The review of beer market in Belarus

This presentation was prepared by investment-consulting company EnterInvest together with law firm SORAINEN

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ESTONIA LATVIA LITHUANIA BELARUS

Resume: major conclusions emerged from the review of beer market in Belarus in 2012

Consumption

Regular increase in beer excise rate from Br 350 in 2011 to Br 2580 by the end of 2012 led to beer demand reduction by 6% which amounted to 47,8 million dal. In value terms the market has grown to $ 587,4 million (since price growth was faster if compared to demand reduction) but still did not reach $605.8 million of 2008.

Production

Sales slowdown due to the fast growth of beer prices as well as the resumption of imported beer volumes had a negative impact on the production output of Belarusian brewers. It decreased by 9% to 42.7 million dal as compared to 2011.

Export

More than 90% of Belarusian beer export goes to Russia and Lithuania. The growth rate of Belarusian beer supply to these countries outruns the pace of growth of total beer import to the countries mentioned. It shows increasing interest to Belarusian goods abroad primarily because of relatively low prices..

Import

The abolishment of Ukrainian beer licensing, as well as a significant increase in Russian beer supply and the improving welfare of citizens contributed to the resumption of imported beer volumes in value terms to the pre-crisis level; total imports in 2012 amounted to $73,5 million.

Main players

Four main players on beer market are such domestic producers as Krinitsa OJSC, Heineken Breweries FCJSC, Alivaria Brewery OJSC and Lidskoe Pivo Public Corporation. Their overall market share is over 70%.

I. Consumption

II. Production

III. Export

IV. Import

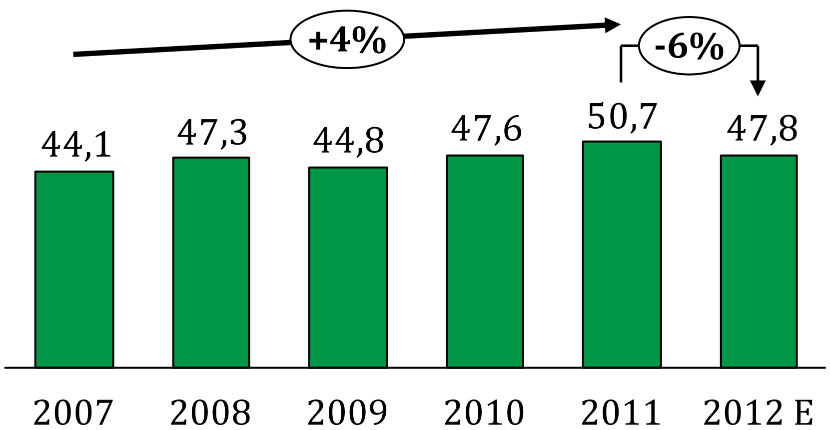
V. Market structure

VI. Main players

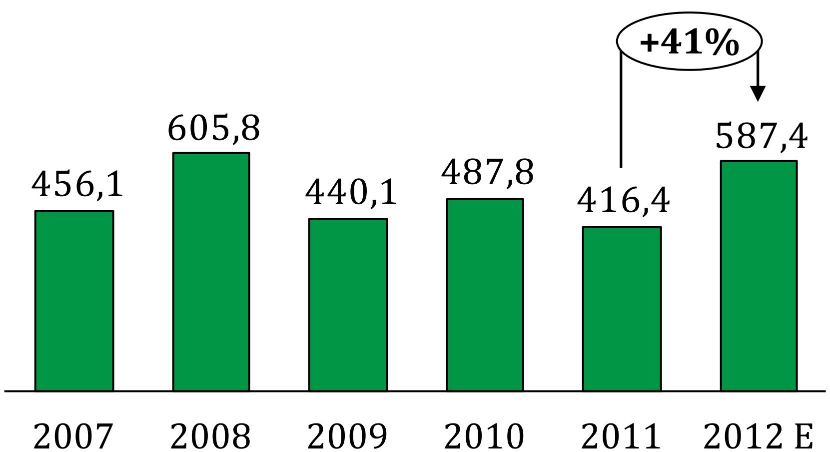
VII. Legal framework

In 2012 beer market fell by 6% in volume terms while in value terms it grew by 41% as compared to 2011

Beer sales volume, m dal



Beer sales volume, m USD



Comment

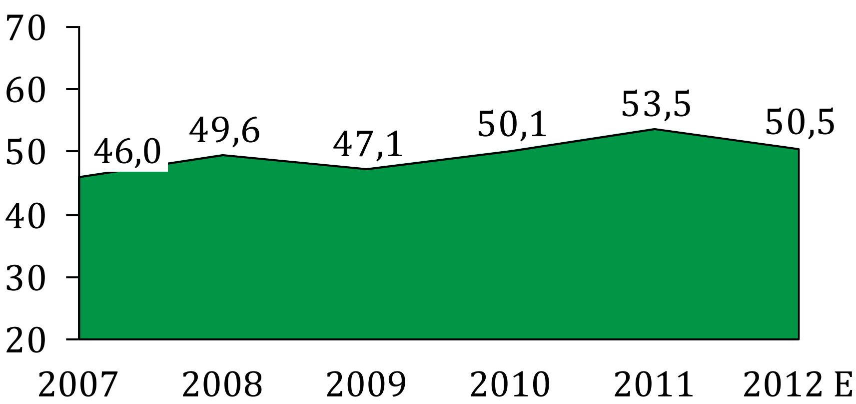
» In 2012 beer sales in volume terms decreased by 6% as compared to 2011 and amounted to 47.8 million dal. The main reason for the decrease was a significant beer price growth associated with the major increase in beer excise rate.

» In 2012 the market increased by 41% in money terms and made up $587.4 million as against $416.4 million in 2011. The main growth factors were price escalation and the improving welfare of Belarusian citizens due to which the fall in demand was not that nasty.

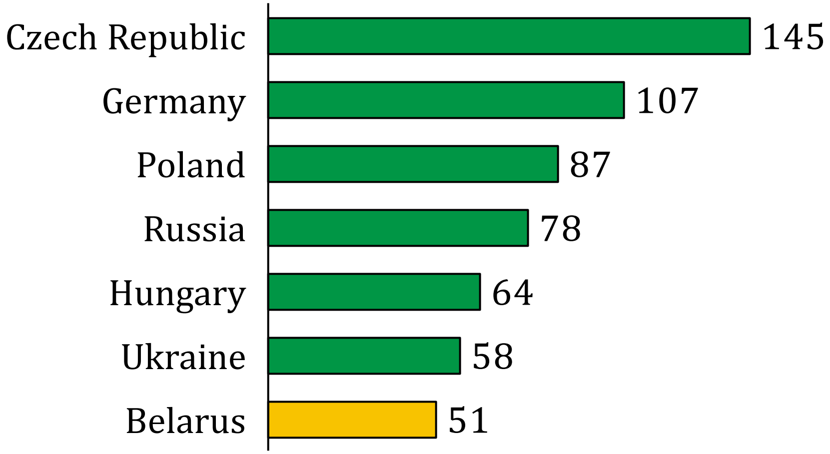
Source: The National Statistical Committee of the Republic of Belarus

The level of beer consumption per capita in Belarus is far lower than in either West European or neighborhood countries

Beer consumption per capita in Belarus, l



Beer consumption per capita, l



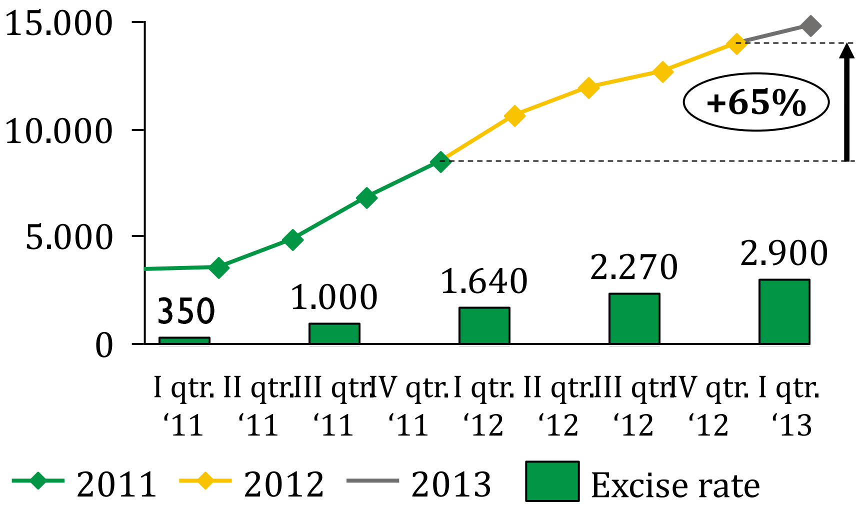
Comment

- » From 2007 to 2011 the level of beer consumption per capita had been growing with a peak of 53.5 liters per year in 2011. The demand fall in 2009 was caused by imposed restrictions on drinking alcohol in public places.
- » In 2012 this indicator decreased to 50.5 liters due to price growth.
- » Belarus lags behind its neighbors (Russia, Ukraine) and to a greater extent west-european countries in beer consumption per capita per year. It means that there is a potential for growth.
- » However further excise rate increase and some restrictions (on advertisement, points of sales and consumption) may have a negative impact on potential consumption growth. We can observe similar situation in Russian beer market.

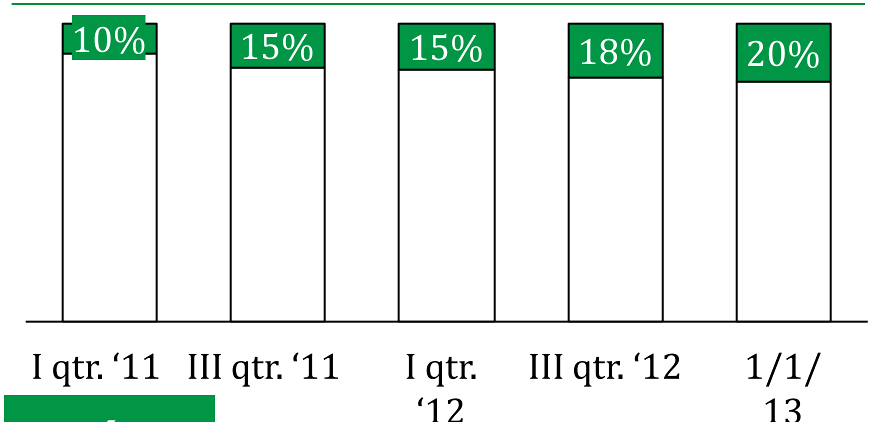
Source: The National Statistical Committee of the Republic of Belarus, news sources, team calculations

Market volume change in 2012 is associated with beer price growth due to excise rate increase

An average price for 1 liter of beer and excise rate per liter , Br



Excise share in the cost of 1 liter of beer, %



Comment

» Regular increase of excise rate during 2012 caused a boom in prices on beer products.

» As of January 1, 2013 excise rate was Br 2900 per liter while an average excise share in the cost of a liter of beer amounted to 20% as against 10% in the beginning of 2011.

