



The German Food and Beverage Industry – At the Forefront of Health and Wellness

Industry Overview



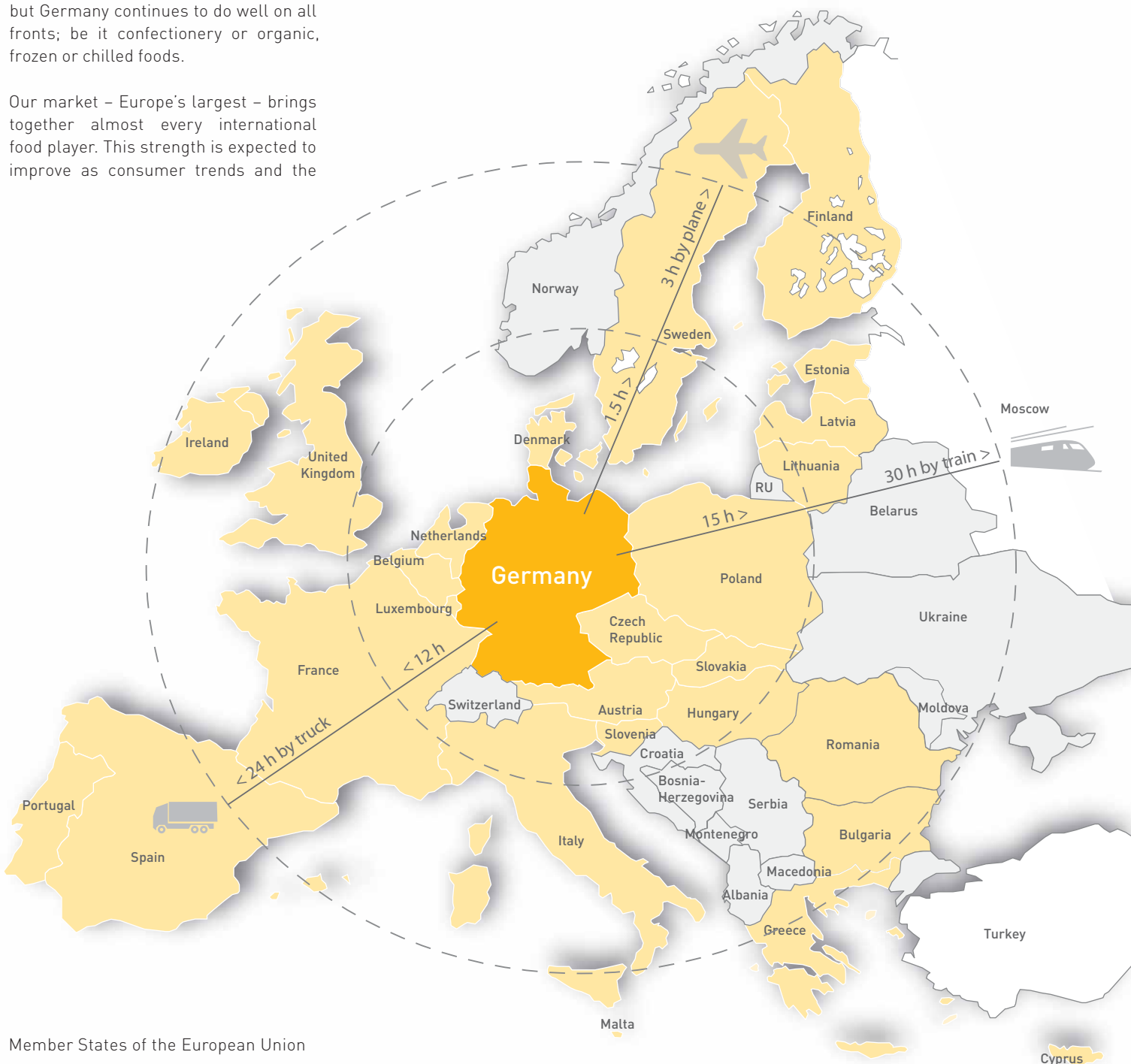
The German Food and Beverage Industry

Germany – At the Forefront of Health and Wellness in Nutrition

Few industries cover quite as many bases as the food and beverage industry, but Germany continues to do well on all fronts; be it confectionery or organic, frozen or chilled foods.

