# Kellogg Confident in Russia Despite Drought

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Russia remains an attractive market for investing into production of grain-based foodstuffs despite this season's bad grain harvest and growing wheat prices, Kellogg, the world's largest breakfast cereals producer, said Thursday.

"We are very encouraged in terms of the opportunities that Russia provides to us. … There's a great tradition for grain-based foods in Russia," said David Lawlor, Kellogg's vice president for emerging markets. "It's a key investment business for us, and it will continue to be so."

Kellogg has made "a significant investment" in Russia since 2008 when it acquired United Bakers, one of Russia's biggest producers of grain-based food, Lawlor told reporters. He declined to provide the figure.

Kellogg/United Bakers is the biggest rival of Nestle in the category of breakfast cereals, where its market share is 15.5 percent.

With its Lyubyatovo brand, Kellogg/United Bakers has six plants across Russia: in Voronezh, Vyazma, Pskov, Tyumen, Gorokhovets and Severskaya in the Krasnodar region.

Sales of Lyubyatovo products, including breakfasts cereals, crackers and cookies, increased by 32 percent from September 2009 through March 2010 compared with the same period a year before, Lawlor said.

He added that the company planned to expand the product line of the brand as well as launch new brands in Russia over the coming two to three years.

The food segment will be among the biggest drivers of Russia's retail market through the rest of this year, said Maxim Klyagin, a consumer market analyst at Finam.

"Retail sales will increase by seven to eight percent by volume in 2010 compared with 2009. The food segment is likely to demonstrate even better results," he said.

Although the hike in grain prices poses "significant pressure" for the company, Kellogg doesn't plan to raise prices for its products, Lawlor said.