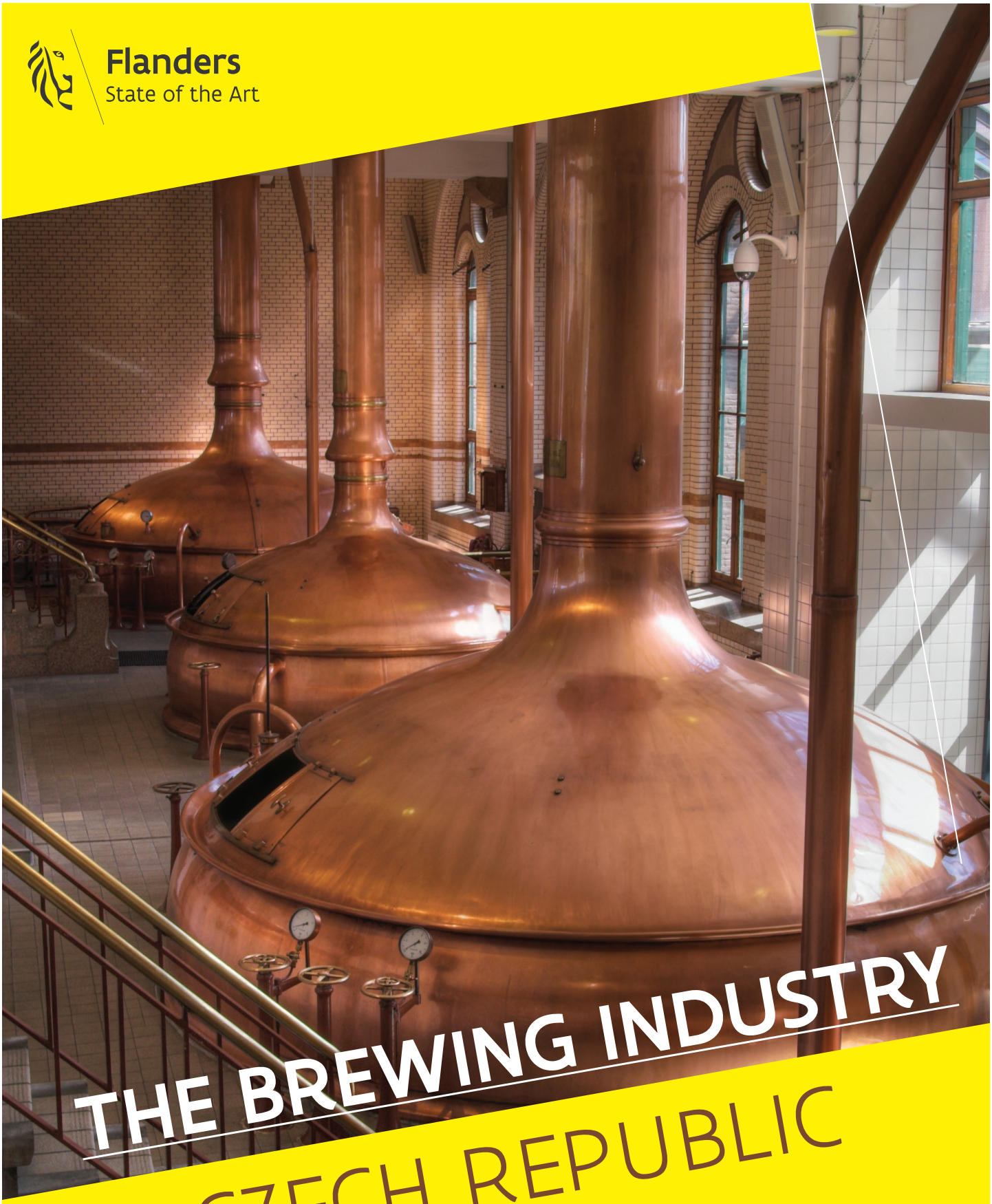
Flanders
State of the Art



THE BREWING INDUSTRY IN CZECH REPUBLIC

FLANDERS INVESTMENT & TRADE MARKET SURVEY

Flanders
State of the Art

The brewing industry in Czech Republic

December 2017

Flanders Investment & Trade Prague
Economic & commercial representation of Flanders
c/o Embassy of Belgium
Valdštejnská 6 | 118 01 Praha 1 – Czech Republic
T: +420 257 53 06 26 | F: +420 257 53 37 99 | E-mail: prague@fitagency.com

FLANDERS INVESTMENT & TRADE

Table of contents

1. Overview of Czech beer market

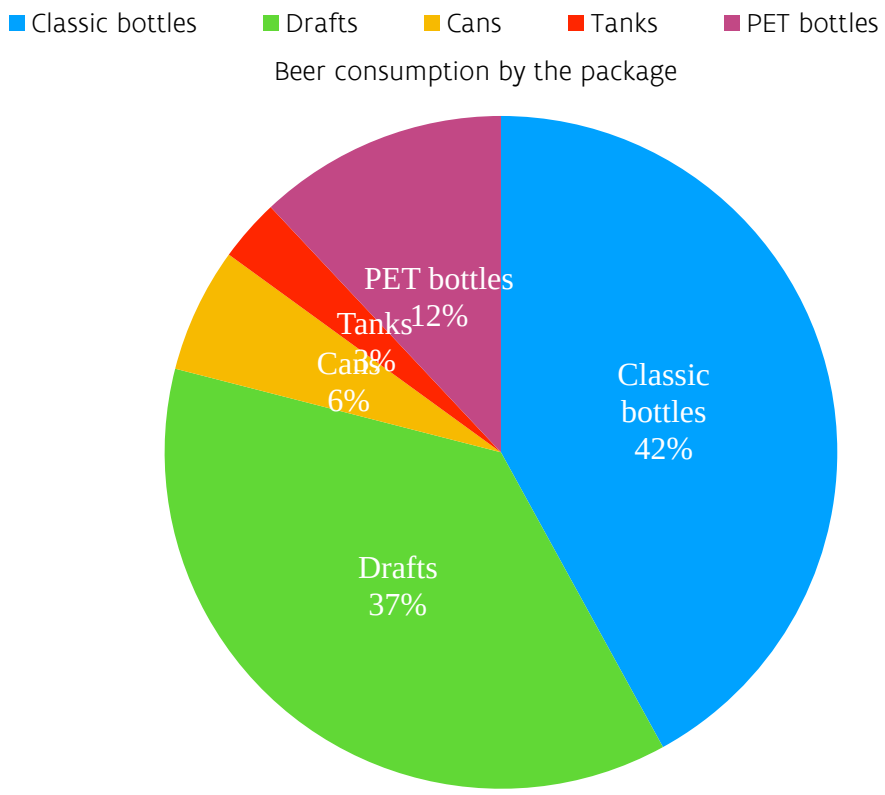
According to many sources (Euromonitor Research 2014; Czech Brewery and Malt Association 2016), the Czech republic is currently the major per capita consumer of beer worldwide and the 7th largest beer producer in the EU (2,05 billion litres). Czech beer consumption is fairly stable; maximum (163 l per capita) was reached in 2004 and since that year it was slightly falling to 147.5 l per capita in 2014 and remained at a similar rate. Worth noting is that in Czech republic they produce mainly only one type of beer, sometimes characterized as a Czech or Pilsen type of beer. It is primarly light lager.

