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Moscow

### Annual Citibank Study: "Russians' New Year Shopping With Credit Cards – 2009"

**Jewelry and mobile phones return to their places under the New Year tree, New Year entertainment is in demand again, but Russians are not yet ready to spend on them as much as they used to prior to the crisis.**

ZAO Citibank has completed its third annual study of credit card purchases dynamics for the main categories of purchases, and developed a forecast for December 2009. According to Citibank estimates, the beginning of recovery of Russian economy starting from the third quarter of 2009 will have a positive effect on gross New Year expenditures of Russians in 2009. According to the forecast, Russians' expenditures in December 2009 will be up 14% from this year's monthly average, while in 2008 expenditures were up 8%, and in 2007 and 2006 – 14% and 12%, respectively. However, real expenditures of Russians will still be slightly lower than in pre-crisis year of 2007. Certain product categories are expected to experience traditional December growth rates driven by New Year celebrations. Certain changes in expenditures structure and most popular New Year product categories will also be representative of this year's conditions.

Statistical data on credit card expenditures of Citibank's clients was the basis for the study. The study analyzed data for the period from the beginning of 2006 until November 2009 with a random sample of at least 50,000 clients. Based on data for 11 months of 2009 and the statistical trends over the past three years, there was developed an expenditures forecast for December 2009.\*

#### Selected Study Conclusions:

- Demand for candies and alcohol traditionally tops the annual average growing by 77% and 73%, respectively.
- In general, men will spend 6,900 rubles more on New Year purchases than women. People over 40 will spend 5,700 rubles more than young people. Moscow residents will spend an average of 4,900 rubles more than representatives of other regions.
- Categories that experienced highest levels of correction last year would demonstrate growth: mobile phones will be ranked fifth on the list of most popular New Year purchases\*\* in December 2009, compared to eleventh place in 2008; jewelry and watches are up from the fifteenth place in 2008 to #4 in top-10 of most popular categories (growth of 55%).
- Several structural changes in New Year shopping will become more long-term. Obviously, such purchase categories as toy stores and sports goods are unlikely to score high in the ranking of New Year purchases, as was the case in 2007.
- New Year entertainment makes a comeback to the lives of Russians. Expenditures on this category will demonstrate impressive growth of 84% year-on-year.

Mikhail Berner, Head of Credit Products at ZAO Citibank commented on the study: "New Year expenditures are a real indicator of consumer confidence in society. For instance, results of the study from last year have demonstrated the effect of the crisis. Last year we have witnessed overall growth slowdown in both New Year expenditures and celebration on one hand, and a number of individual product categories on the other hand. This year, we forecast that those product categories that were hit most last year would demonstrate significant growth. However, the effect of the crisis is not quite over yet, and there are factors making us conclude that certain changes in the structure of New Year expenditures would remain for a longer term."

This year, the sample grew to 50,000 people (up from 20,000 people last year) selected randomly on a monthly basis, that became the foundation for analysis of actual expenditures of credit card holders during the year and the forecast for pre-New Year days. The sample included men and women aged 22 to 55 with monthly income of at least 9,000 rubles living in Moscow, Saint Petersburg, Samara, Yekaterinburg, Nizhniy Novgorod, Volgograd and Ufa. The forecast for December 2009 used a holistic forecasting methodology based on data for the past 47 months adjusted for inflation.

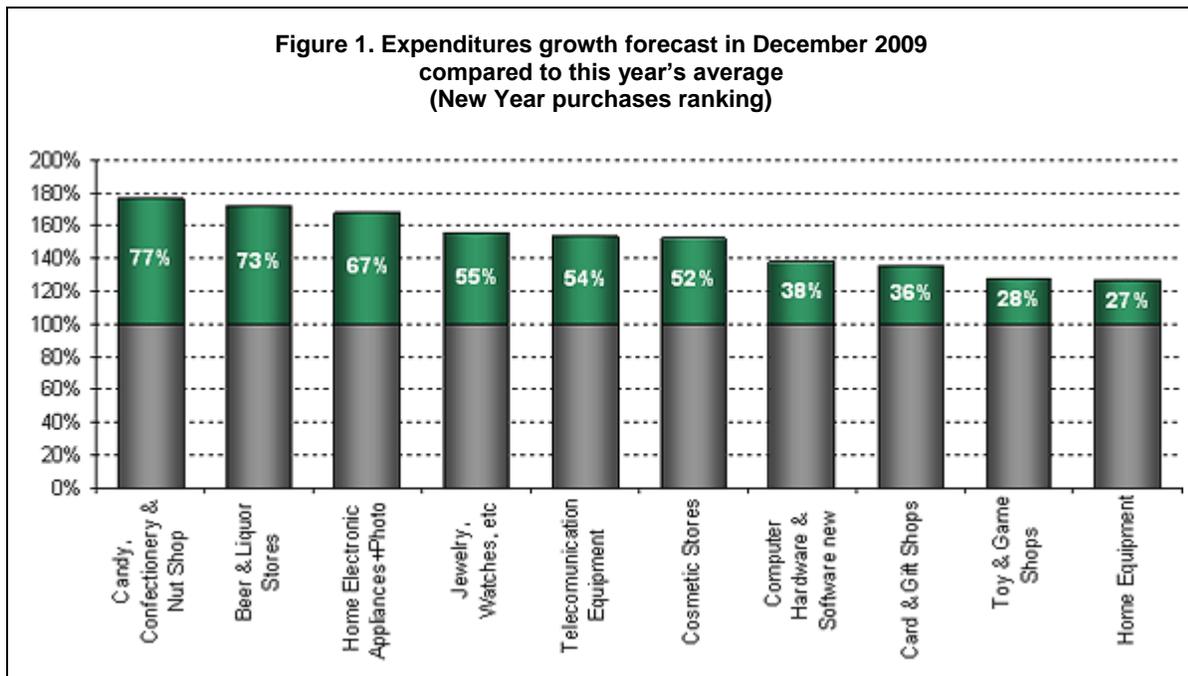
In January 2010, there will be conducted an additional study of actual expenditures of Russians over New Year

