia covering a retail space of 213.000 square meters. The company is owned by OAO AFK SISTEMA, a large Russian conglomerate.

3.14. Russian RITTER expanding Retail in and beyond Russia

November 29, 2010, Retailer.Ru

The very renowned Russian multi-brand fashion retailer, SC RITTER, which was founded in 1993, accelerates and widens market presence in Russia and the CIS, under its names of GENTLEMAN and LADY & GENTLEMAN CITY. Ritter opened nine new store in 2010, three in Moscow at the Shopping centers VEGAS, GAGARIN and MALL of RUSSIA, one each in St. Petersburg (GALLERY), Voronezh (CITY PARK), Ekaterinburg (GREENWICH), Surgut (VERSHINA). The multi-brand chain works in the premium to upper medium price segment and carries famous brands like Cerruti, Versache, Lagerfeld. Roberto Cavalli, Ferré, Orsa, Laurel, Ambiente, Steffen Schraut, Apriori. LADY & GENTLEMAN CITY is a traditional and very favoured customer to many other German and Italian fashion brands. According to Igor Barsukov, Deputy Director General of RITTER, the company plans to open further seven to ten own stores in Russia over the year 2011. As a further venture the company considers expansion of its multi-brand retail in Belarus, Ukraine, Kazakhstan and Central Asia. Whereas in Russia RITTER will open as self-investor, the new markets are planned to be explored under a franchise concept, for which the company has worked out terms for approval by the top management.

3.15. German ESCADA counting on Franchise Partnerships in Russia

November 30, 2010, Vedomosti

In a six page interview between Bruno Seltzer, CEO of Escada and Alexander Gubsky, editor of Vedomosti, the former CEO of HUGO BOSS revealed ESCADA's plans under the new ownership of Indian Mega Mittal. Apart from many other information on ESCADA's future, Bruno Seltzer revealed details on the present and planned operational aspects of the brand in Russia. According to him, Russia belongs to the six most important markets for ESCADA. Led by the United States, where 21 % of sales are effected, further 8-10 % each of revenues is contributed by Russia, Spain, Japan, Germany and China, in that order. In Russia ESCADA is retailed in 46 cities with Moscow in the lead, where more than half of the business is generated. Altogether ESCADA counts 52 points of sale in Russia, in 2010, and expects to increase to 67 doors in 2011. The question posed by Vedomosti, whether ESCADA will follow the trend of other premium and luxury brands to get independent from Russian partners was answered by Seltzer, that for the "foreseeable future", the company will stick to the current pattern of basing the business on franchise partnerships, co-ordinated by ESCADA's representative office in Moscow.

3.16. Russian Master Franchiser MARATEX introducing Swiss TALLY WEIJL

December 3, 2010, Retailer.Ru

MARATEX introduced TALLY WEIJL as a new brand to its present master franchising portfolio of ESPRIT; PEACOCKS; RIVER ISLAND and ORSAY in autumn 2010. According to Vladimir Lunin, owner and CEO of MARATEX the company will open a first store for the upper-medium priced Swiss female young fashion line in February at IKEA's MEGA DYBENKO Mall. In 2011, MARATEX plans to develop further four or five stores for TALLY WEIJL in St. Petersburg and Moscow in formats of 150 to 200 square meters each. The cooperation is based on an exclusive contract for MARATEX. As it was mentioned by Lunin, TALLY WEIJL had opened a first partnership store in Moscow, 5 years ago, an experiment which failed after a very short time. MARATEX manages over 70 mono-brand stores for its brand portfolio in all key Russian cities.

3.17. Turkish LC WAIKIKI plans to open 50 stores in Russia

December 7, 2010, Retailer.Ru

Right ahead of New Year, LC WAIKIKI belonging to the Turkish Textile Group TEMA, opened its first store in Russia under the roof of GALLERY MALL in St. Petersburg. Occupying a retail space of 1.400 square meters, LC WAIKIKI, offering smart young casual wear, belongs to the anchor tenants of the new mall. Within five years, TEMA plans to develop 50 stores in a similar format all across Russia. At the same time the company announced to penetrate the fashion retail market in Poland, as well. At present LC WAIKIKI operates around 300 stores of which 250 located in Turkey. Other markets are Albania, Iraq, Kazakhstan, Bulgaria and Romania for which Istanbul serves as hub. LC WAIKIKI already entered the Russian market 15 years ago when the brand was distributed on a wholesale basis to independent multi-brand stores by its former French owners.