The Czech beer market size was estimated at 1,88 billion litres in 2016, of which 1,85 billion litres (98%) were local produced and 0,03 billion litres (2%) were imported, according to the statistics by Czech Statistical Office. Beer sales in Czech republic in 2016 were estimated at CZK 68 billion (16.8 billion in retail sales), which is a slight increase in comparison with the previous year.

Beer prices in Czech republic differentiate heavily in off-trade and on-trade channels. Prices off-trade are rather fixed throughout the republic. However, there is a significant difference between the capital city Prague and the rest of the country in on-trade prices. Beer prices are on average, around CZK 15-30 (about € 0.5-1.3) per bottle of 500 ml off-trade and CZK 25-50 (€ 1-2) on-trade.

The brewing industry in Czech republic employs roughly about 55 000 people, of which is 7.6 thousand people employed directly and through support for local farmers (90-95% of raw materials come from CZ), employed indirectly another 12.5 thousand people in the supplier sector and 34.6 thousand in horeca and retail sector.

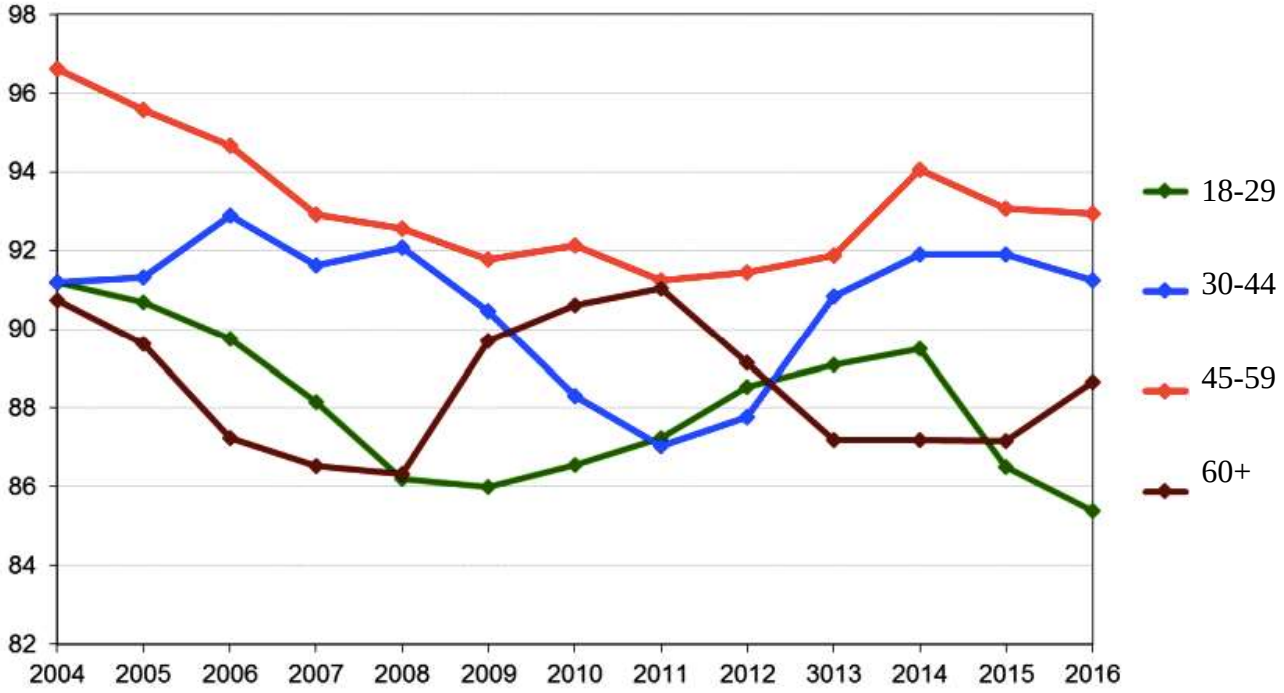
In terms of packaging, beer is sold in classic bottles, PET bottles, cans, tanks or drafts. The major position is still being occupied by bottles with roughly 42%. Nevertheless, canned beer is recoded with a significant rise every year. Besides these a notable part of the market is occupied by drafts 37%. On rise is as well beer in PET bottles. Sales in tanks, however, have dropped.



Source: Czech Brewery and Malt Association

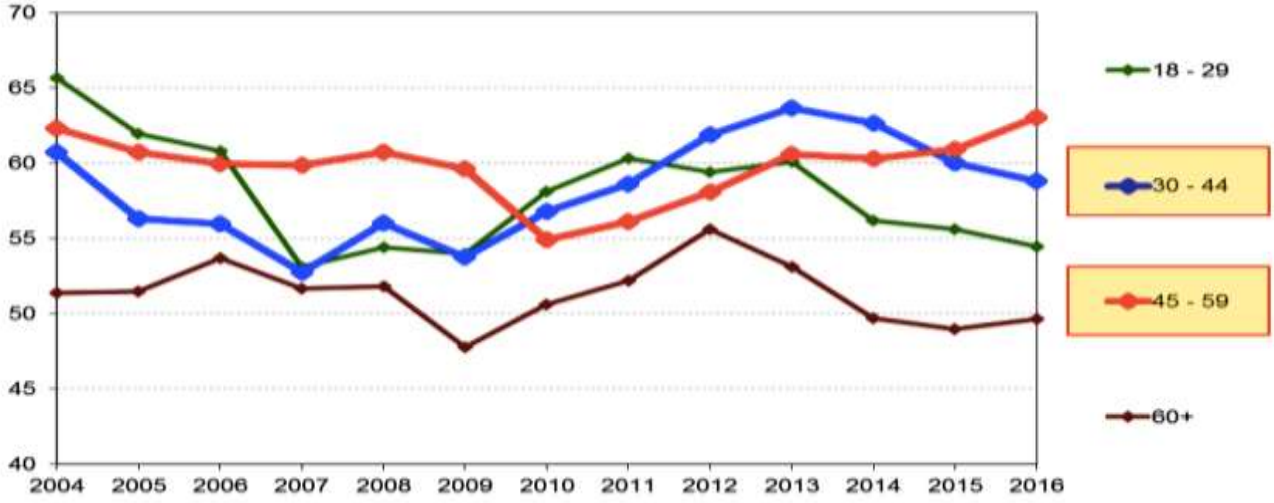
From a gender point of view, it is clear that the structure of men and women according to the time of last consumption differs. The male share of beer consumption is by 31% higher than the consumption made by females. An even greater difference, but in the opposite proportion, is evident when comparing the prevalence of abstinence between men and women. Statistically it is fair to say that the share remain rather stable.