Our market – Europe's largest – brings together almost every international food player. This strength is expected to improve as consumer trends and the

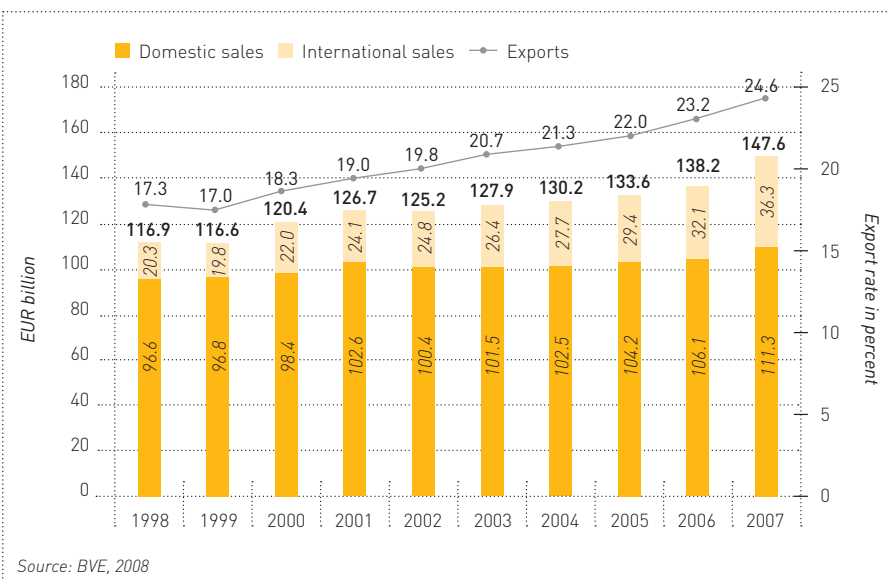
excellent reputation of our products promise higher future sales. For investors, too, the time is ripe. A fragmented, pre-consolidation industry allows overseas investors access to the market, its distribution channels, and its technological capabilities.



The Market

- More than 82 million consumers help make Germany the largest food and beverage market in Europe, generating retail sales of EUR 150 billion in 2007.
- Germany's food and drink industry is the fourth largest industrial sector in Germany.
- The sector comprises 5,700 companies, employing around 517,000 people to generate a turnover of EUR 147.4 billion in 2007.
- With an industry growth rate of 2.4 percent, the increase outstripped the economy's overall growth rate.
- Largest industry segments by sales are meat products (22.6 percent), dairy products (16.1 percent), alcoholic beverages (10.9 percent), and confectionery (8.9 percent).
- Confectionery (4.5 percent increase), fruit and vegetable products (4.3 percent increase), and dairy products (4.1 percent increase) are sectors with above average growth rates.
- Exports generated EUR 36.6 billion in sales, reaching an export quota of 24.6 percent. Around 80 percent of all exports are to other EU member states.
- Retail prices for food and non-alcoholic beverages increased by an average of 2.6 percent in 2007.
- More than 1,500 international and national players currently operate in Germany. These include the Dr. Oetker Group, Südzucker AG, Vion Food Group, Kraft Foods Deutschland GmbH, and Nestlé.

German Food and Beverage Products: Domestic and International Sales



Preserving sugar – Südzucker AG

The German Food and Beverage Industry

Market Segments and Opportunities

Meat

The meat industry is the largest single segment of Germany's food industry. In 2007, it accounted for 22.6 percent of total output value, generating a market value of EUR 31.7 billion (3.8 percent increase).

Major markets in terms of sales are pork (EUR 20.9 billion), beef (EUR 4.7 billion), and chicken (EUR 4.6 billion). Veal, mutton, and other meats account for less than one percent of total meat sales. Meat exports increased by 9.3 percent, while meat-based products recorded a 10.9 percent increase.

The duplication of sales of pre-packed meat at discounters within the last five years shows the strength of this channel and offers attractive business potential, especially for private labels. Organically produced meat and meat products remain niche markets, but more and more producers are shifting from conventional to organic production in order to share in high growth rates and above average margins.

Dairy

The dairy industry is one of Germany's most innovative domestic food and beverage industry sectors, with its excellent R&D infrastructure bringing 300 new products to market on a yearly basis. With a total market value of EUR 23.8 billion, more than 37,000 workers at around 100 German companies make the German dairy industry the country's second largest food and beverage sector.