3.18. French IKKS expanding Russian Network

December 8, 2010, Retailer.Ru

ZANNIER Group of France re-launches its brand IKKS in Russia, after a short experience the brand had around 2005, when it found representation by FDLab. At the moment, in co-operation with its Russian master franchiser OOO ATIPIK, IKKS opened its second mono-brand flagship at the GALLERY MALL in St. Petersburg on a floor space of more than 230 square meters. The store is located on two floors. The

first floor presents the men's and women's collection of IKKS with around 200 styles. The second floor is dedicated to IKKS JUNIOR, the children's wear collection comprising around 140 styles. The first store of IKKS in Russia opened in February 2009 under the roof of METROPOLIS Mall in Moscow. APITIK also announced to open two more stores of IKKS JUNIOR and IKKS MEN & WOMEN at AFIMALL CITY in Moscow until the end of 2010, but did not disclose any plans about the future development of the brand in Russia. According to a spokesman of APITIK it is still difficult after the crisis to find appropriate franchisees apart from good locations at malls. APITIK is operating as master franchiser as well for brands like One Step, Bel Air, Siwi Denim, Chipie Junior, Cop. Copine Shoes, Vivi and a-One.

3.19. American WAL-MART closing office in Moscow

December 13, 2010, retailer.Ru

It was a big bang when Russian media announced the opening of WAL-MART's own office in Moscow in September 2008, which was founded to study opportunities for the entry of the world's largest consumer goods retailer to Russia. Now, at the end of 2010, Doug McMillon, CEO of WAL-MART INTERNATIONAL DIVISION, closes the office albeit saying good-bye: "At the moment we don't have a clear picture of how we should proceed in Russia", McMillon said, admitting at the same time that WAL-MART still believes in the Russian Market. He also made it clear that WAL-MART will not follow the option taken by companies like IKEA, AUCHAN or METRO "to start from scratch" in Russia and to develop networks of their own. Russian commentators on the closure of the Russian WAL-MART office also pointed at the withdrawal of French CARREFOUR from the Russian market. WAL-MART counts on take overs but did not find appropriate targets for acquisitions in Russia.

3.20. Finnish FINN FLARE reducing Number of Discount Stores

December 13, 2010, retailer.Ru

As it was already forecasted by market insiders, the inflation of clothing discount centers in Russia observed over the crisis year from March till Autumn of 2009 has phased out. As an example, FINN FLARE, having set-up nine "drain centers" in Russia closed four of these in 2010 and re-converted the outlets into regular shops. The decision was made after a fell of revenues in discount centers of 24 % against 2009. At the same time regular retail sales of FINN FLARE increased at 29 % in their own retail, at 6 % with franchisees and at 13 % in the company's new e-commerce. According to Anna Sirotkin, Commercial Director of FINN FLARE, the recovery of the Russian Market is turning from the lower medium to the upper medium price segment. Due to this reason, the company decided to add to their collection more expensive styles for the season Autumn/Winter 2011. FINN FLARE started operating in Russia in 2003. To-date the company runs over 70 own stores under this brand and an additional 238 franchise partnership stores. APPLE MOON, the second brand launched in 2008 operates 9 own-investment shops such as 15 franchise objects.

3.21. Japanese UNIQLO to open 3rd Store in Moscow

December 14, 2010

After months of delays UNIQLO, the Japanese fast fashion retail chain, opened its first own store on a floor space of 1.200 square meters on April 2, 2010, at ATRIUM MALL in Moscow. The second store on 1.000 square meters was launched on November 26, 2010 at IKEA'S MEGA BELAYA DACHA. As the company now announces there is a third multiple to open in March 2011 at the new shopping center AFIMALL CITY in Moscow, where UNIQLO will present itself as one of the anchor tenants besides H&M, Marks & Spencer, GAP and Lady & Gentleman City by Ritter. According to a spokesman of UNIQLO Russia, the performance of their first store at ATRIUM surpassed all expectations since the beginning of the

Autumn/Winter retail season 2010. Drawing power were warm sweaters and winter coats. UNIQLO has firm plans to open 10 more stores in Russia until the end of 2013.

3.22. Estonian MONTON strengthening Store Presence in the Regions

December 15, 2010, Retailer.Ru

St. Petersburg saw the opening of the sixth store of MONTON in this city located on a floor space of 300 square meters at the new shopping center GALLERY MALL. "For us this is now our flagship in St. Petersburg" said Igor Rozanov, Managing Director of MONTON in Russia. Monton offers fast fashioned men's and women's clothing including lingerie in three styling categories, City, Formal, Casual, retailing in the medium price range. Another larger flagship of MONTON presenting itself at the EVROPEYSKIY Mall in Moscow. Founded in 2002, MONTON operates 15 own stores in Russia, besides St. Petersburg and Moscow, in Nizhny Novgorod, Kazan, Krasnodar, Ufa, Perm, Tyumen, Kaliningrad and Ekaterinburg. The first store in Ekaterinburg opened in 2010. Outside Russia more than 60 stores are operated under MONTON in Estonia, Latvia, Lithuania, Ukraine, Poland and Czech Republic. In 2011 the Estonians plan to concentrate their expansion in Russia on large regional cities.