SHARE OF THE CONSUMPTION BY AGE (MEN)



Source: Institute of Sociology, Academy of Sciences of Czech republic

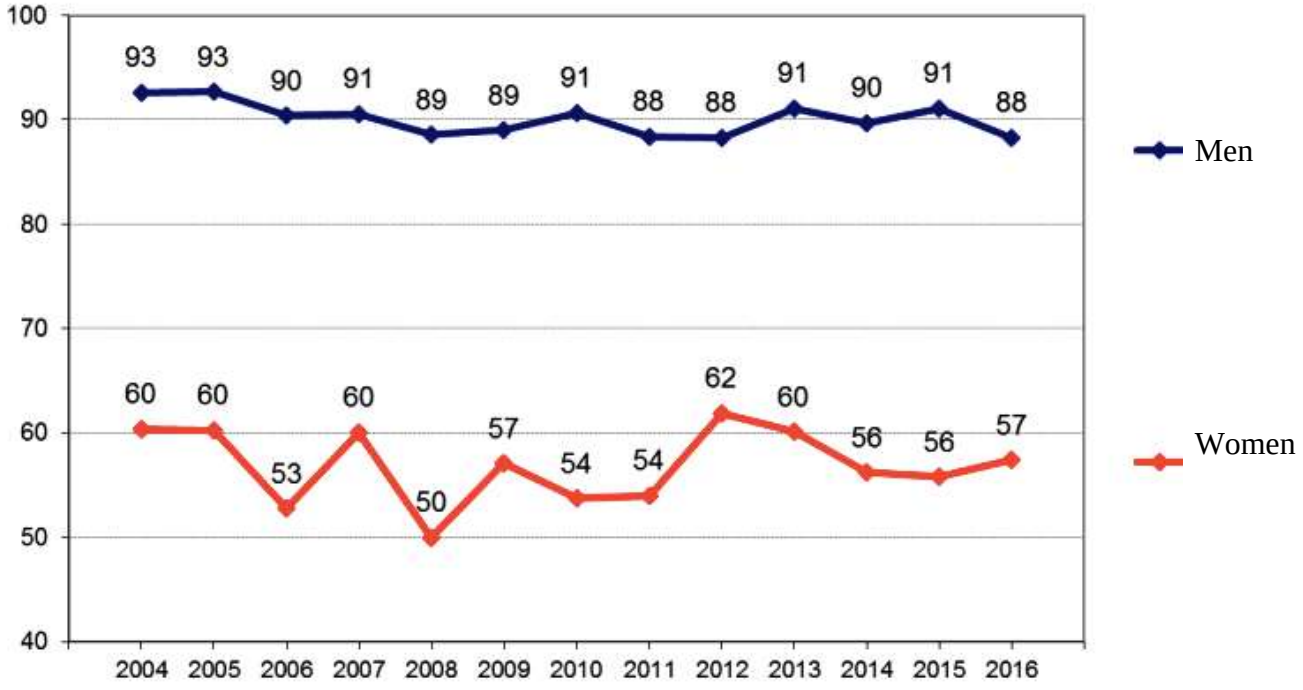
SHARE OF THE CONSUMPTION BY AGE (WOMEN)



Source: Institute of Sociology, Academy of Sciences of Czech republic

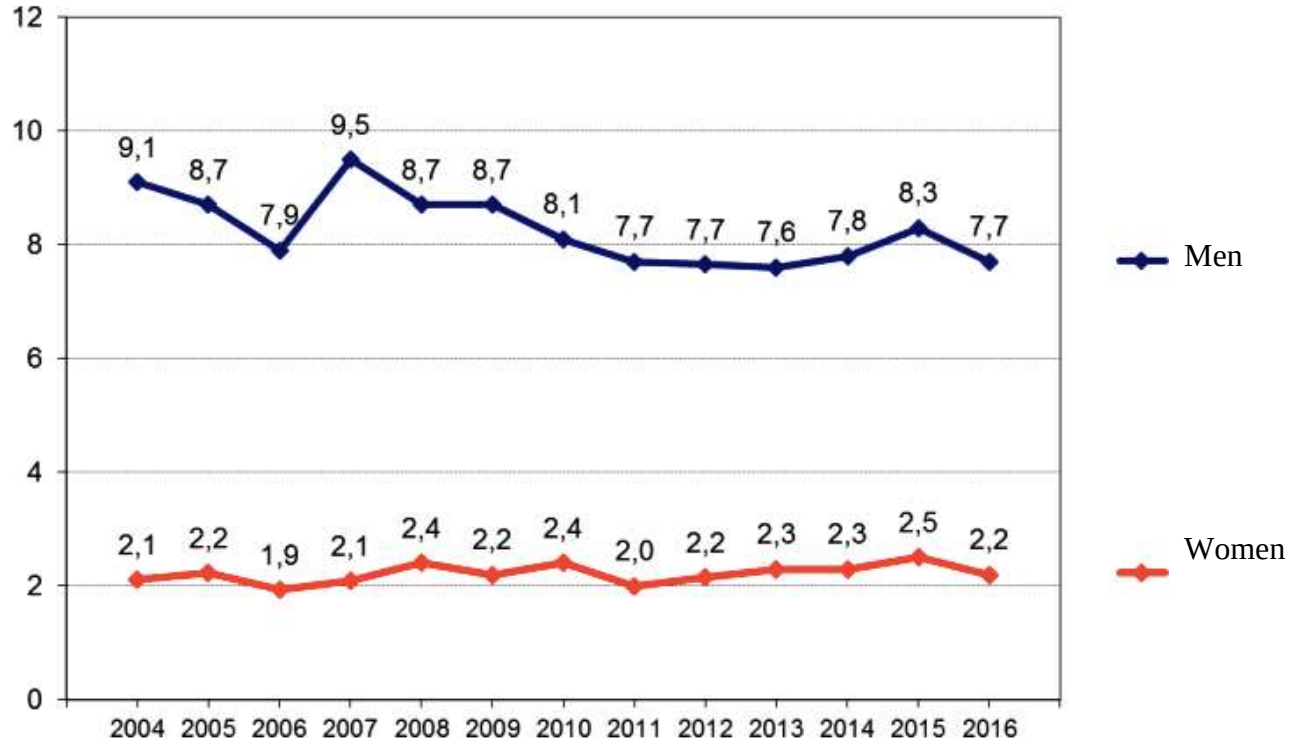
Looking at the distribution of reported age-based consumption, the lowest percentage of consumers in 2016 were millennials among men and the age group 60+ among women, with the highest percentage of men aged 45-59 admitting frequent consumption. According to the previous surveys, this male age group records the highest consumption rate in long-term. Interestingly, there has been a significant sudden rise in abstinence of male millennials in 2014.