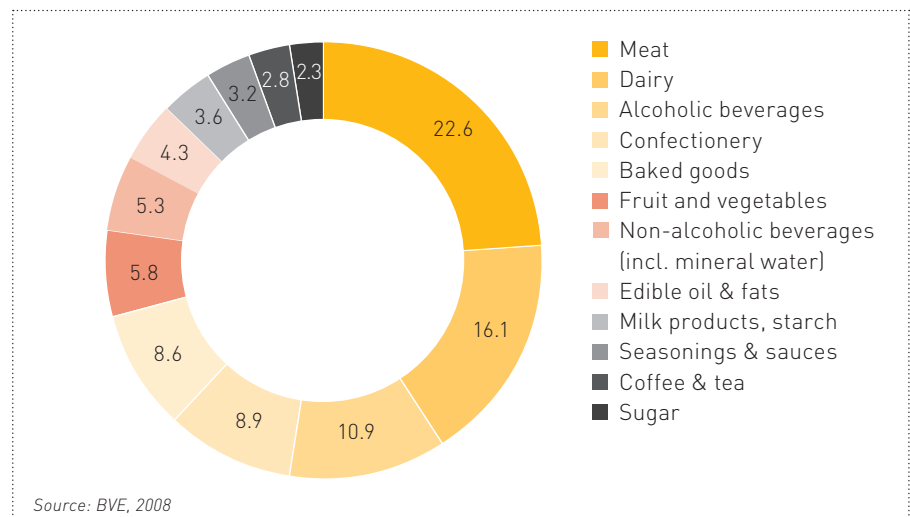
Market revenue of around EUR 6.4 billion makes milk the German dairy industry's largest subsegment (30.7 percent). Cheese products follow with almost EUR five billion in total sales and a market subsegment share of 23.3 percent. As a result,

annual production volume of 1.7 million tons makes Germany Europe's largest cheese producer; ahead of both France (1.4 million tons) and Italy (0.9 million tons). Other major dairy segments include spreads (14.9 percent), fromage frais and yogurt (13.7 percent), and cream (12.2 percent).

The popularity of German dairy brands in eastern Europe is such that the export quota has reached an all-time high level of 21.9 percent (in 2004, it was at the 19 percent mark). The current consumer fascination with both healthy eating and culinary indulgence offers excellent market potential for dairy products containing both natural fruits or seasonal taste variations with a creamy texture using reduced-fat formulas.

healthier beverages such as vitamin-enriched fruit drinks, smoothies, enhanced water, and organic beverages. Within the next three years, the sale of enhanced water and functional drinks is expected to grow at an annual rate of 15 percent and nine percent respectively. Nutrient enhancers present excellent opportunities for developing unique selling proposition in the market. For alcoholic beverages, changes in consumer preferences have led to a higher consumption of organic wines, beers, and even spirits. Moreover, a large number of alcoholic beverage segments are maintaining their strong market positions; beverages such as wine, flavored alcoholic beverages and vodka have experienced consistent sales increases, making the beverage industry a highly attractive market for investment.

The German Food and Beverage Industry by Segment (in percent)



Beverages

Germany is Europe's largest market for soft drinks and spirits, and the second largest for alcoholic beverages. In 2007, the production value for non-alcoholic and alcoholic beverages reached EUR 7.82 billion and EUR 16.9 billion respectively. The growing health and wellness movement has also led to a higher demand for

Confectionery

Thanks to a high drive for innovation and low barriers to companies launching new products, the German confectionery industry (market value of EUR 13.1 billion in 2007) is an ideal food and beverage industry sector in which to start a business. Leading segments in terms of market value are cocoa and chocolate products



(50 percent), fine pastries (18 percent), and sugar confectionery (15.5 percent). An above average growth rate of 4.5 percent and an export quota of 39 percent (with an increasing share in eastern Europe) make the confectionery industry a very attractive business opportunity. Private labels in particular have increased their sales through discounters in the second half of 2006 to record an increase of 3.8 percent. Other growth segments are powered by the trend towards health and wellness products, which has led to a higher demand for fat-free, low-sugar and sugar-free confectionery as well as functional ingredients. This can be seen in the cereal and energy bar segment, which – among others – is expected to drive future growth.

Baked Goods

With the highest annual per capita consumption of bread (80 kg) in the world, Germany is also the European leader in the production of bread and rolls and the second largest producer of cookies. Around 280,000 industry employees helped generate sales of EUR 12.34 billion in 2007 (a 4.5 percent increase on 2006 figures). They produce, among other things, six million tons of bread annually. Artisanal bread and rolls sales make up 46 percent of the market. This is below the European average of 51.9

percent, but sales in this sector are expected to increase in the immediate future. Forecasts show that the German market for bread and rolls and cookies will grow by 9.5 percent and 13.9 percent respectively by 2011.