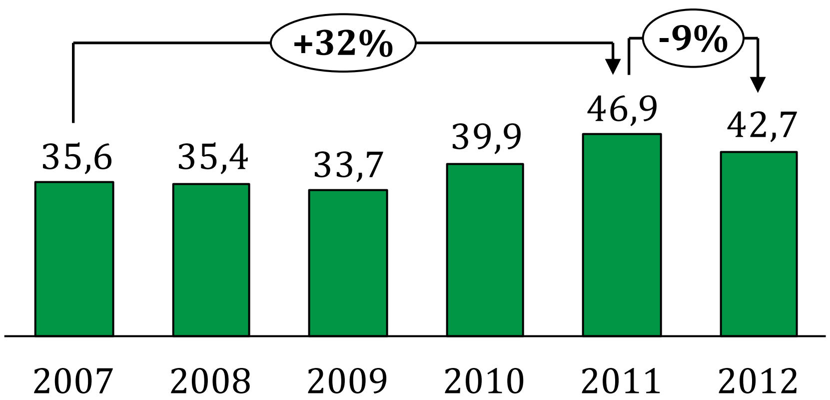
» In 2012, due to excise rate increase, beer price growth was faster than the development of inflation. Thus, beer price growth comprised 65% while inflation rate was 21.8%.

» Further increase in excise rate and, consequently, in beer price will keep down the growth of beer consumption in Belarus.

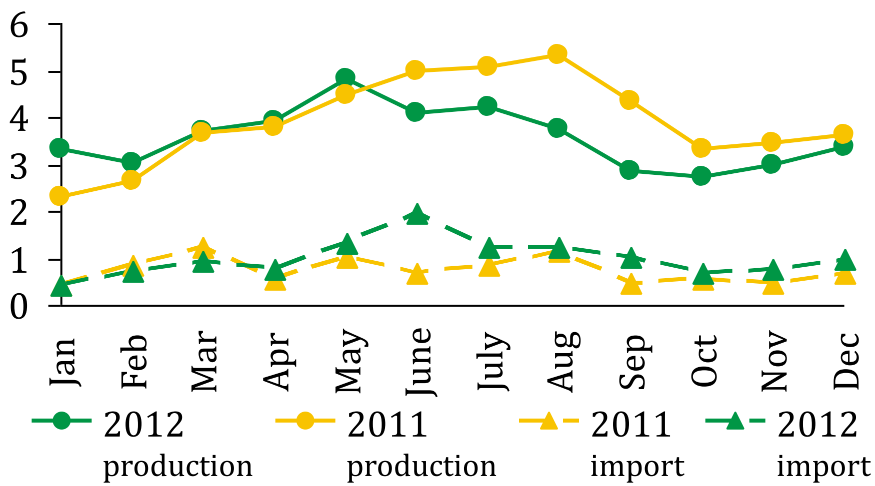
Source: The National Statistical Committee of the Republic of Belarus, news sources

Owing to demand fall, beer production in 2012 decreased by 9%...

Beer production output, m dal



Seasonality in production and import of beer, m dal



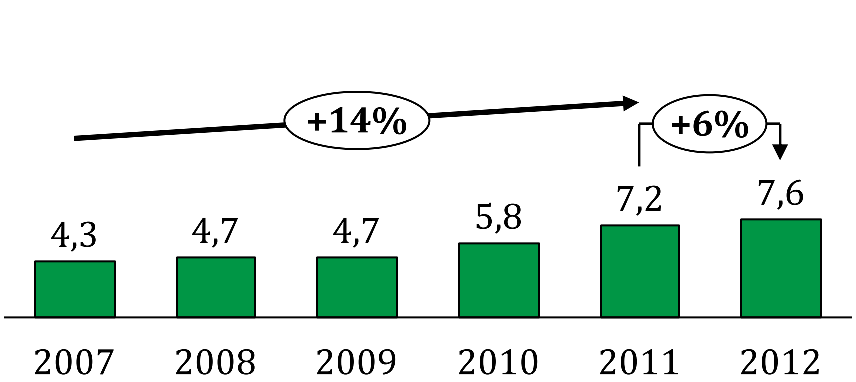
Comment

- The production output of beer in Belarus increased by 32% to 46.9million dal between 2007 and 2011.
- The output growth was achieved due to increase in production output by four main players: Krinitsa OJSC, Heineken Breweries FCJSC, Alivaria Brewery OJSC and Lidskoe Pivo Public Corporation.
- In 2012 production output decreased by 9% to 42.7million dal. The main cause for that is beer price escalation stimulated by the leveling of beer excise rate within Common Economic Space of Russia, Belarus and Kazakhstan.
- The abolishment of Ukrainian beer licensing as well as delivery expansion from Russia also had an adverse impact on production output.

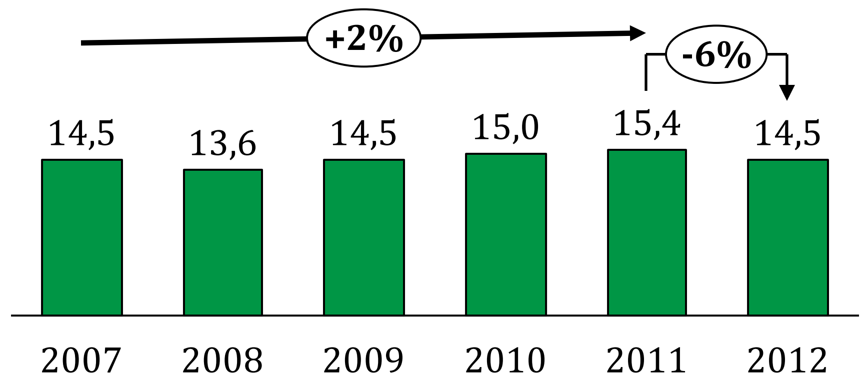
Source: The Belarusian State Concern of Food Industry, team calculations

… while by 2012 all major brewing companies except for Krinitsa OJSC increased manufacture by 14-19% on average annually

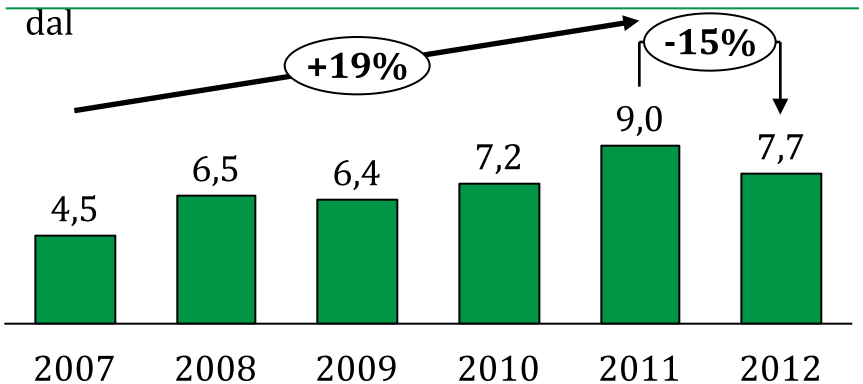
Production output of Lidskoe Pivo Public Corporation , m dal



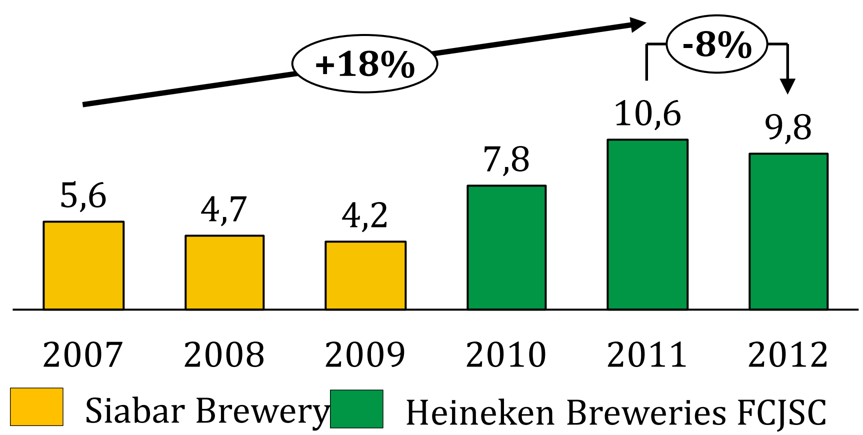
Production output of Krinitsa OJSC, m dal



Production output of Alivaria Brewery OJSC, m dal



Production output of Heineken Breweries FCJSC*, m dal



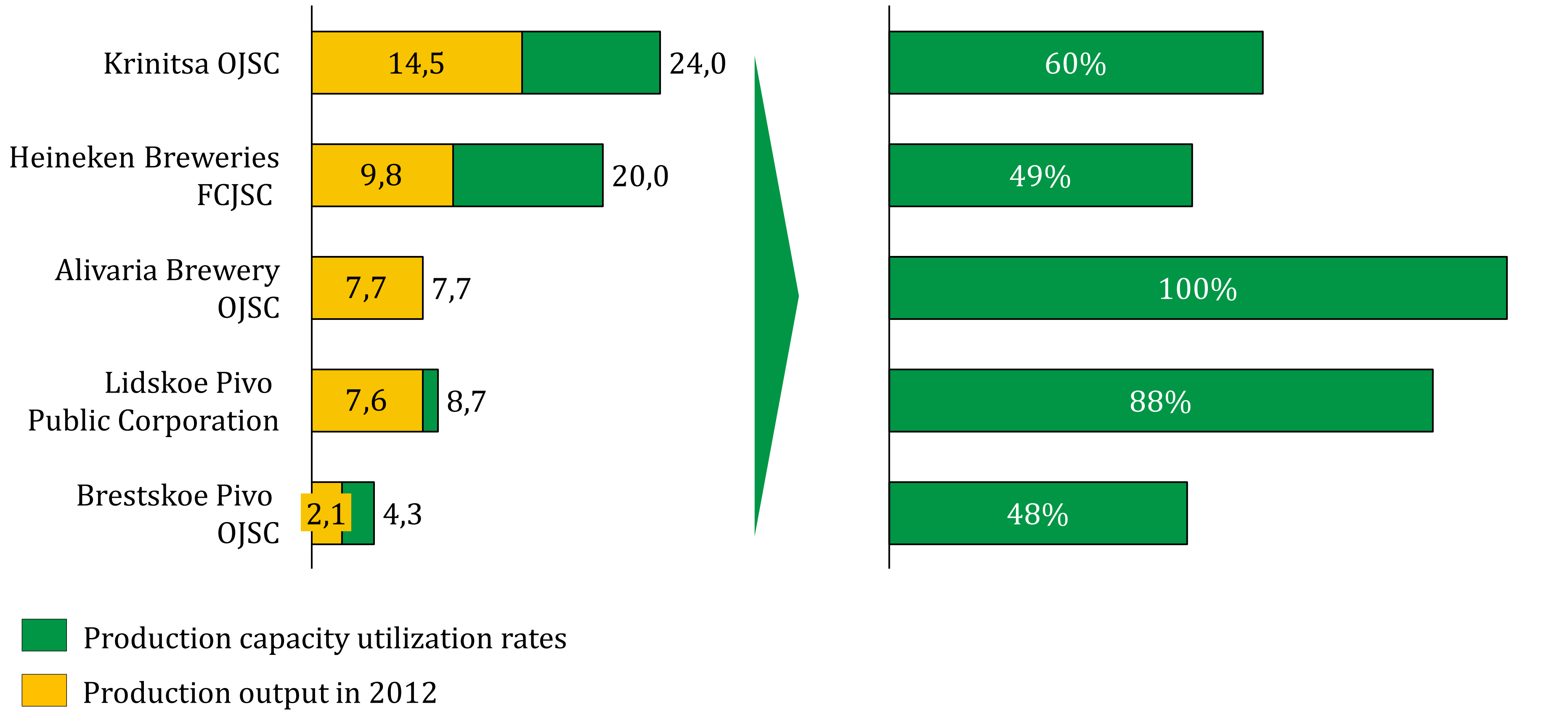
* - in 2007 Siabar Brewery merged with Heineken N.V. and was named Siabar Brewery Company FCJSC, then in 2010 it was renamed into Heineken Breweries FCJSC