SHARE OF THE CONSUMPTION OF MEN AND WOMEN



Source: Institute of Sociology, Academy of Sciences of Czech republic

THE NUMBER OF PINTS WEEKLY



Source: Institute of Sociology, Academy of Sciences of Czech republic

1.1 Microbreweries

The number of microbreweries in Czech republic exceeded 300. In the middle of January 2016, there were 302, which is 22 more than in 2014. According to the Czech-Moravian Micro-Brewery, the number is likely to continue to grow and can stop up to twice the current number. This is confirmed by the fact that consumers are changing their habits. There is not a significant change in off-trade but in the area of on-trade this effect is much more obvious. The consumer is willing to pay more for a special beer not found everywhere, and often his consumption is associated with a visit to the brewery. These are beers with a higher grade or wheat (like Weizenbier) and yeast beer.

The vast majority of microbreweries have a capacity of around 1000 hectolitres and brew for their own pub only. Recently, however, the number of companies that make mini-breweries for business and sell their beer to several pubs has risen as well.

1.2 Executive summary

There is a continued shift in beer consumption away from the on-trade channel towards the off-trade channel during 2016. December 2016, all consumer foodservice outlets in Czech republic officially begin to use the country's new online cash transaction tracking system and, as a consequence, many smaller consumer foodservice operators, mainly the keepers of pubs in small villages, closed their outlets. Beer consumption, however, does not seem to be affected.

Beer consumption patterns continued to change in the country as Czechs showed stronger demand for premium specialty types of beer and stronger beer variants, including unpasteurized beer, wheat beer and yeast beer. Furthermore, local regional breweries experienced greater interest and generated higher penetration in the on-trade channel. 2016 also saw the emergence of stronger demand for flavoured non/low alcohol beer, while the consumption of flavoured mixed lager fell steeply. Finally, more Czech beer drinkers opted for semi-dark lager and mixed half-light/half-dark beer during 2016. These trends visible in 2015 continued to develop during 2016.

Competitive landscape

Plzenský Prazdroj remains the key player in the local beer market as, in 2016, the company accounted for 46% of total volume sales in the category. Furthermore, Plzenský Prazdroj recorded a solid increase of sales due to its premium lager brands Pilsner Urquell and Radegast Premium during 2016, as well as its domestic mid-priced lager brands Velkopopovicky Kozel Medium and Gambrinus Excellent and the low-alcohol beer brand Gambrinus Unpasteurized 10. This last brand is available on draught primarily in on-trade outlets and the brand is generating stronger interest among consumers, along with Radegast Ryze Hořká 12. Number two on the beer market is Staropramen which experiences a continued decline of domestic sales of its main brands Staropramen - Smíchov and Staropramen - Jedenácka. The company also began the production of low-alcohol beverage Carling cinder. Third major beer producer in the CZ is Heineken. Among Heineken's brands belongs Krušovice, Starobrno, Zlatopramen, Březnák and several other smaller brands. Heineken's revenues increased by 0.3%. Significant increase was recorded in breweries Krušovice, Brno a Velké Březno with an 160% of total revenue in year-on-year comparison. Worth mentioning is also Budweiser Budvar, a state enterprise, which, however, struggles with logistic problems as it reached its maximum production. Nevertheless is the main Czech exporter of beer.

Prospects

The shift from the off-trade channel to the on-trade is expected to continue over the forecast period, furthermore, the on-trade channel is expected to decrease its value from 39% in 2016 to 37% in 2021 of total volume sales of beer. Demand for specialty beer is set to continue growing as an increasing numbers of Czech consumers are expected to drink wheat beer, yeast beer, strong beer and semi-dark beer. Therefore, this area naturally presents a potential of future growth.

2. Major brands

2.1 Plzeňský Prazdroj

Prazdroj is currently the leading beer producer in Czech republic. Since 2017 owned by the Japanese group Asahi Breweries Europe Ltd. and directly subordinate to Asahi Group Holdings Ltd. in Tokyo. The regional headquarters is in Prague. Prazdroj includes the brewery of Pilsen (Pilsner Urquell, Gambrinus, Primus), the brewery Radegast (Radegast, Birel) and the brewery Velké Popovice (Master, Velkopopvický kozel). Estimated value of the brand is roughly CZK 200 billion.

Plzeňský Prazdroj produced almost 11 million hectolitres of beer in 2016, nearly a million hectolitres more than in 2015. And therefore, recorded a 3.3% increase in revenues in the fiscal year from the beginning of April 2015 to the end of March to CZK 14.4 billion.

Total year-on-year growth was mainly driven by premium beer, a Pilsen-type beer with grades 11 and 12, and rise of low-alcohol beers. According to the company, Pilsner Urquell lagers were consumed by seven percent more. A large success was also recorded by the Velkopopovický Kozel lagers with an increase of 14% and two other brands from the portfolio of the brewery - Gambrinus and Radegast - by six and nine percent, respectively. Tank beer sales rose last year as well by 4%.

Plzeňský Prazdroj also supports the on-trade sales by training bartenders, selling special drafted beer or by having a taste-based entertainment program for the consumer called Brewers Choice.

2.2 Budweiser Budvar

As a national enterprise Budweiser Budvar is struggling with efficiency of its production. Although the company exhibited a record-breaking volume of beer in 2016 (in total, it was 1,615,000 hectolitres, which is 0.8% more year-on-year) the brewery already reached the upper limit of its production and logistics capacities in 2015. The brewery must therefore necessarily invest in expanding logistics and production capacities. Production has, however, risen by 39% over the last decade. Budweiser Budvar's domestic revenues rose by 2.9% last year to a record 2.54 billion crowns. Gross profit, however, fell by less than 4% to 337.3 million crowns.

Although it is a national enterprise, Budweiser was granted a derogation from the register of contracts.

2.3 Staropramen

2012 CVC Capital Partners sold the entire company to the seventh largest brewing concern - the Molson Coors Brewing Company - for 2.65 billion euros. Brewery Staropramen's last year sales of beer and beverages fell by 40,000 hectolitres to 3.12 million hectolitres. Exports, however, increased by 7% to more than 600,000 hectolitres. Foreign sales grew most in Slovakia, Britain and Germany. Furthermore, the brewery exports to 37 other countries, mostly in Europe and North America.