Baked goods are a firmly established segment in the German consumer market. This gives producers the latitude to launch a wide range of product varieties and innovations. Moreover, a growing number of single households and changing consumption patterns have increased the level of demand for convenience baked goods (e.g., bakery snacks, frozen rolls, tarts and tartlets, etc.)

Fruit and Vegetables

Accounting for a sizeable EUR 8.6 billion in sales, fruit and vegetables make up the sixth largest segment within the German food industry with 5.8 percent of total industry turnover. Revenues of processed fruits, vegetables, and potatoes have grown three percent on 2005 levels to reach EUR 4.8 billion. Fresh fruit and vegetables enjoy the largest share with 91.6 percent and 70.7 percent of the total sales value in each segment respectively. Canned products follow, with eight percent and 22.4 percent respectively. Frozen fruit and vegetables

account for 0.4 percent and 6.8 percent of the total market value. Frozen fruit and vegetable products have shown average sales growth of 9.1 percent, demonstrating significant market potential in this still relatively underexploited segment.

Annual average per capita consumption of fruit and vegetables in Germany has shown stable growth, reaching 113.2 kg of fruit and 92.2 kg of vegetables in 2005 – an increase of 22.8 percent and 19.1 percent respectively on 1995 consumption levels. The most popular fruit and vegetables products are: tomatoes (annual consumption of 21.7 kg per capita), apples (17.2 kg), fruit preparations (10.9 kg), bananas (10.4 kg), and oranges (6.8 kg). Current consumer trends include convenience products like pre-packed fruit and vegetable salads, responding to a growing number of single households and the consequent change in consumption patterns.

The German Food and Beverage Industry

Consumer Trends

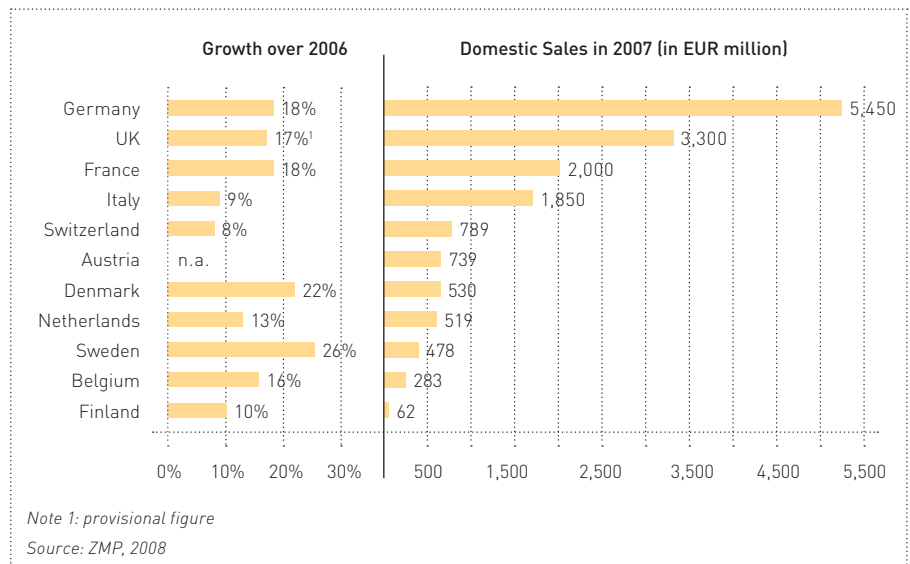
Recent consumer trends in the German food and beverage market have been influenced by a number of far-reaching changes in society: an aging population is fueling the demand for health and wellness and functional food products to prevent or overcome conditions including diabetes, high blood pressure and cholesterol. The movement for organic food products has long since achieved mainstream status in Germany, and has enjoyed double-digit growth rates in recent years. An increasingly fast-paced society and the rising number of single households is driving demand for convenience food stuffs.

Functional Food

More and more people in Germany see food not only as a way to sate hunger, but also as a means to overcoming general health concerns as well as more serious ailments. Due to this sea change in consumer perception and advances in food technology, the global functional foods market grew significantly in 2007, marking up revenue of EUR 48 billion for the year. An important outcome of this has been the German functional foods segment becoming the European sales leader with EUR 5.1 billion sales in 2007.