Source: The Belarusian State Concern of Food Industry, news sites

In 2012 Brestskoe Pivo and Heineken Breweries FCJSC used only half of their production capacity, Krinitsa used 60% while Alivaria and Lidskoe Pivo utilization rates were 100% and 88% respectively

Beer production output in 2012, m dal

Production capacity utilization rate, %



Source: The Belarusian State Concern of Food Industry, news sites, team calculations

About 80% of beer produced in Belarus is dispensed in PET bottles

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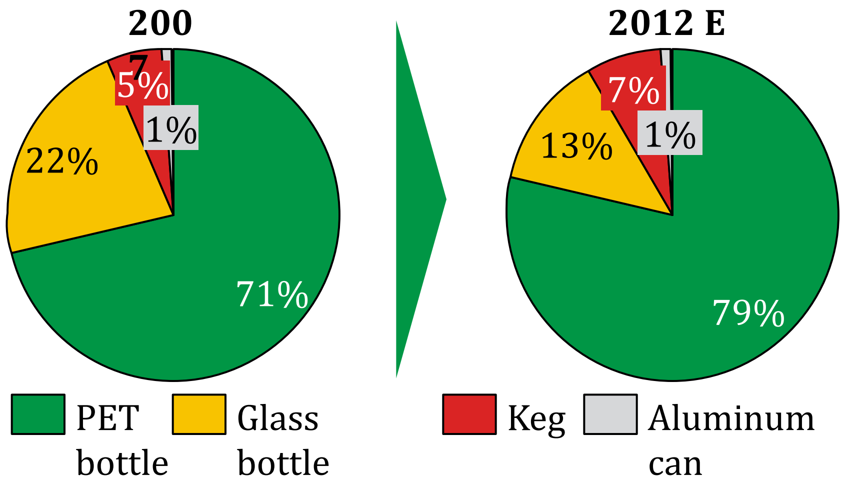
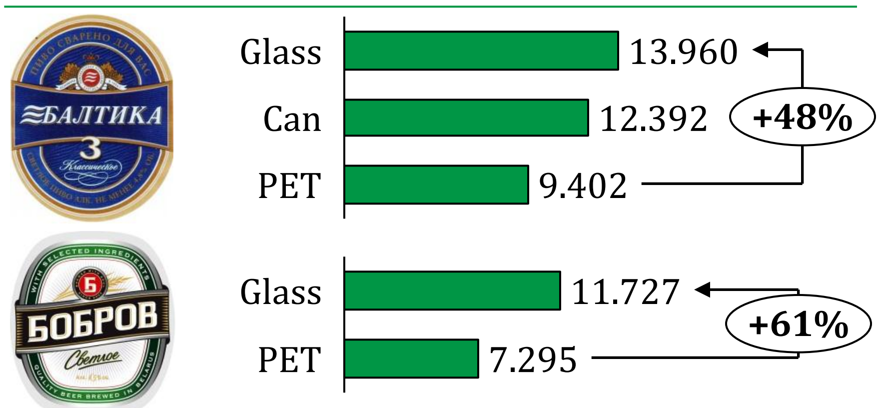
Production

Beer sales pattern of Belarusian companies by container, %



An average price for 1 liter of beer in 2012 in various containers of different volume, Br



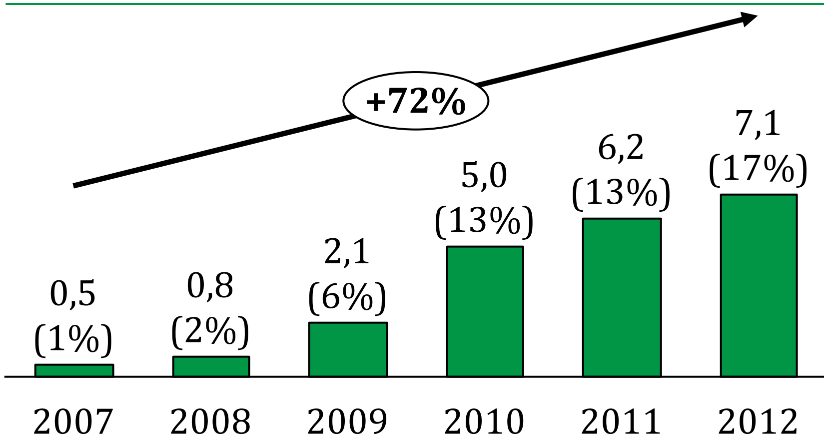
Comment

- A plastic bottle is the most popular beer container among Belarusian producers.
- Its share in total sales of Belarusian companies increased from 71% in 2007 to 79% in 2012.
- Share growth of PET is achieved by share reduction of glass bottles in sales volume.
- It can be explained by the fact that a liter of PET bottled beer costs on average 40-60% less than a liter of the same beer in a glass bottle.
- In 2012 Rosalkogolregulirovanie considered the abolishment of sale of beer in PET bottles within the Customs Union, but they gave the idea by the end of 2012. The application of the abolishment is likely to have an adverse effect on total sales of beer in Belarus.

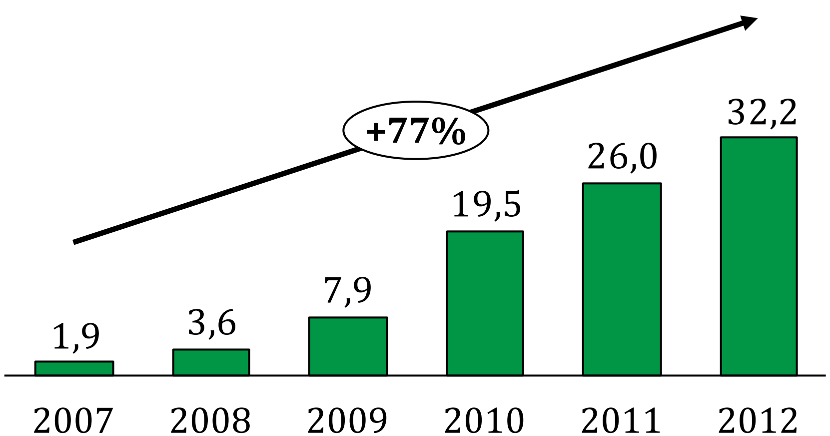
Source: The Belarusian State Concern of Food Industry, team calculations

Over the period of 2007 and 2012 export increased by 14 times in volume terms and by 17 times in value terms

Beer export volume and its share in production, m dal/ (%)



Beer export volume, m USD



Comment

- Export share in production has changed from 1% in 2007 to 17% in 2012.
- The main importers of Belarusian beer are Russia and Lithuania.
- Heineken and Carlsberg that hold Heineken Breweries FCJSC and Alivaria Brewery OJSC have their own subsidiaries in export markets and they do not consider export options.
- The lack of marketing support in importing countries makes Belarusian manufacturers unable to defy competition in foreign markets and that is the main deterrent to export growth.
- The principal competitive advantage of Belarusian beer is its relatively low price.

Source: The National Statistical Committee of the Republic of Belarus, The Belarusian State Concern of Food Industry, team calculations

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The main importers of Belarusian beer are Russia and Lithuania, where its market share in volume terms makes up 14% and 28% respectively

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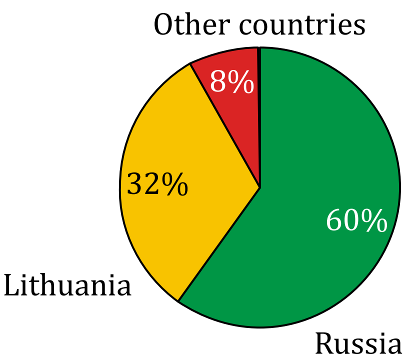
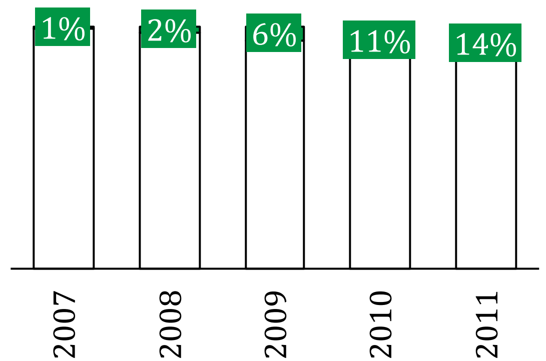
Export

Foreign beer trade, million dal

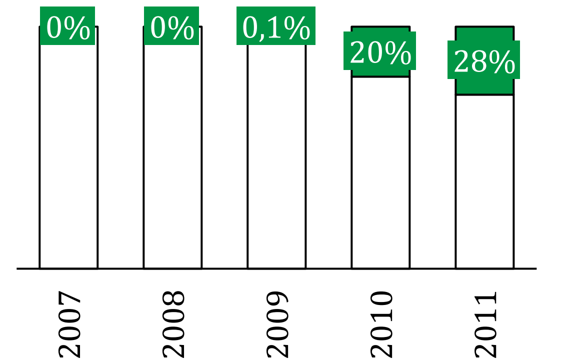
Belarusian export pattern



Belarusian beer share in Russian imports

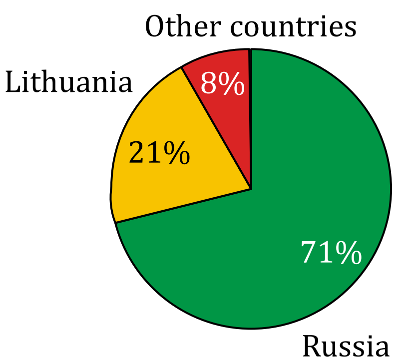


Belarusian beer share in Lithuanian imports

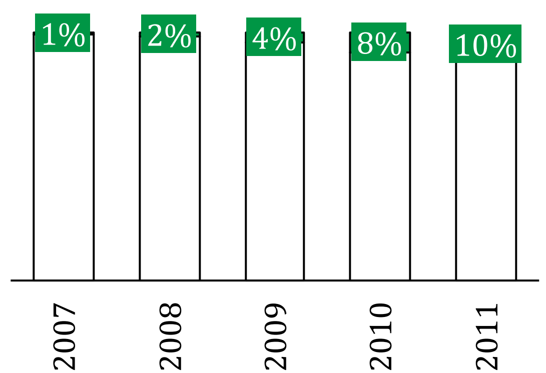


Foreign beer trade, million dollars

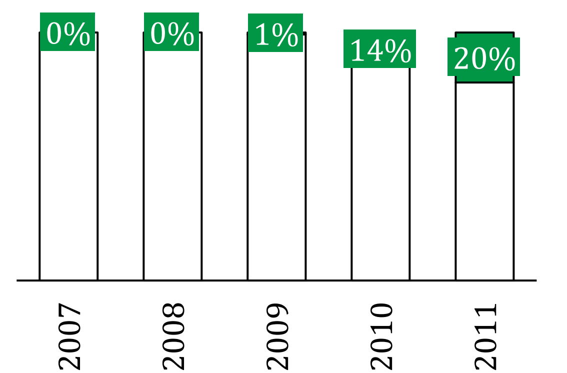
Belarusian export pattern



Belarusian beer share in Russian imports



Belarusian beer share in Lithuanian imports



Source: The National Statistical Committee of the Republic of Belarus, UN Comtrade