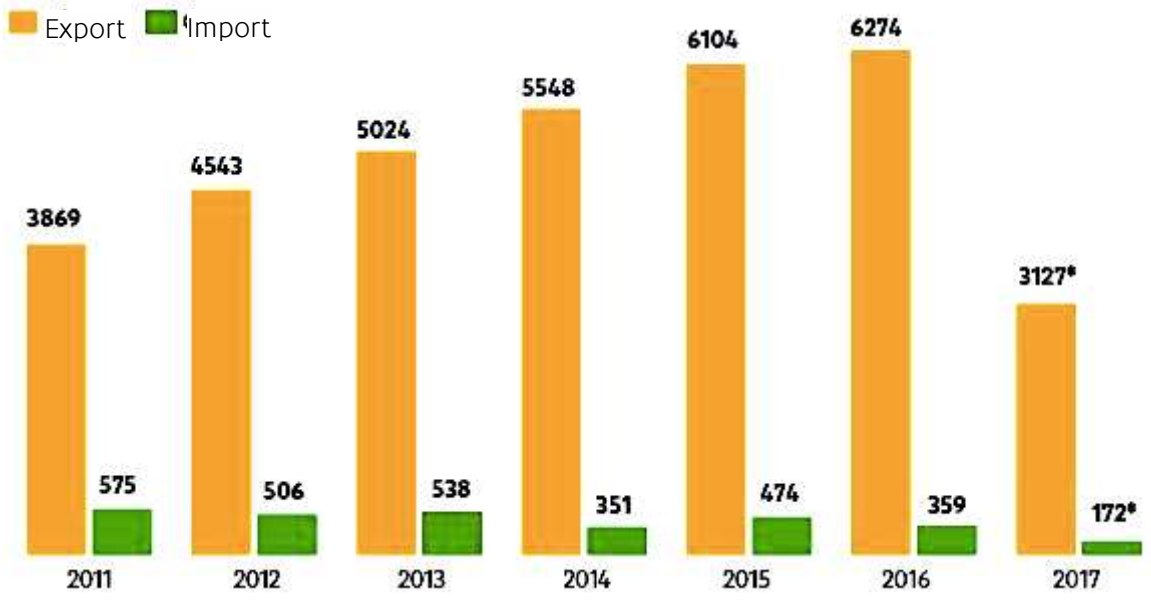
Its current portfolio includes both traditional beer, specific beer and beermixes. Staropramen is on the second place behind Plzeňský Prazdroj on the Czech brewing market.

3. Export

Export records annual growth, furthermore, the balance is clearly positive. Local malt houses produced approximately 544.000 tons of malt in 2016, and 267.714 tons are exported abroad, a 9.5% increase in comparison with the previous year. According to the Czech Brewery and Malt association, the share of export from total output was 49%, while in 2015 this share was 45%.

Traditionally, the most important foreign consumers are Poland, Germany, Slovenia and, in recent years, Hungary and Great Britain. The most dynamic year-on-year growth was recorded in export to Poland, Austria and Cuba, and newly also to Thailand and Mexico, while export reduction was recorded only to Slovenia and Brazil. Altogether Czech malt is exported to 51 countries.

Import and export of beer (CZK millions)



Source: Czech Statistical Office - *30.6. 2017

3.1 Krušovice

The most renowned company among Czech brands owned by Heineken in Czech republic is Krušovice, which is sold in 32 countries in the world on 3 continents, that is five markets more than at the beginning of last year. The strongest representation is Europe (in these markets Budweiser has a subsidiary for export. In other markets, he works with local importers), followed by Asia and America. The company has also managed to start exporting to Russia, however, currently the fastest growing Krušovice beer export is to Croatia and Slovakia.

3.2 Budweiser Budvar

As a national enterprise Budweiser benefits from state's promotion and other forms of help in export. Its export is more than one-fifth of the total national beer export and last year Budweiser saw its most successful year in sales and sales volumes. The beer exhibition recorded a historic 1.6

million hectolitres and 976 thousand hectolitres of exports, that is nearly 60%. About 90% of the exports are white lagers, which the company exports under the brand Budweiser Budvar, in several countries, however, where Budweiser Budvar is not allowed to be used, it is exported under the brand Czechvar or Budějovický Budvar. Last year, the national enterprise exported beer to 77 countries including beer countries such as the USA, Canada, Switzerland, or Australia. Budweiser also exports to exotic countries such as Kenya, Cameroon and Chile. According to the brand's CEO Budweiser plans further export to Asian and African market. Budweiser focuses primarily on exporting the premium or super premium segment.

3.3 Plzenský Prazdroj

Prazdroj's export is directed primary to countries that coincide with the Czech beer export as a whole, that is Slovakia, Germany, Poland, Austria and Slovenia. Interest in Pilsen's beer has also increased in Asia, especially in South Korea. The company was also able to establish itself in new markets like Ghana or Hong Kong and China.

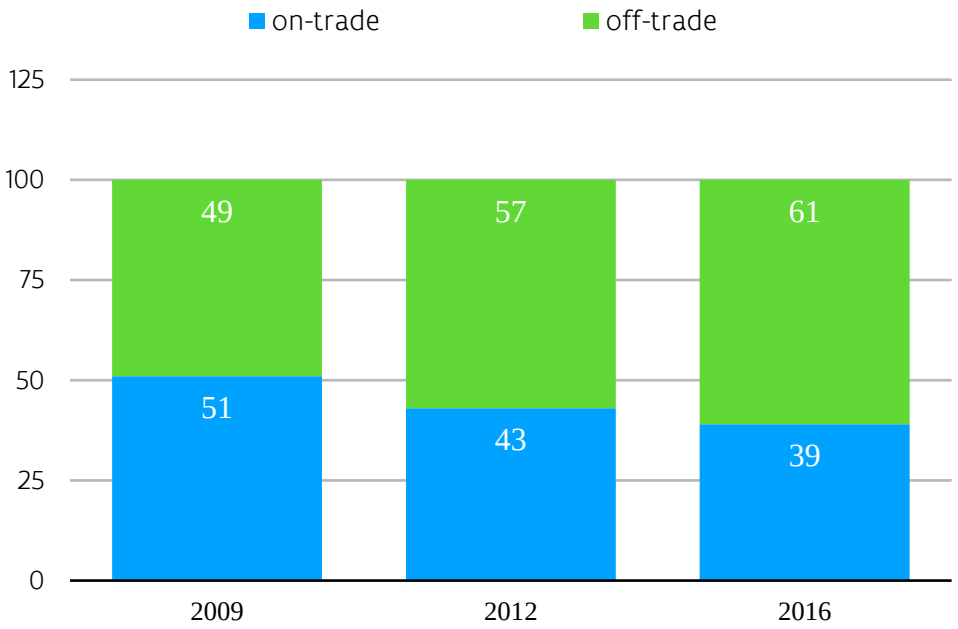
By the end of March 2016, the brewery announced that it had increased its premium beer exports by 10%. Prazdroj is the leading beer producer in the region and the largest exporter of Czech beer.

The total volume of export was not mentioned this year. License production of beer abroad has been around 2 million hectolitres a year in the past years.