holidays to compare forecast results to the actual data.\*\*\*

### Study Results Overview:

According to the study results, candies and alcohol are the traditional leaders of New Year purchases among Russians. They demonstrate growth rates of 77% and 73%, respectively. (See Figure 1.) However, we note that the absolute numbers for expenditures in these categories are rather low (they do not get even in Top-30.) Moreover, we also observe that expenditures decline in these categories compared to the past years, once adjusted for inflation.

Expenditures on electronics and home appliances will demonstrate growth of 67% compared to this year's monthly average, thus moving this category to the third place from the fourth in 2008. It should be noted, that this category is ranked fifth in the general structure of expenditures of Russians in 2009. (See Figure 3.) Hence, the absolute surplus of expenditures in this category is rather high.



Return of jewelry and watches category to Top-10 expenditures ranking, and its landing the fourth place, is a momentous event. This category was ranked only 15th in December 2008. Jewelry along with many other product categories classified as luxury goods, were among the first expenses that Russians had to cut back on sharply since the beginning of the crisis.

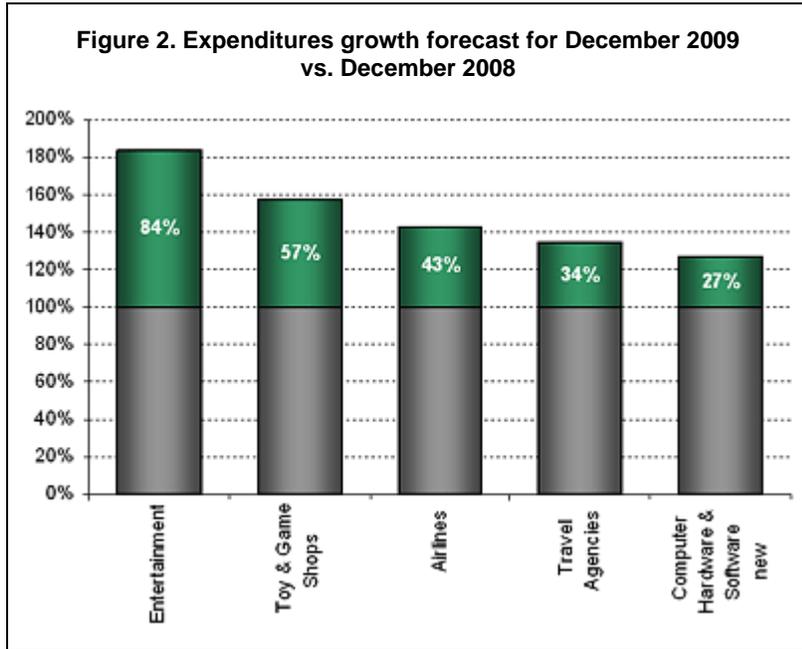
Mobile phones, or speaking broader – communication devices are also returning to their places under the New Year tree, landing the fifth place in the ranking with growth rate of 54%. Consumers are once again ready to buy mobile phones as presents to others as well as to replace their own phones thus reducing deferred demand. However, the general trend of expenditures in this category is on the down slope driven by the falling average purchase size as the preferences of Russians gradually switch towards lower cost phones.

Perfumes and cosmetics, traditionally considered a popular New Year present, will unexpectedly drop to the sixth place. We should note that in December 2008 and 2007 this category confidently held the third place.

Computers and software were not in Top-10 in 2008. In December of 2009, this category is back to the seventh place with the growth rate of 38% in December compared to this year's average. Absolute numbers growth in this category compared to December 2008 will be 27%. (See Figure 2.)

Train tickets and sports goods have left the ranking of the most dynamic growing product categories in December 2009. While in 2008 expenditures on sports goods were ranked eight by growth rate in December, in 2009 this

category left Top-10 with the growth rate of 16% compared to monthly average for 2009.