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The average annual growth rate of beer exports from Belarus is higher than beer imports to the countries

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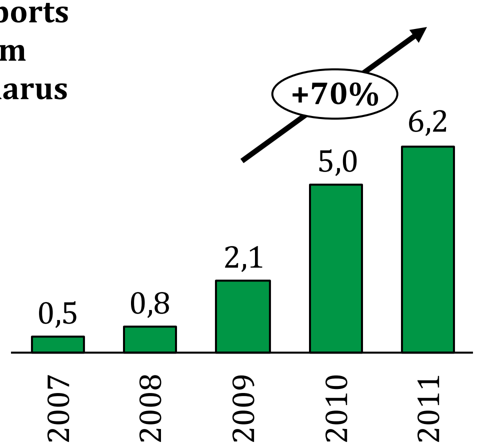
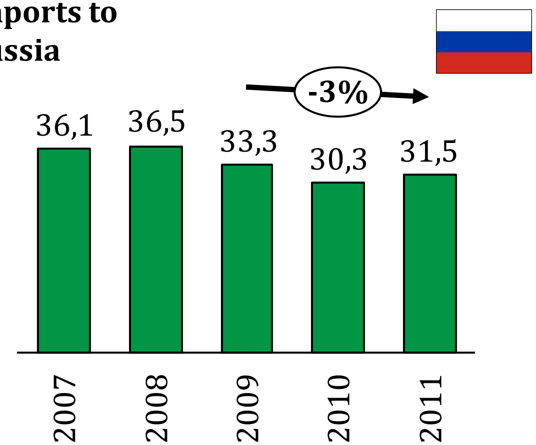
Export

Foreign beer trade, million dal

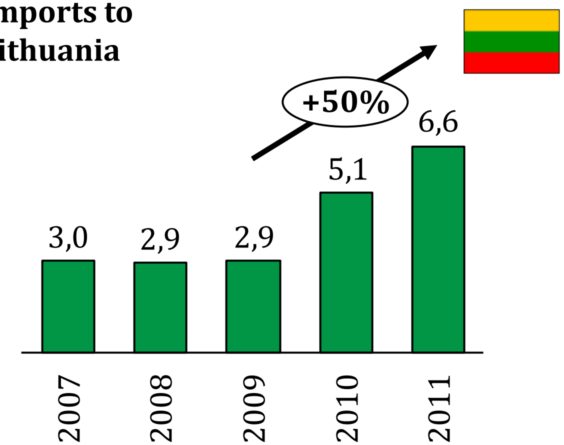
Exports from Belarus



Imports to Russia

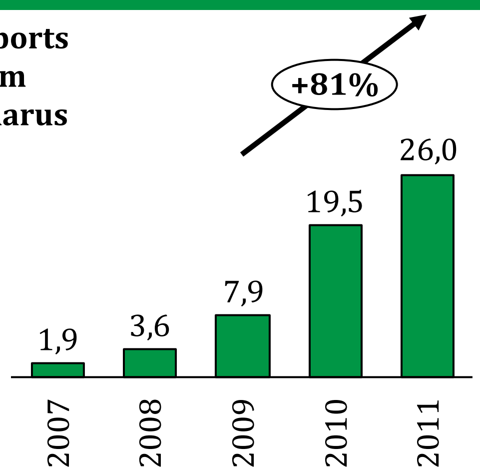


Imports to Lithuania

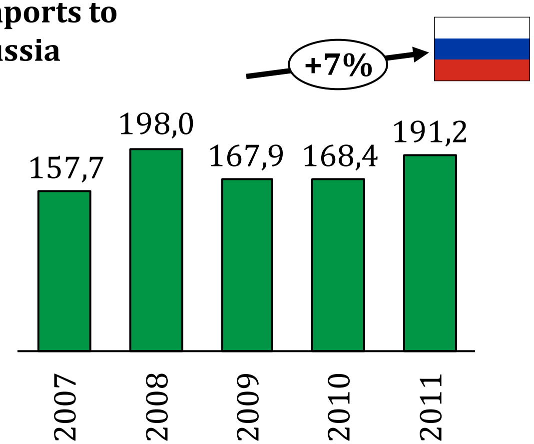


Foreign beer trade, million dollars

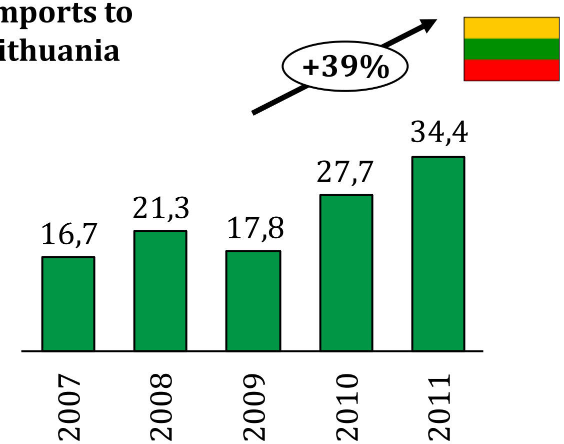
Exports from Belarus



Imports to Russia



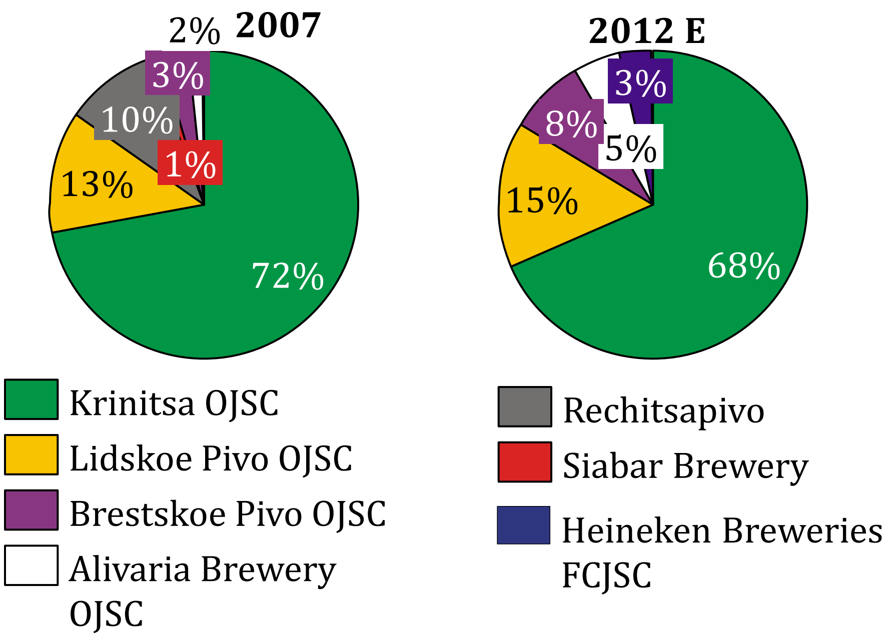
Imports to Lithuania



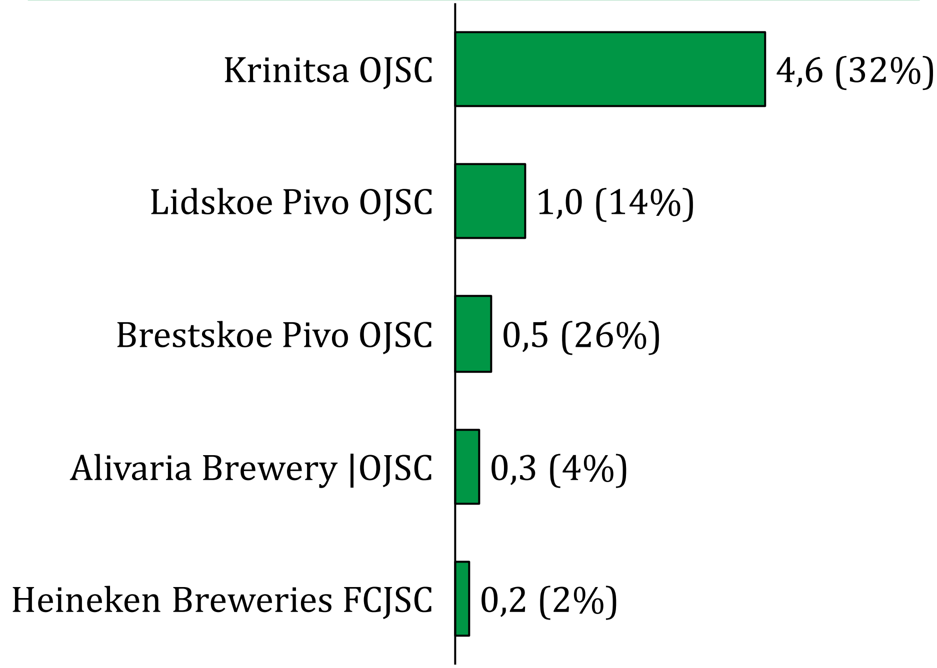
Source: The National Statistical Committee of the Republic of Belarus, UN Comtrade

Export pattern has not changed much by companies over the last five years

Export pattern by companies, %



Export volumes of the main players in 2012, m dal (% of production output)



Comment

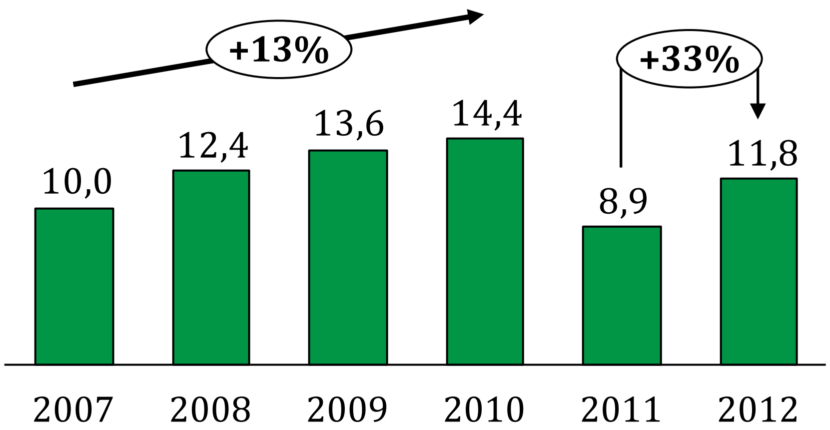
» The leading beer exporter both in 2007 and in 2012 with almost unchanged share in total exports is Krinitsa. Their primary goal nowadays is to increase export supplies.