4. Trends in consumption

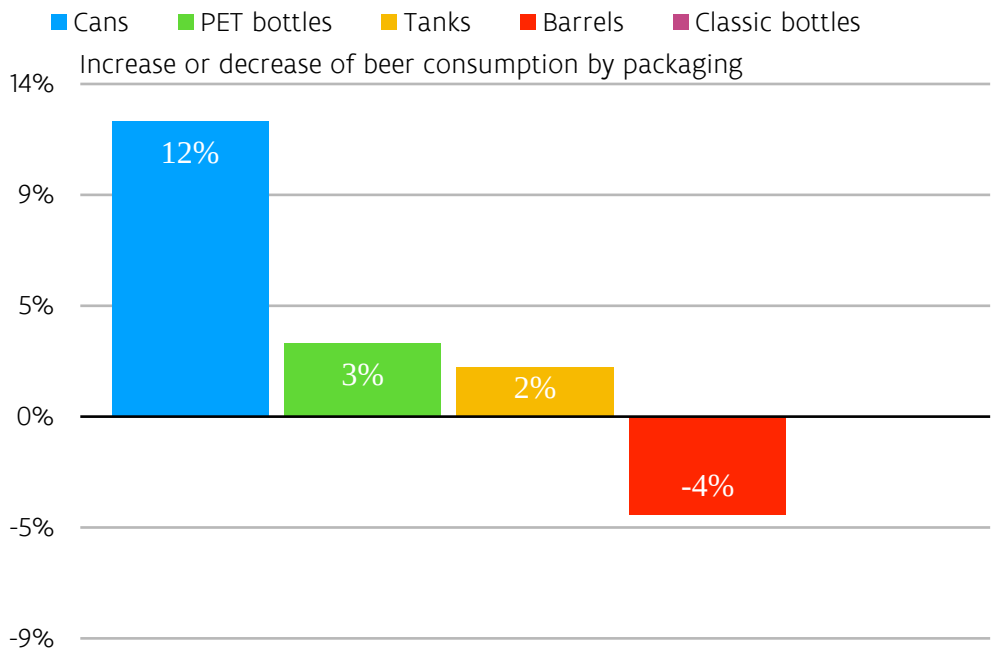
Despite the already mentioned desire of some brands to enhance services in pubs and restaurants, there has been a clear shift in beer consumption from restaurants and pubs to retail or households since 2004. 2016 saw further deepening of this shift from beer consumed in hospitality sector to packaged beer sold in stores. The consumption ratio between the on-trade and the off-trade channels moved to 39 to 61, which may be considered as a long-term trend given the data from previous years as seen in the chart. The causes of this phenomenon might lay in changing relative prices. The real price per liter of on-trade beer has risen by 23% from 1994 to 2016; the real price of off-trade beer has fallen by 12% in the same time period. The fall of off-trade prices is largely caused by strong competition and heavy discounts of beer products in supermarkets. The other causes may stem from income changes and food-related life-style changes.

The previous year saw an increase of total consumption of draft beer by 0.7%, in addition, the increase was not at the expense of lager beer, which production recorded a slight raise as well. Both categories remain at the last year level - roughly 47%. According to Czech Beer and Malt Association these moderate increases can be attributed to the revival of tourism and further raises of the wages in the country. It is estimated that in 2016 Czech republic was visited by 2.2 million tourists, which is more than in the previous years. Tourists are claimed to drink 785 thousands of hectolitres of beer during their visits in CZ - expressed as a percentage, this is a 19% increase.



Source: Czech Brewery and Malt Association

In terms of beer consumption by packaging, there has been 12% increase of cans and a slight increase in PET bottles (3%). Classic beer bottles remained at the same level as in 2015. Tanks grew slightly (2%) and the classic barrels dropped by 4%. Such significant growing preference of beer in cans might be caused by easier handling and opening, low weight, and fast cooling. Also Retain chains tend to reduce the price of canned beer over other packages as cans are not returnable, therefore, the retail chains reduce the amount of expenses they would have to otherwise spend.



Source: Czech Beer and Malt Association

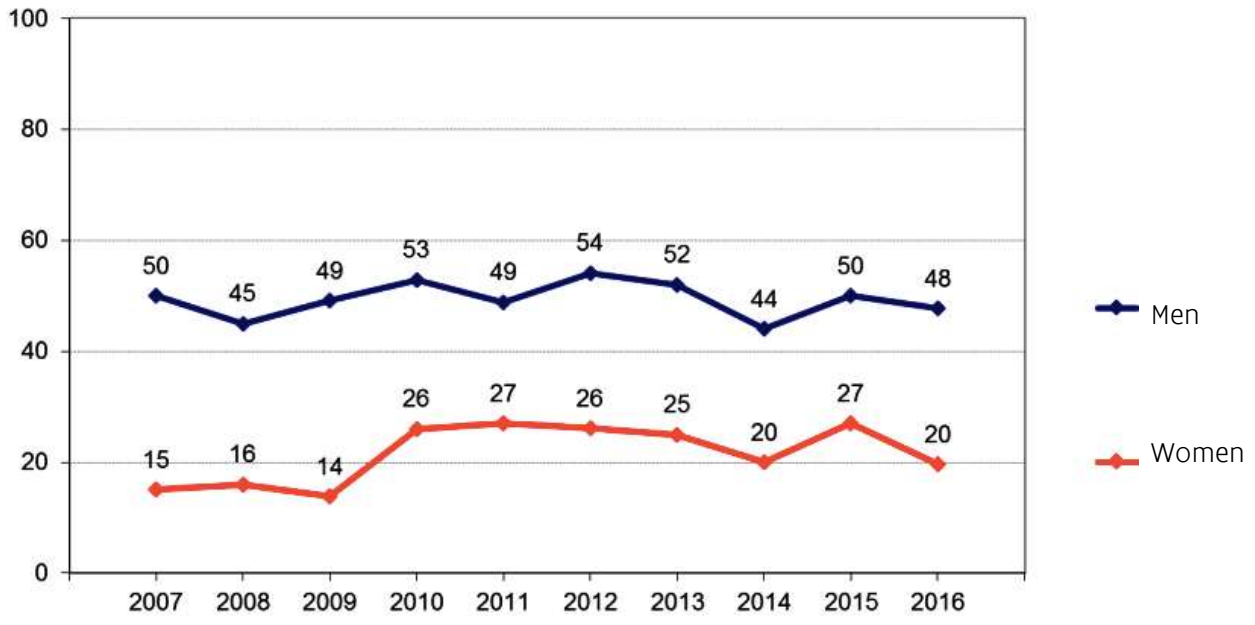
Furthermore, non-alcoholic beer is rapidly growing in popularity among Czech consumers. There has been a clear growth in consumption of non-alcoholic beer. The production recorded a 17.7% increase from the previous year, expressed in volume, it is 555 thousand hectolitres. The flagship of this trend is Radegast Birell, according to the prestigious Beer World Cup 2008, the world's best non-alcoholic beer. As seen in the following chart the preference of non-alcoholic beer to another non-alcoholic beverage slightly decreased among men in comparison to the previous years, however still encompasses nearly half of the male population. More significant decrease in this sector was among women. The preference was reduced to the 2014 level.

In a more detailed look, there is a slight increase of non-alcoholic beer among men in all age groups except the 45-59 years old, in that group the consumption remained stable. The most significant increase was among 30-44 years old. Furthermore, an increase in this group has been constant since 2013.