3.23. Australian QUIKSILVER expanding stores in Moscow and Regions

December 28, 2010, Shopandmall.Ru/Molls.ru

Casual and active wear from Australian QUIKSILVER is increasing its retail network in Russia. Since three years, the brand opened its seventh store at IKEA's MEGA KHIMKI MALL in Moscow. Further stores are located in Moscow at METROPOLIS, OKHOTNIY RYAD, EVROPEYSKIY; GOLDEN BABYLON; EREVAN PLAZA; and IKEA's MEGA BELAYA DACHA, all prime venues. As the company announced in December 2010, there are six further stores planned to open in St. Petersburg and one each in Krasnodar, Krasnoyarsk, Khabarovsk, Ufa, Novokuzneck and Novosibirsk until the end of 2011.

3.24. Russian Clothing Chain for Pregnant Women launched 49th store

December 28, 2010 Retailer.Ru

The new GALLERY MALL in St. Petersburg, having attracted many new brands to Russia's second largest city, has also convinced a specialized retail chain known in the country under the name of "Ya budu Mamoy" ("I will be Mom"), selling clothing and accessories for pregnant women. The shop set on a floor space of 133 square meters took an investment of RUR 3,5 mn on hardware (€ 87.500/US \$ 117.00) excluding inventory. As of the end of December this retailer operates 49 shops in 26 Russian cities.

4) Shopping Mall Development

4.1. Franchising in Russia lacking professional Feasibility Information

November 11, 2010, ShopandMall.Ru

At a conference of ShopandMall held in Moscow in November 2010, a number of issues was addressed referring to serious problems in the relationship between franchisers of brands, master franchisers, franchisees and managements of shopping centers. The discussion revealed enormous deficits in interactive communication, transparency, location scouting, and feasibility of franchise objects in relation to return of investments. According to Svetlana Yarova, marketing manager of ASTERA, a real estate broker, and Anton Korotaev, head of analysis of RCG, a specialized retail consultancy, opportunities for expanding franchising in Russia are limited because nobody trusts anybody. As a result many franchise

projects get on the way by try and error causing frustration on all of the parties involved. As it was also mentioned the problems do not only exist for allocations of franchise stores at shopping malls but also for stand-alone objects. Russians do not understand many feasibility criteria on the basis of which Western franchisers claim competence to convince a Russian investor to spend his money in a proposed franchise agreement. As a weird example on location scouting the audience of the conference was referred to an American franchiser using the Google map of Moscow where he marked spots for the "most appropriate " location of stores. A "Kate Moss" store next to the State Duma (Russian Parliament) just does not work", said Yarova.

4.3. Moscow on fourth Rank of highest Lease Rates in Europe

November 17, 2010, Lenta.Ru/ December 27, 2010, malls.ru

According to COLLIERS INTERNATIONAL, the real estate broker, Moscow compared to other large European and MENA-cities holds the fourth position in the ranking of lease rates in shopping centers at the end of third quarter of 2010. London is placed first at average rents of US \$ 7.250 per square meter, followed by Frankfurt/Main (US \$ 4.175) and Manchester (US \$ 3.870). Moscow is followed by the city of Leeds in the UK (US \$ 3,150). At the same time Moscow dropped out of the top five cities for rents of retail premises on top highstreets. Whereas before the crisis at the beginning of 2008 Moscow ranked second at US % 15.000 per square meter, the Russian capital fell to the sixth place with top lease rates charged at US \$ 7.000 per square meter, at the end of September 2010. Ranking ahead of Moscow are Paris (US \$ 12.900 per square meters), followed by London (US \$ 12.500), Zurich (US \$ 9.690), Milan (US \$ 9.000,-) and Geneva (US \$ 7.265). According to analysts, Moscow together with Kiev are expected to increase lease rates for stores located in top shopping malls as well as on premium highstreets. The volume of vacant space in the leading shopping malls of Russia has declined from a maximum of 15 % in 2009 to 5 % at the end of the third quarter last year. Since fall 2010 demand for superior locations on high streets in Moscow has increased considerably, but not related to traditional highstreets like Tverskaya for example, but on the main roads of residential areas. Traffic congestion and bans on parking like on Tverskaya are explained as main reasons for the re-allocation of street retail. Since autumn of 2010, landlords in preferred residential areas South of Moscow, started to increase lease rates by in between 10 and 20 %.

Duesseldorf, January 31, 2011

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