» Since Siabar Brewery Company was reconstructed into Heineken Breweries FCJSC and Rechitsapivo merged with the group of companies, their overall share in export volumes decreased due to the company grouping's primary goal to gain the lead in domestic market.

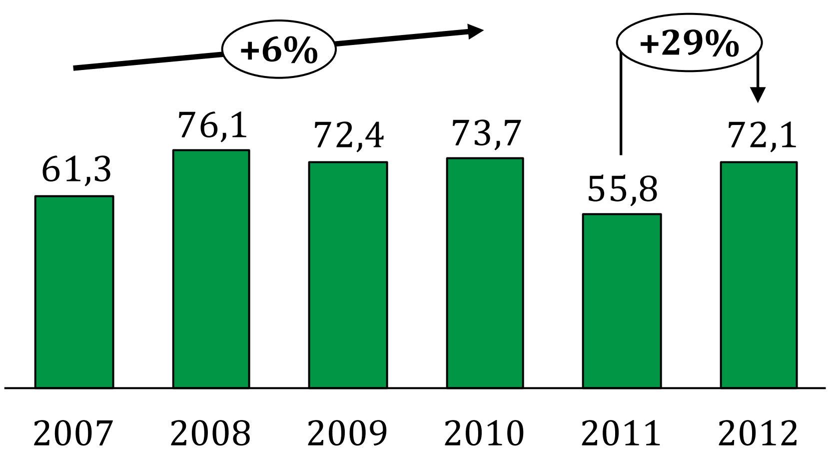
Source: The Belarusian State Concern of Food Industry, team calculations

2012 import volume as compared to the previous period increased by 33% to 11,8 million dal

Beer import volume, m dal



Beer import volume, m USD



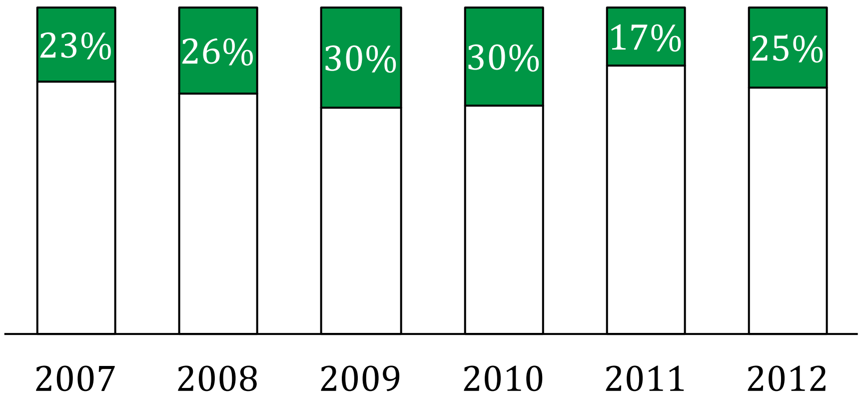
Comment

- The average annual growth rate of beer imports in volume terms between 2007 and 2010 amounted to 13% and in value terms to 6%.
- The significant reduction of beer imports in 2011 occurred due to inability to purchase currency at the exchange market, currency devaluation and sharp rise in imported goods prices in comparison with local goods. The introduction of Ukrainian beer licensing by the establishment of minimum prices also affected negatively import volume.
- In 2012 market volume increased by 33% to 11.8 million dal in volume terms and to $72.1 million in value terms thus nearly reaching the pre-crisis level.

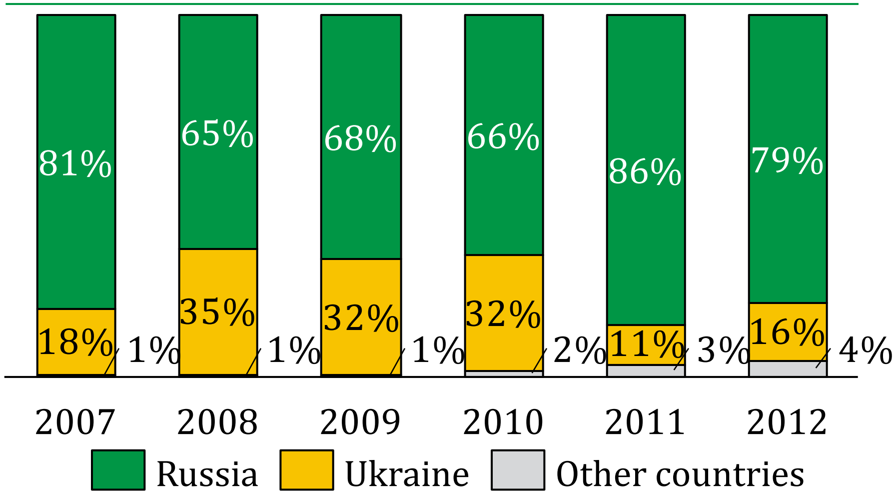
Source: The Belarusian State Concern of Food Industry, team calculations, UN Comtrade

Imported beer share in total sales is about 25%

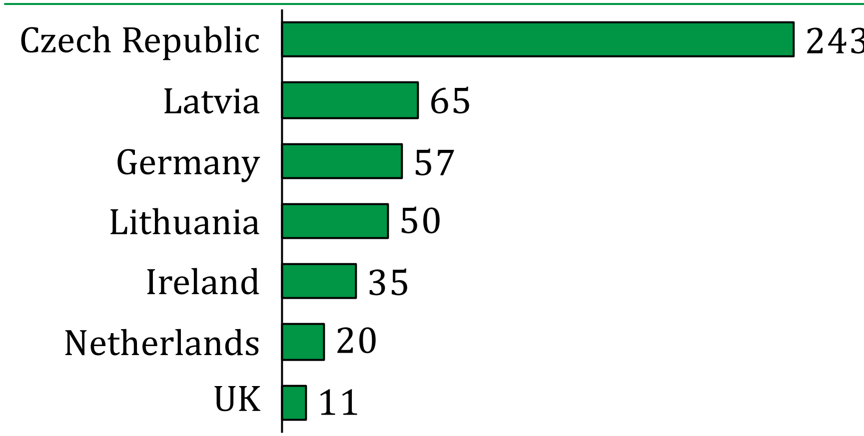
Imported beer share in total sales in volume terms, %



Beer import pattern in volume terms by countries, %



The main west-european beer exporters to Belarus, thou dal



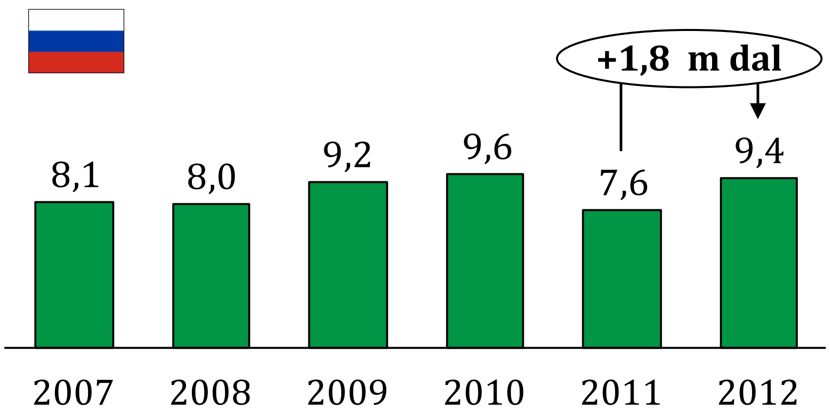
Comment

- » The share of imported goods in beer total sales in Belarus is about 25%, only 2011 was an exception.
- » About 96% of all foreign beer is imported to Belarus from two countries: Russia and Ukraine.
- » The level of beer import from Western Europe is still low, though it has shown significant growth in recent years.

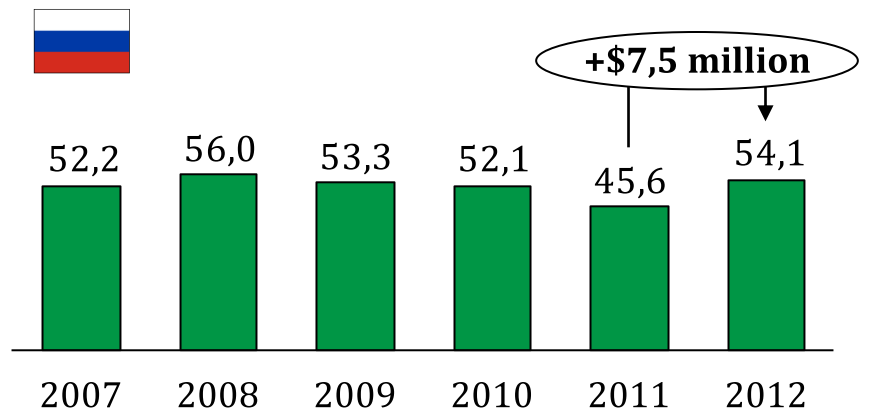
Source: The National Statistical Committee of the Republic of Belarus, UN Comtrade

Despite the abolishment of Ukrainian beer licensing, 2012 import increased mainly owing to Russian delivery expansion