Among women the preference of non-alcoholic beer is more stable. Preference rose, however, in age groups 45-59 and 18-29. Further, there was a significant fall of beer-based beverages, so-called

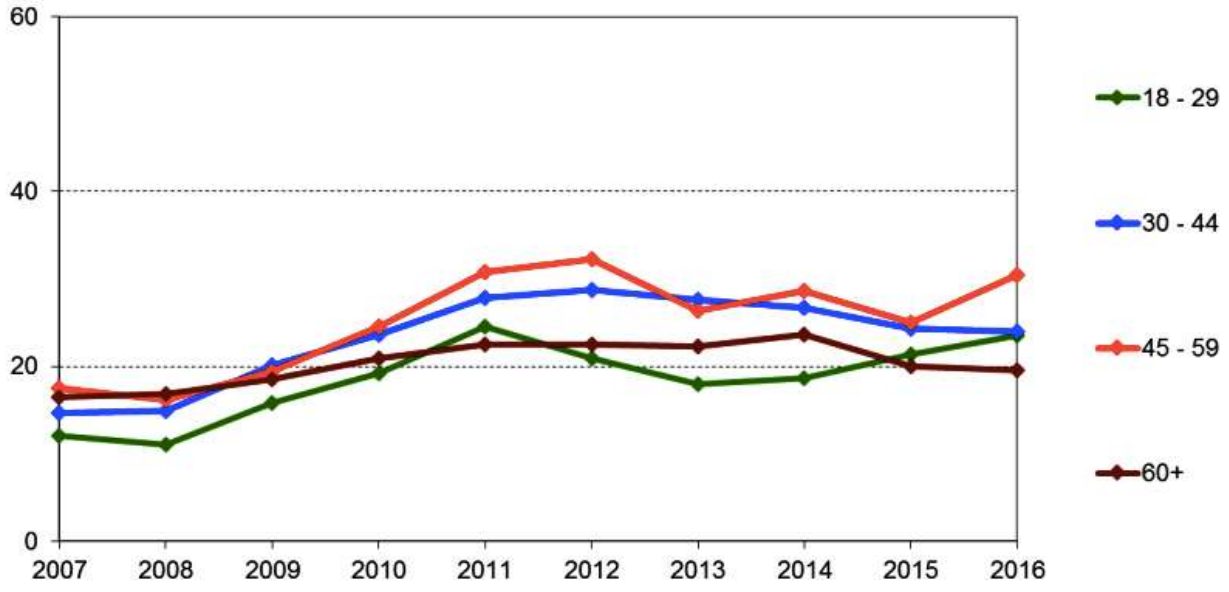
beer mixes, by 17.3%. Causes of such decrease may be attributed to the production of fruit-flavoured low-alcoholic beers.

PREFERENCE OF NON-ALCOHOLIC BEER TO ANOTHER NON-ALCOHOLIC BEVERAGE



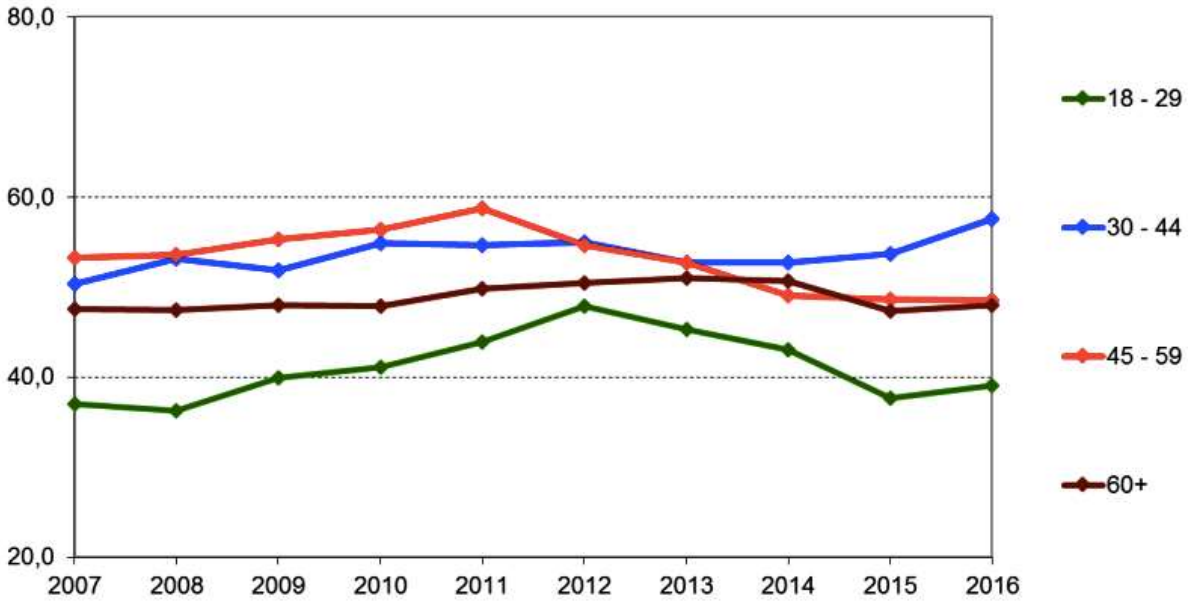
Source: Institute of Sociology, Academy of Sciences of Czech republic

PREFERENCE OF NON-ALCOHOLIC BEER BY AGE (WOMEN)



Source: Institute of Sociology, Academy of Sciences of Czech republic

PREFERENCE OF NON-ALCOHOLIC BEER BY AGE (MEN)

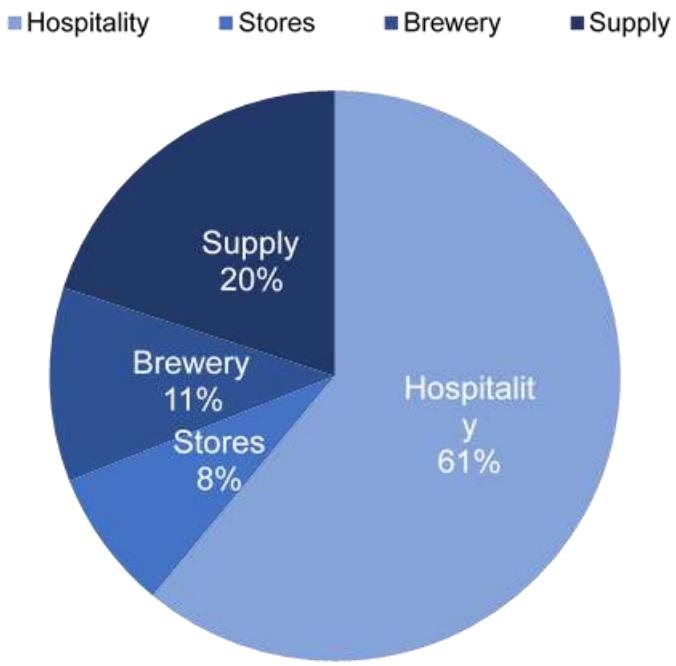


Source: Institute of Sociology, Academy of Sciences of Czech republic

5. Employment generated by the beer sector

The contribution to employment in Czech republic in 2016 was nearly around 65,000. As in the rest of Europe, most are employed in the hospitality sector, which accounted for 61% of the employment contribution.