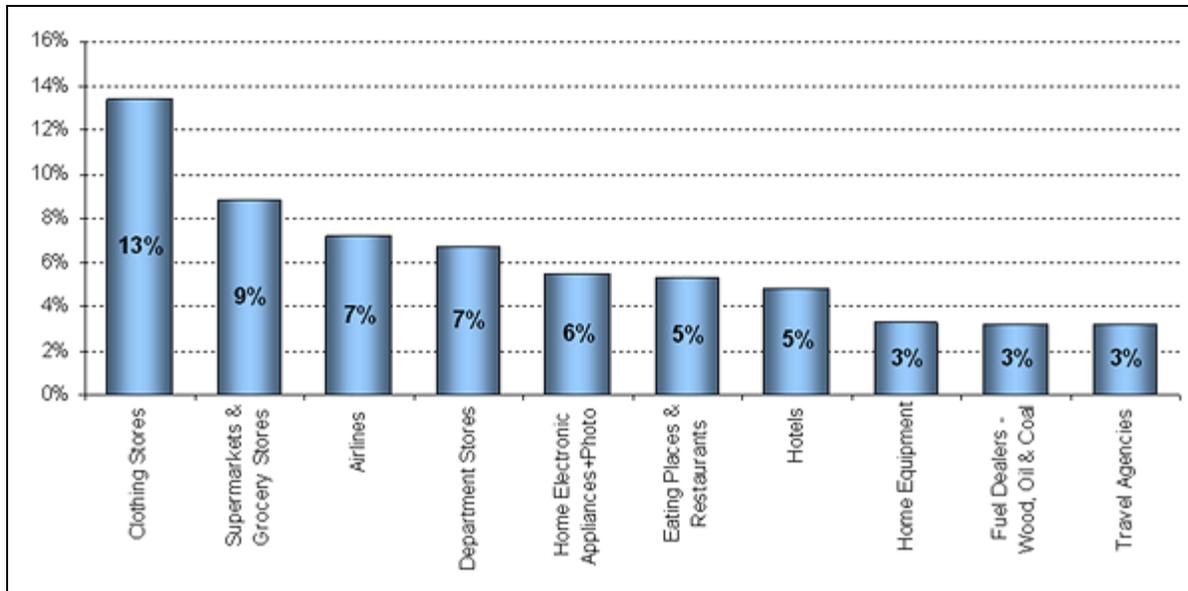


When comparing the categories that demonstrated highest growth in December 2009 vs. the same period in 2008, entertainment category demonstrates the sharpest and most unexpected upswing (growth rate of 84%). This category was not even considered in 2008 study since tense economic conditions and negative expectations forced Russians to cut back on expenditures on entertainment on the eve of the New Year in favor of more pragmatic expenditures. Obviously, the signs of economic stabilization in 2009 let people go back to planning their free time and allocate additional funds to this category.

Despite the fact that toy stores are ranked only ninth among the most popular goods in December 2009 (two places down from the average for the year), this category will become second in absolute growth compared to December of last year (57%).

We would like to note that year-on-year expenditures growth would be observed in the categories Airlines, and Travel Agency Services – 43% and 34%, respectively. Airlines is one of the fastest growing categories for credit card expenditures over the past three years, which has remained largely unaffected by the crisis. Citibank analysts attribute this to the growing popularity of airline ticket purchases over the Internet, and the fact that Russians increasingly plan their vacations themselves with the objective to save on the services of travel agencies. This trend was particularly obvious during the initial several months of the crisis. The forecasted growth of demand for travel agency services in December 2009 compared to December of 2008 is attributed mainly to the low level of expenditures on these services at the end of 2008 due to the impact of the crisis. In 2009, pre-New Year expenditures on the services of travel agencies are on par with pre-crisis level.

**Figure 3. Expenditure leaders throughout 2009**



Above, we have provided analysis of Russians' expenditures that would demonstrate highest growth rates in December 2009 compared to average monthly numbers for the entire preceding year. At the same time, it is interesting to see what categories have the largest relative share in the structure of Russians' expenditures throughout 2009 given the December forecast. (See Figure 3.)

According to the study, there are categories that experience demand unaffected by seasonality and economic conditions in the country – those are clothing and groceries. Russians spend most on these categories throughout the year – 13% and 9% of all expenditures, respectively.

With regard to other product categories that consistently account for a significant share of credit card holders' budgets, only electronics and home equipment were in Top-10 of New Year expenditures this year. Hence, not only will these categories experience high demand in December, but absolute volume of expenditures will also increase.

\* While last year's study was based on a year-long period from February to February, this year average annual rates were calculated based on a calendar year period.

\*\* New Year expenditures ranking reflects those expenditures categories that, irrespective of the absolute numbers of monetary expenses, demonstrate the highest growth in December compared to the monthly average for the whole year.

\*\*\* In January 2008, ZAO Citibank conducted an additional study of actual Russian consumer expenditures during New Year holidays to compare the results with the forecast published in December 2008. Actual expenditures turned out to be much higher than the forecast, though demonstrating significant decline in growth rates compared to pre-crisis period. The changes largely affected the structure of Russians' expenditures, and to a lesser degree – their volume. According to the study, Russian consumers retained their optimism, though they are also switching to more "useful presents" and more durable goods.