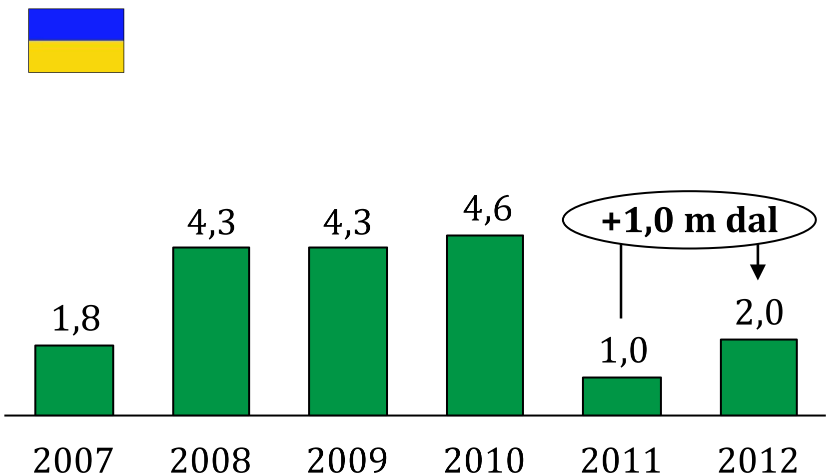
Beer imports from Russia, m dal



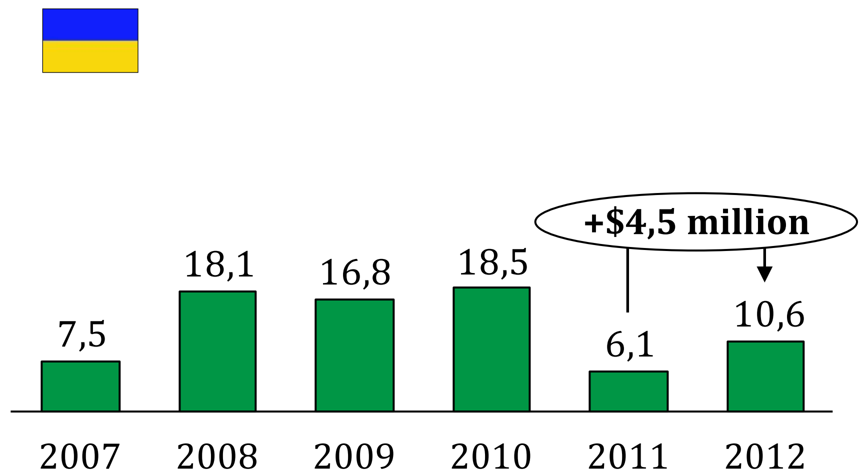
Beer imports from Russia, m USD



Beer imports from Ukraine, m dal



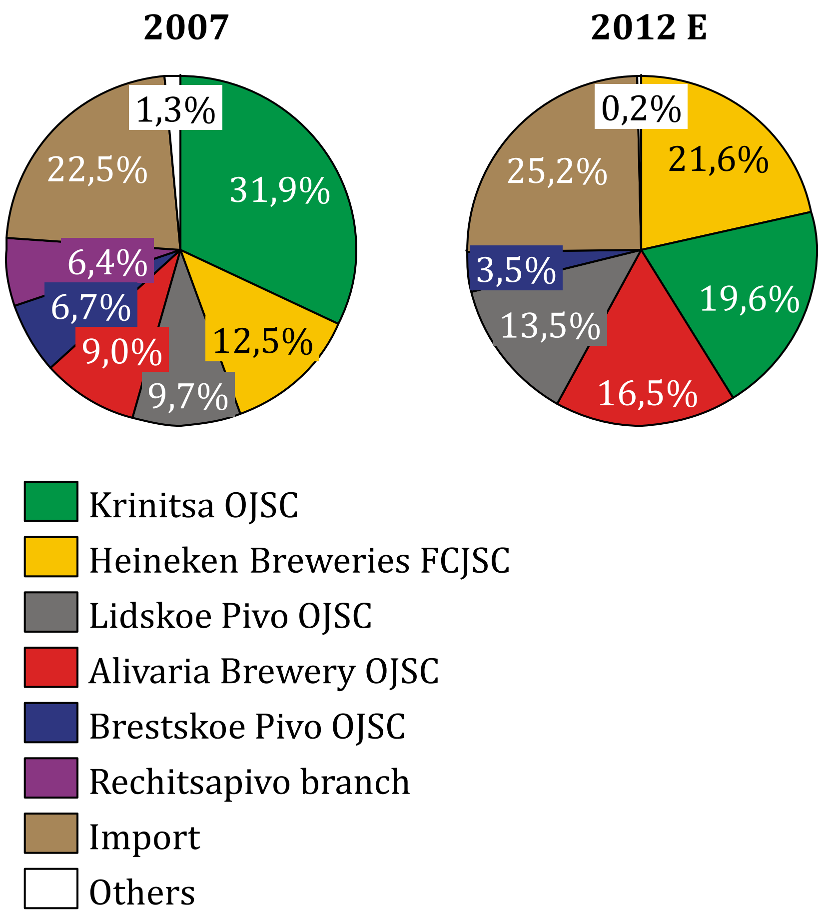
Beer imports from Ukraine, m USD



Source: The Belarusian State Concern of Food Industry, team calculations, UN Comtrade

The leader in Belarusian beer market is Heineken Breweries FCJSC that market share is about 22%. It replaced the previous leader Krinitsa OJSC in 2010

Beer market structure in Belarus by suppliers, %



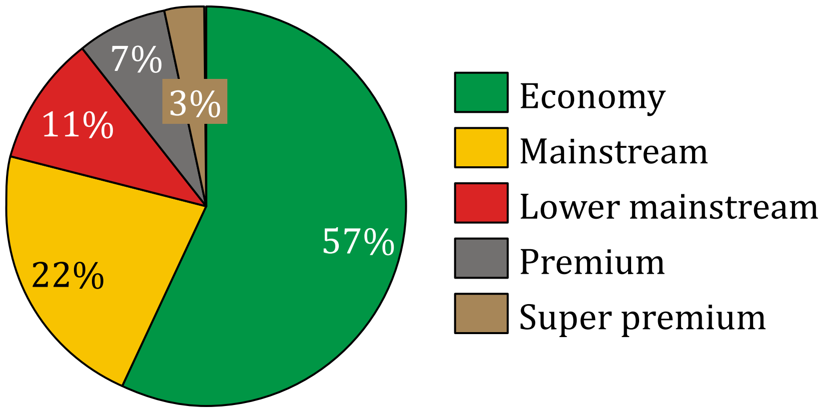
Comment

- The key players on Belarusian beer market are 4 domestic producers: Krinitsa OJSC, Heineken Breweries FCJSC (FCJSC), Alivaria Brewery OJSC (JSC) and Lidskoe Pivo Public Corporation. Their overall market share has increased to 63.1% in 2007 as against 63,1% in 2007.
- Krinitsa OJSC market share has decreased by 12.3% in 5 years mainly due to aggressive policy of its principal competitors and the development of export by the company.
- Heineken Breweries FCJSC reequipped the plants in Bobruisk and Rechitsa between 2008 and 2010 so that they correspond to international standards. These steps combined with positive marketing and pricing policies enabled the company to become the first among its competitors.
- Alivaria Brewery OJSC market share increased by 7,5% due to its merger with Carlsberg Group, several stages of modernization implemented by new shareholders as well as the production of new beer brands

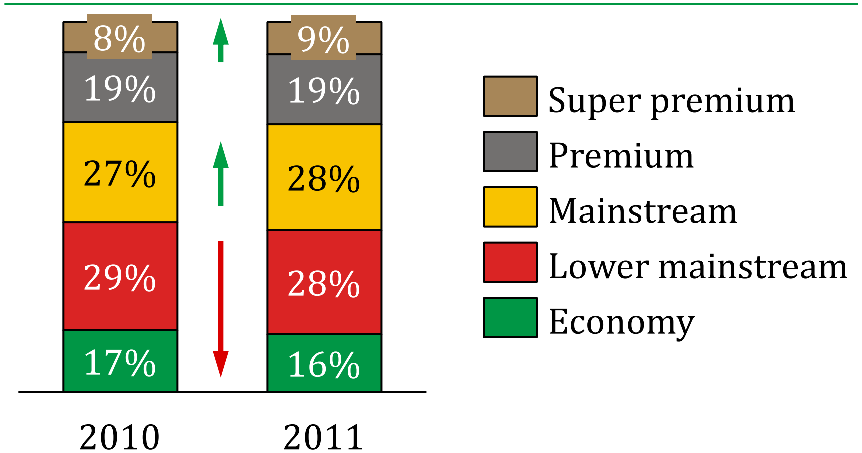
Source: The Belarusian State Concern of Food Industry, team calculations

57% of beer sold in Belarus is accounted for the low-cost segment

Beer market structure by price segments in Belarus in 2012, %



Beer market structure by price segments in Russia, %



Comment

» Nowadays the largest beer market segment is economy segment which share is 57%.

» All Belarusian producers turn to this segment, however it is the most attractive one for state-owned Krinitsa and Brestskoe Pivo because it is increasingly difficult for them to compete in more expensive price segments.

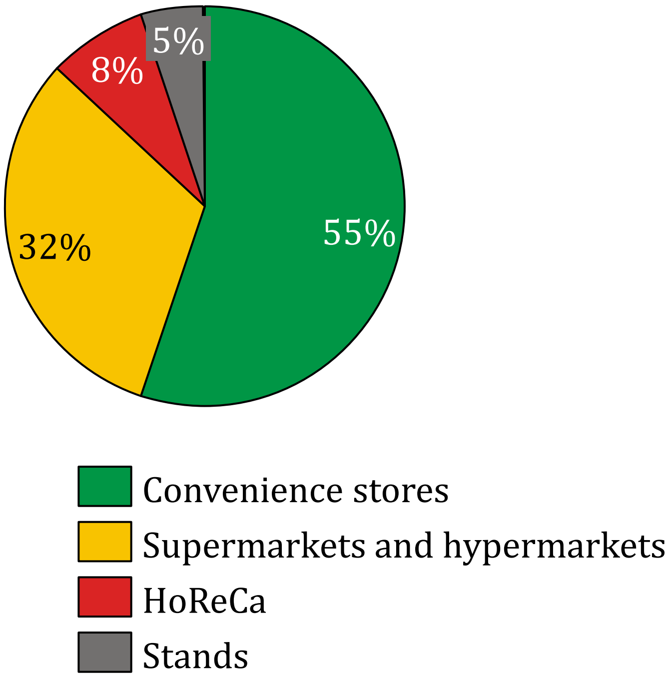
» As the excise rate increases there is a possibility of a small change in market structure: the decrease in low price segment due to the increase in the segments of more expensive and commercially viable products. This trend has already been observed in Russia.

» Since the excise rate is a flat amount in the terminal price, it is more profitable for producers to sell more expensive beer. The share of excise rate in the price of expensive beer is lower and therefore less tangible for the customer.

Source: retail chains, team calculations, Carlsberg Group, Baltika breweries

More than half of beer is sold through convenience stores

Beer market structure by distribution channels, %



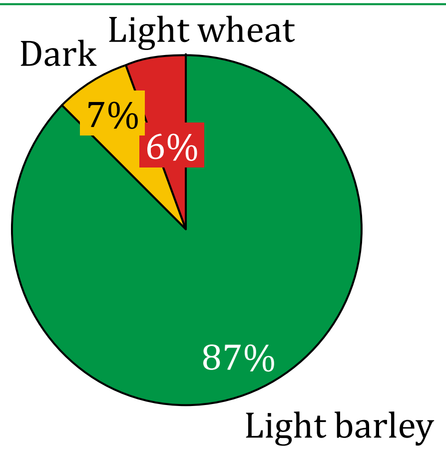
Comment

- 55% of total beer sales accounts for convenience stores, 32% for supermarkets and hypermarkets.
- The share of large organizations has increased lately in total sales and that is mainly associated with the development of modern retail formats and retail chains in Belarus
- Only 5% of beer is sold through stands. In the near future this distribution channel will disappear according to the government plans.