Employment increased in the retail sector, reflecting rising off-trade consumption, but slightly declined across other sectors, with the largest decline occurring in the hospitality sector, reflecting the decline in on-trade consumption. Nevertheless, the indirect employment in this sector is still significant creating roughly 38,000 jobs. Employment in supply sectors, which might be described as primary and secondary distribution, brewery industry creates over 12,800 jobs, mainly in agriculture and the media and marketing sector. As for breweries themselves, they create 7,000 jobs. The smallest of the sectors brewing jobs in Czech republic is the business sector. It is estimated at 5,200 jobs.



Source: Czech Brewery and Malt Association

5.1 Government revenues related to beer

Total government revenue including direct, indirect and induced sales in hospitality and related industries are CZK 343 billion. As for the brewery industry themselves total government revenue was around CZK 29 billion. The largest shares in government total revenues are represented by income and payroll taxes from other sectors and VAT in the on-trade, showing its continued importance despite the decline in on-trade volumes.

6. Regulations

EU Non-member state's imported goods are subjects to the EU customs policy. For non-member state a Certificate of origin is required per shipment.

Importers must obtain import license for alcohol products. Imported beers are required to comply with the EU hygiene standards and hygiene standards for alcohol products set by Czech competent authorities, The National Treasury Bureau of the Ministry of Finance

Online cash transaction tracking system was introduced in 2016, the details of each merchant's transaction are sent online to the state administration. Transaction tracking system requires a devices with internet connection and printer on receipt. Companies do not have any tax deduction for the introduction of the system (EET in Czech).

For each registered revenue, a data sentence, which contains the following sales information, must be send to the state administration:

1. The taxpayer's tax ID and, where applicable, the taxpayer's tax payer of the EET,
2. Identification of the establishment,
3. Identification of the cash register,

4. Serial number of receipts (unambiguous within a single cash desk);
5. Date and time of receipt of sales,
6. The total amount of revenue and its breakdown into individual VAT rates.

The basic excise duty rate in Czech republic is CZK 32 per hl (100 litres) for each total weight percentage. As for small independent breweries whose annual beer production does not exceed 200 000 hl, a lower excise duty is imposed as shown in the table. A VAT rate of 21% is also deducted from each pint.

Tax rate in CZK / hl for each whole weight percentage of the original wort extract

	Basic tax rate	(...- 10.000>	(10.000 - 50.000 including>	(50.000 - 100.000 including>	(100.000 - 150.000 including>	(150.000 - 200.000 including>
Year 2016	32.00	16.00	19.20	22.4.	25.60	28.80

Source: https://www.finance.cz/dane-a-mzda/dph-a-spotrebni-dane/spotrebni-dane/pivo/

Czech beer has received a protected geographical designation "Czech beer", which aims to preserve the good name and quality of beer produced in Czech republic. Beer made by other than classic methods or beer imported to the country must not use this designation.

Drinking and purchasing alcohol is allowed from the age of 18, and is permitted also in public places such as streets, trains, etc., however, this can be forbidden by a local ordinance.

7. Festivals

Beer festivals are rather common in Czech republic, for this reason the following list does not mention all but only the most significant ones.

Czech Beer Festival is the major beer festival in Czech republic, held for 17 days every year in May in Prague. The festival features around 120 different beers, including 70 Czech brands and other foreign brews, including those from the United States or United Kingdom, with up to 10,000 seating capacity and service provide around 200 girls and boys dressed in Czech traditional costumes.

British newspaper The *Financial Times* ranked the festival to be among 40 global events that you should visit in 2012. Formerly, visitors used a special currency, the Tolar, to pay for beer and food at the festival. Now it is a magnetic card, to which visitors can load any amount of cash.

Further, the festival "Days of Czech beer" is organised by the Czech Beer and Malt Association. It is held from the 27th September to the 1st October. "Days of Czech beer" are the feast of all beer lovers, pubs and gastronomy. The proclaimed goal is to support the consumption of draft beer through this event, while at the same time reminding and supporting the unique Czech pubs, which are part of the cultural heritage - the national identity. Organisations also emphases the social aspect of this event, which is bringing people together.

Days of Czech beer start on Tuesday the 26th of September with a toast at the St. Wenceslas Festival and symbolic loading of the winner's lager barrel at the Czech Beer 2017 degustation competition. Dozens of breweries and microbreweries participate in celebrations. Participating businesses offer jubilee beer tastings 2017, special beer menus, brewer meetings or brewery tours.

8. Associations

Czech Brewery and Malt Association brings together breweries, malt houses and other institutions that are directly or indirectly involved in beer production in Czech republic. The Association follows a long tradition, which beginnings the second half of the 19th century. At that time, the first professional brewing and malting organizations were established in the country. The current form of the Association dates back to 1991, when the professional organization of breweries and malts was restored.

Currently the Association incorporates 26 brewing companies, 7 malt houses and 19 contributing members. The contributing members are hop producers, producers of beer glass, labels, technological and technical equipment for the brewing sector, educational institutions, etc. The main objective of the association is to promote and defend the rights and common interests of its members. It supports the development of activities that contribute to the proper operation of the members' activity, ensure contacts with the legislative bodies and the relevant state administration bodies. The Union represents the interests of its members also in the international field in brewing and malting institutions and organizations.

Sources

Czech Beer and Malt Association [online]. Prague: ©2016. Available from: http://ceske-pivo.cz/fakta-a-zajimavosti

Institute of Sociology, Academy of Sciences of Czech republic [online]. Prague: ©2016. Available from: http://www.soc.cas.cz/

Plzenský Prazdroj [online]. Prague: ©2017. Available from: https://www.prazdroj.cz/media

Budweiser Budvar [online]. Prague: ©2017. Available from: https://www.budvar.cz/cs/nase-pivo/prstole

Heineken Czech republic [online]. Prague: ©2017. Available from: http://www.heinekenceskarepublika.cz/tiskove-zpravy

AGRO EXPORT. Praha: Economia, a.s, 2017

E15.Pivovary Heinekenu v Česku prudce zvýšily zisk. Pomohl cider Strongbow. 2017. Available from: http://zpravy.e15.cz/byznys/prumysl-a-energetika/pivovary-heinekenu-v-cesku-prudce-zvysily-zisk-pomohl-cider-strongbow-1328547

FINANCE.CZ. Spotřební daň - pivo. Praha: Mladá Fronta, a.s, 2017. Available from: https://www.finance.cz/dane-a-mzda/dph-a-spotrebni-dane/spotrebni-dane/pivo/

Date of publication: December 2017