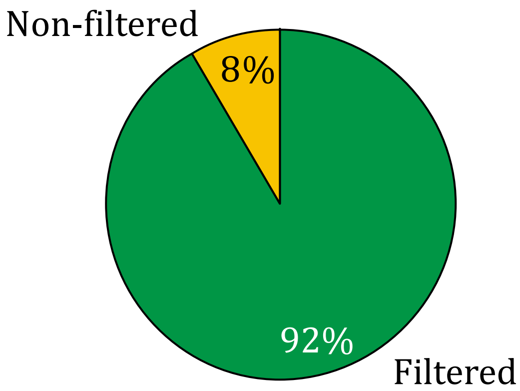
Source: expert judgment, news sources, team calculations

The most popular beer in Belarus is light barley filtered beer, which contains between 4- 5% of ethyl alcohol and is bottled in PET

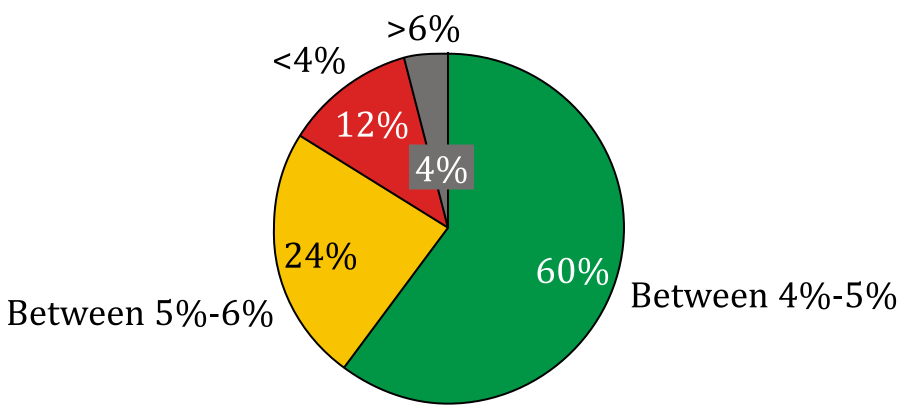
Beer sales pattern by colour in 2012, %



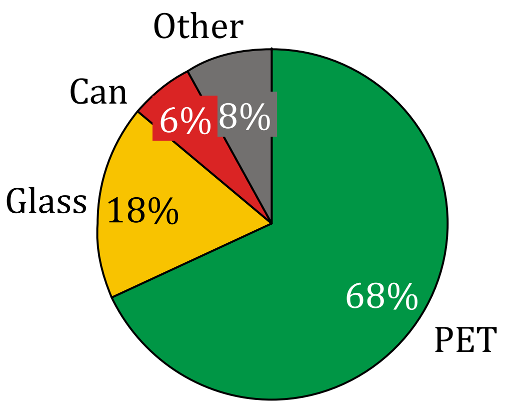
Beer sales pattern by filtration in 2012, %



Beer sales pattern by strength in 2012, %



Beer sales pattern by container in 2012, %



Source: retail chains

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There is no true leader among Belarusian brewers in Mogilev, Vitebsk and Brest regions.

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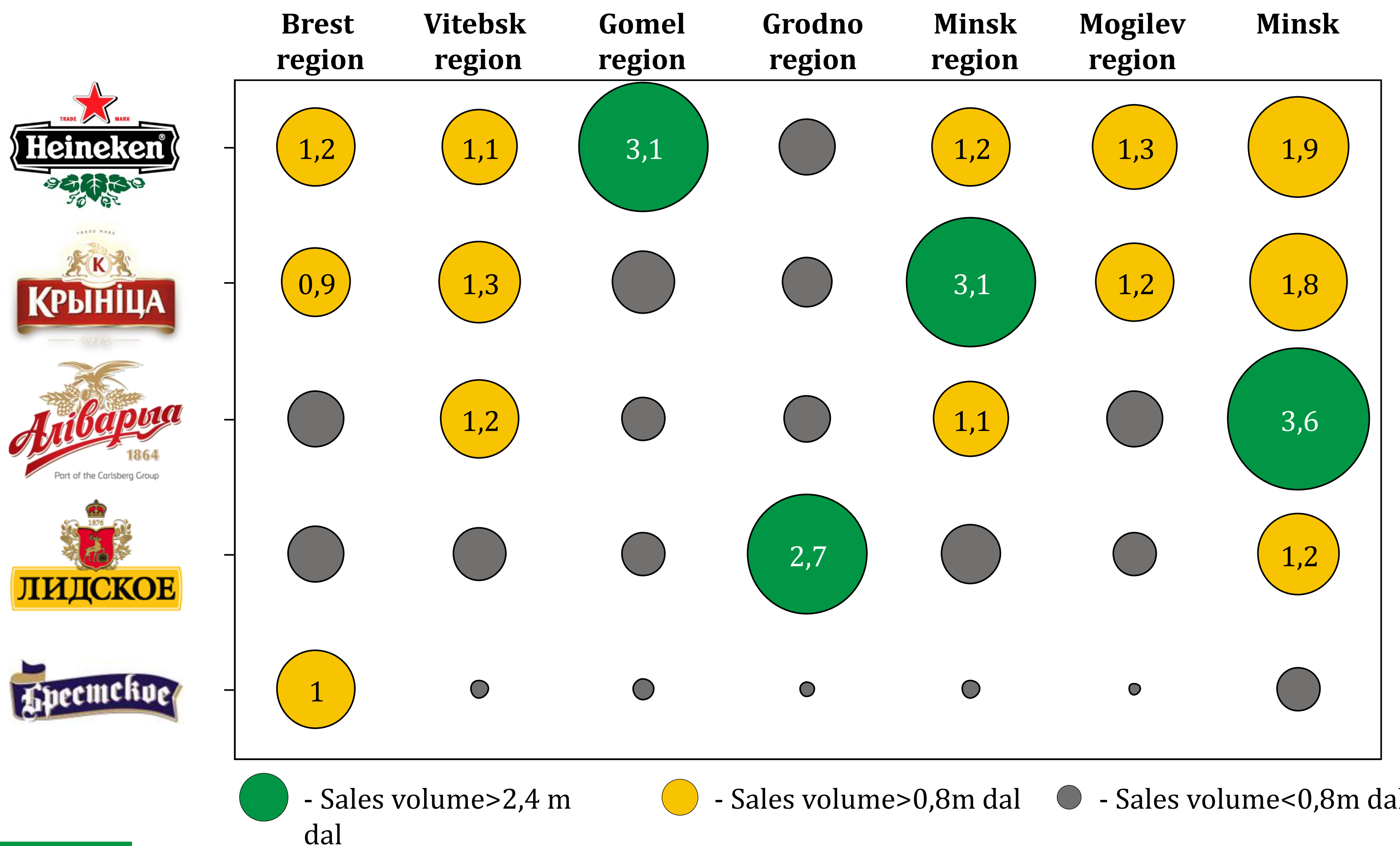
Market structure

Beer sales by the main players in Minsk and regions in 2012 (estimation), m dal

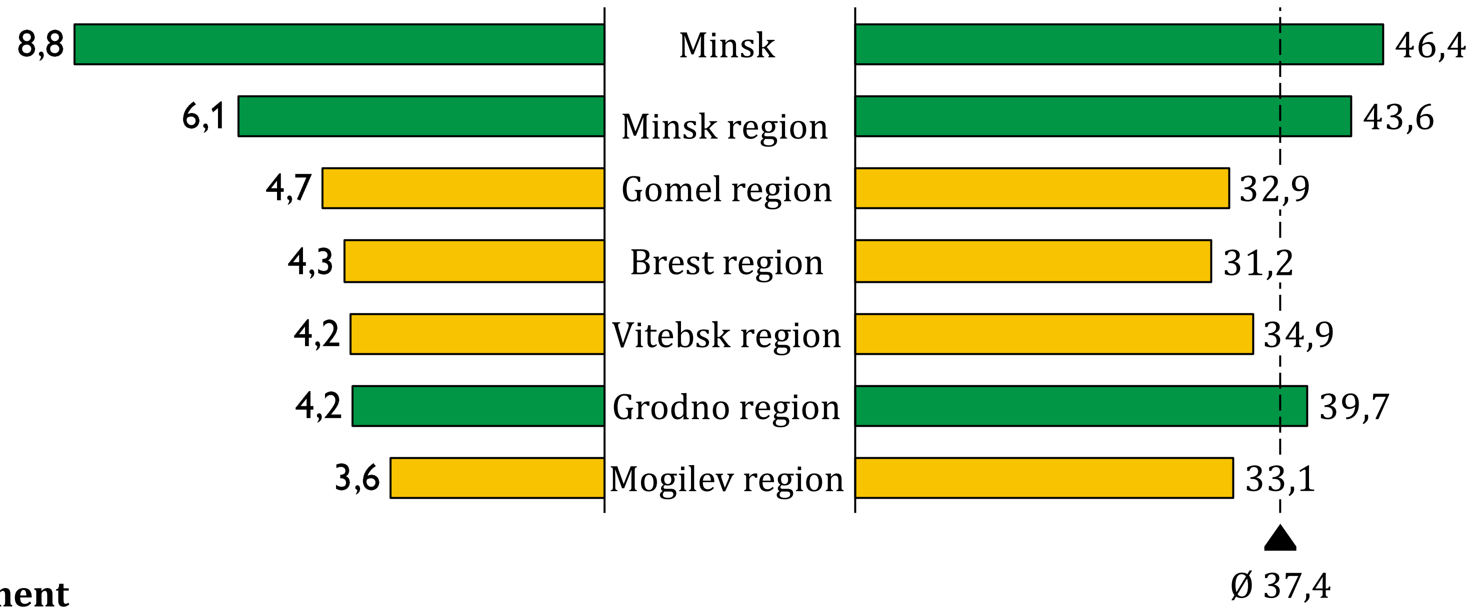


Source: The Belarusian State Concern of Food Industry, team calculations

These regions together with Gomel region are the most prospective in the context of market growth

Total sales of Belarusian beer by regions, m dal

Average consumption of Belarusian beer per capita by regions, l



Comment

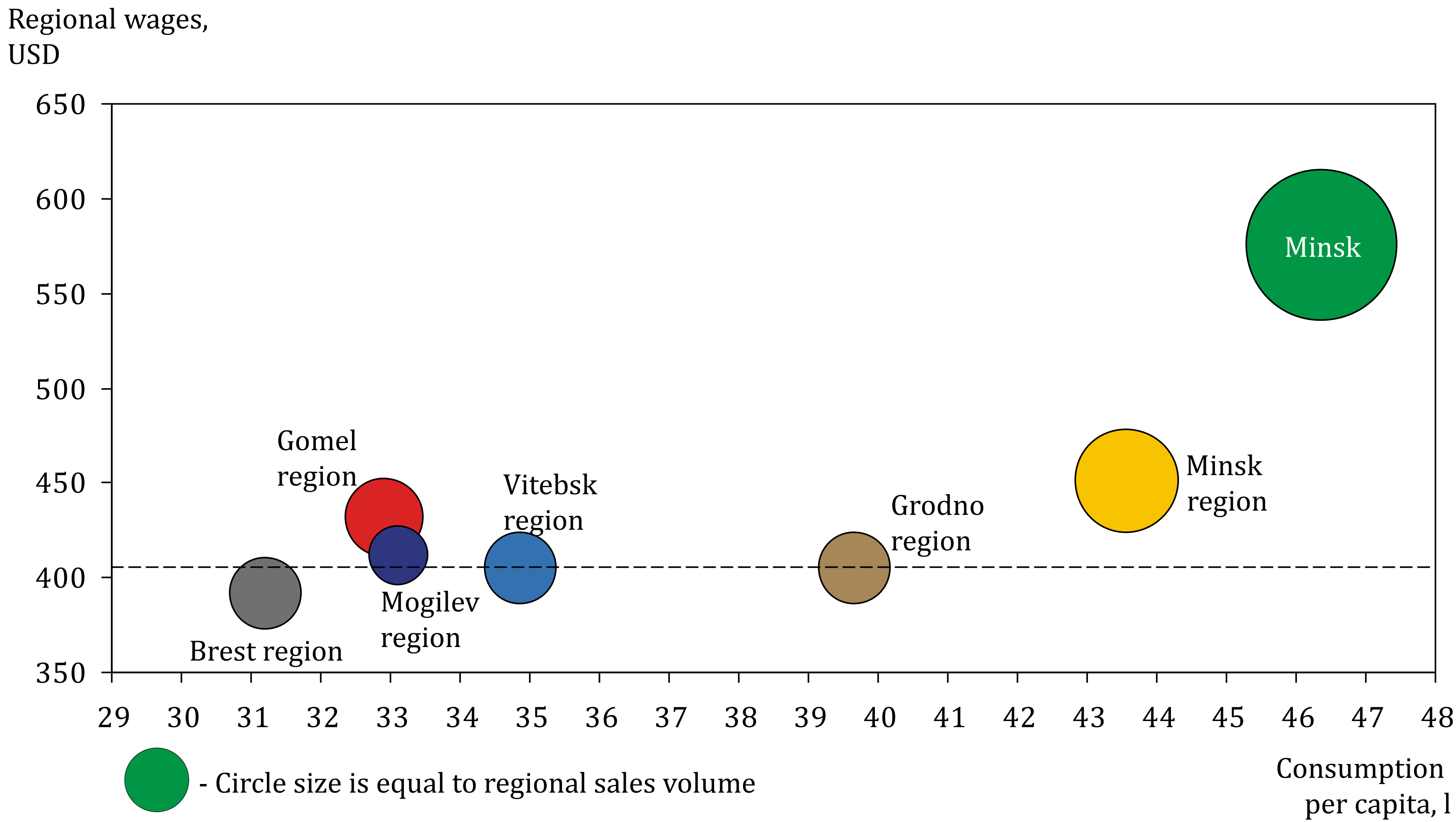
» Judging by the average consumption of Belarusian beer per capita, Gomel, Brest, Vitebsk and Mogilev regions have the best potential for market growth.

» The main growth may occur by means of:
- modern retail formats penetration into regions;
- exclusion of “grey” imports;
- concentration of marketing efforts and improved distribution of Belarusian producers in regions;
- drinking culture evolution

Source: The Belarusian State Concern of Food Industry, team calculations

Average wages in Gomel, Mogilev and Vitebsk regions are higher or at the level of Grodno region while beer consumption per capita is 12-17% lower

Average beer consumption per capita and the level of wages in regions



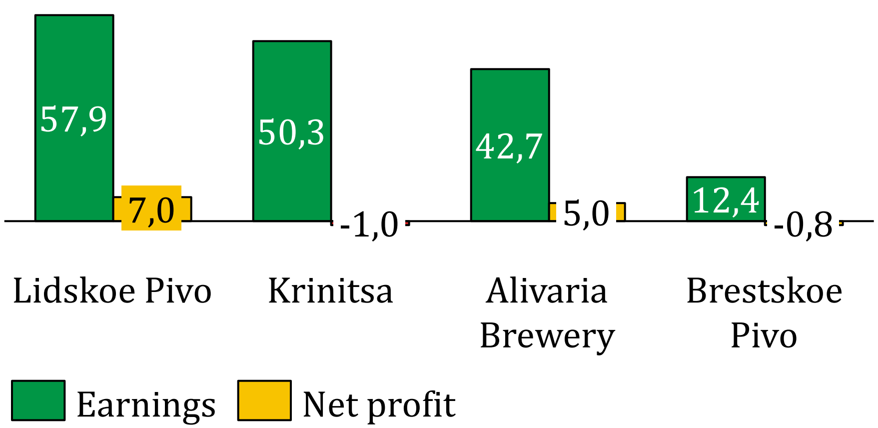
Source: The Belarusian State Concern of Food Industry, team calculations

Profit margin of the main players increased in 2012

Players

Company	Year of foundation	Profit margin, 3 qtr. 2012 (2012 / 2011)	Brands
Alivaria Brewery OJSC	1864	15% / 8%	БРОВАР, Аліварыя, eve, HOLSTEN
Lidskoe Pivo OJSC	1876	17% / 8%	ЛИДСКОЕ, A.Le Coq, Жигулевское
Krinitsa OJSC	1975	7% / 4%	КРЫНІЦА, Kaltenberg, Kult, Александрыя
Brestskoe Pivo OJSC	1970	3% / 8%	Брестское Пиво, Беловежское Пиво, STAVKA, Портер
Heineken Breweries FCJSC	2007	N/A	Heineken, БОБРОВ, РЕЧИЦКОЕ, Zlatý Bažant, Gösser, ДОКТОР ДИЗЕЛЬ, KRUŠOVICE, ДНЕПРОВСКОЕ

The ratio between earnings and net profit, 3 qtr. 2012, m USD



Comment

- Profit margin indicators of the main players improved essentially in 2012 if compared to 2011 owing to considerable increase in prices on beer products.
- Net profit indicators of Krinitsa OJSC and Brestskoe Pivo OJSC by 3 quarters of 2012 were negative which was first of all due to significant loan debt of the company.

Source: official sites of the companies, the Ministry of Finance of the Republic of Belarus

Controlling interest in leading companies of Belarusian beer market belongs mostly to foreign concerns. Krinitsa OJSC and Brestskoe Pivo OJSC are still state-owned.

Players

	2007	2008	2009	2010	2011
Alivaria Brewery OJSC	30% BBH **$18,5 M**			47% Carlsberg **$5,5 M**	68% Carlsberg **$17,7 M**
Lidskoe Pivo OJSC		51% Olvi **$16M**		92% Olvi **$16 M**	
Siabar CJSC		100% Heineken **$91 M**			
Rechitsapivo JV OJSC		51% Heineken **$9,9 M**	100% Heineken **N/A**		
Krinitsa OJSC and Brestskoe Pivo OJSC	**State share is predominant in ownership structure**				

- **Baltic Beverages Holding** (BBH) — Scandinavian brewery concern. Since March 2008 BBH is wholly owned by Danish brewery company **Carlsberg**
- **Heineken** – Dutch brewery company, entered Belarusian market in 2007, the sole owner of Rechitsapivo JV OJSC and Siabar CJSC
- **Olvi** – Finnish producer of beverages and alcohol drinks

Source: Alfa Bank, news sources

Legal framework for beer production and sale, and investments into this sector

First of all, according to the Belarusian law the beer **is not recognized as alcoholic beverage**, and the regulation of its production and sale is still relatively mild. Beer production and sale do not require special permits (licenses).

However, there are certain **restrictions imposed on the sale of beer**:

» Sale of beer to persons under 18 is prohibited. The information about the prohibition should be placed in places where beer is sold. In case of a disputable situation the buyer must provide the proof of his age.

» Sale of beer is prohibited in a number of places, including educational institutions, healthcare organisations, industrial buildings, governmental buildings, sports facilities (except for the catering places), gasoline stations (except for the catering trade facilities, food stores with separate entrance for customers). Likewise, prohibited is mobile trade, trade via vending machines, as well as trade via Internet.

» A number of additional restrictions concern the sale of beer with an ethyl alcohol content hire than 7%.

» In Belarus, there is no uniform system of restrictions on the sale of beer at a certain time of a day or days, but the respective regional executive committees and the Minsk City Executive Committee may decide on the time period during which the sale of beer is prohibited. This is usually done during various holiday events.

Some limitations relate to the **advertisement of beer**. Thus, it is prohibited to advertise beer on the radio and TV from 7 am till 8 pm.
In addition, it is prohibited to advertise beer:

- using images of people or animals, including hand-drawn, animated ones;
- by placing advertisement on vehicles, inside the buildings of educational, healthcare, cultural, physical culture and sports institutions;
- in airports, ports, railway stations, except the stationary catering trade facilities located on their territory;
- at the public transport, subway stations;
- on posters, stands, illuminated panels and other means of outdoor advertising;
- on the first and the last pages of newspapers or on the first and last pages of magazines and other periodicals.

» Beer prices are not regulated by the state.

» Importers of beer in glass and plastic containers have the obligation to collect, disinfect and / or use such containers. Enterprises which produce beer in Belarus are not required to comply with this rule.

» Importers and producers of beer may organize beer tasting for the marketing purposes in specialized premises (for example, in tasting rooms), on the territory of the shopping facilities, at specialized exhibitions and fairs. The tasting event should be approved by local authorities at least 10 calendar days in advance. The consumption rate shall not exceed 500 ml per participant of the beer tasting.

» Technical Regulations of the Customs Union of Russia, Kazakhstan, and Belarus "On Safety of Alcoholic Beverages" are currently undergoing domestic approval procedures. According to the Technical Regulations beer will be considered an alcoholic beverages and therefore more stringent requirements towards production, advertisement, and sale will apply.

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The antimonopoly regulation

The **antimonopoly regulation** in Belarus may be characterized as rather outdated as compared to the neighboring countries, and the antimonopoly body (Department of Price Policy of the Ministry of Economy of Belarus) so far is not playing the same significant role in the economy as, for example, the Federal Antimonopoly Service in Russia.

So far, the antimonopoly authorities **have not been actively interfering** with the business of the brewing market players. In recent years there were several claims for unfair competition in the market, but they were not satisfied. According to the report of the antimonopoly authority for 2012, it considered inter alia the claim of "Belgospischeprom" state concern regarding alleged unfair competition of businesses which used financial support of multinational corporations (FOJSC "Heineken", OJSC “Rechitsapivo”), as well as the possibility of unfair business in the brewing industry.

However, the antimonopoly authority found no signs of unfair competition by the breweries, including actions aimed at the creation of market situation when business of an actual or potential competitor, became unprofitable or had to be carried out on extremely unfavorable conditions due to such actions.

Despite the fact that the market is mainly divided between major beer producers, none of them meets the criteria of the entity with dominant position in the market, and therefore is not subject to special measures of controlling the production output and product quality, price levels and other activities aimed at preventing the abuse of dominant position.

Investments in the sector 1/2

In the nearest future investments in the brewing sector may be exposed to significant risks due to expected changes in the laws of Belarus on privatisation which allow the state to exercise control over the formerly state-owned enterprises.

Currently, amendments to the Law on Privatisation of State Property and the Transformation of State Unitary Enterprises into Open Joint Stock Companies are considered by Belarusian parliament (recently passed the first reading in the lower chamber).

The changes will affect corporate management in business entities established on the basis of state-owned enterprises (this category includes almost all breweries in the country).

Investments in the sector 1/2

The state will be able to appoint its own representatives in such entities. The draft law does not specify in which corporate bodies such representatives will be appointed, but in any case they will have the following powers:

- in joint stock companies where the Republic of Belarus or its administrative-territorial units owns 50% or less of the shares, state representatives will be able to vote at the general meeting of shareholders on behalf of minority shareholders (owning at least 2% of shares) failed to participate in the general meeting of shareholders
- in joint stock companies where the Republic of Belarus or its administrative-territorial units does not have shares, state representatives will be able to vote using the votes of minority shareholders not registered to participate in the general meeting of shareholders, and will obtain the veto right regarding the following decisions: liquidation and reorganisation of the company, changes in the authorized capital, amendments to the articles of association, distribution of profits, the issuance of additional shares, payment of dividends, the creation of other legal entities.
- amendments also establish a special procedure for the restoration of violated rights in the process of privatisation. If any such violations are revealed the state may require the company to issue additional shares and transfer them to the state. State shares in the joint stock company in this case may be increased without any investment.

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