In functional foods, highly nutritious components like probiotics, food fibers and vitamins are added to make the eating experience both delicious to the taste and beneficial for health. Major segments in Germany include probiotic yogurts, yogurt drinks, and beverages such as vitamin-enhanced waters; all of which have experienced double-digit growth in recent years. Functional food products can reach up to 100 percent price mark-up on traditional products already on the German market. It is expected that functional foods will become one of the most dynamic and important segments of the food and beverage industry. Increased demand for functional food will make the sector a solid platform for new investment and continued success for companies already active in the sector.

Total Organic Food Sales and Growth Rates in Selected EU Member States in 2007



Organic Food

With more than EUR 5.4 billion in sales in 2007, Germany is a front-runner in the production and consumption of organic food products. Recording consistent double-digit growth the past seven years, Germany has captured almost 27 percent of the entire European organic food market. Several organic food categories have already captured significant market share within their individual product groups (vegetable juice – 30 percent; cereals – 17 percent; bread spreads – 13 percent; frozen vegetables – 8 percent; milk – 6 percent).

However, consumer preferences still see market potential for organically produced convenience food, dairy products, confectionery, non-alcoholic and alcoholic beverages. The rising demand for organics in the catering sector – although still nascent – is further driving the market.

Increasing numbers of organic food supermarkets (in 2000 there were 50, by 2007 this figure had reached the 450 mark) as well as in the number of conventional retailers launching organic private brand labels.

Convenience Food

The rising number of single households, more women leaving the home to take up jobs, and an increasingly mobile society are changing food and beverage consumption patterns in favor of the convenience food industry. Germany already has the largest frozen food market in Europe with total sales of EUR 10.5 billion in 2007 (16 percent increase). The chilled food segment most recently generated EUR 2.4 billion in revenue and is expected to grow by up to 30 percent in the years ahead. Traditional ready-to-serve meals experienced growth of 2.4 percent to reach EUR 821 million in sales.

Current growth segments include dairy products and desserts (9.3 percent increase), fish (4.6 percent), frozen bakery (3.7 percent), and fruit products (3.1 percent) within the frozen food market, and baked goods such as snacks, rolls, tarts, and tartlets in the chilled food market. Growth markets within the chilled food industry are fruit juice, soups and sauces, desserts, ready-made meals, and savory snacks. Sales of instant meals and stews grew by more than seven percent in the past year.

Why Germany

Leading the Market

The German food and beverage industry produced goods worth EUR 147 billion in 2007, making it one of the European market leaders. Important contributory factors include an affluent 82 million strong consumer base, excellent geographical location (with quick and easy access to all major European markets), state-of-the-art infrastructure, and technological leadership. Its position as a global consumer trends front-runner (in areas such as functional and organic food products) is underscored by competitive labor conditions in terms of cost and quality as well as the extensive incentives programs offered by federal authorities. Taking all of these factors into consideration, Germany provides the ideal point of entry to both the German and European markets.

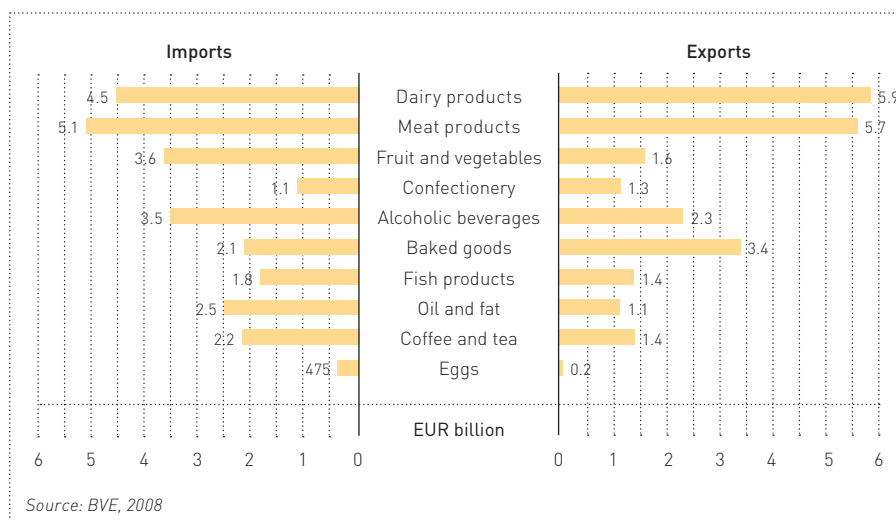
Local Sourcing

Germany's abundant farmland offers countless opportunities for local sourcing and underpins Germany's attractiveness as a production location. In 2007, around 370,000 companies cultivated 17 million hectares of land. Agricultural farmland is predominantly used for arable farming (70 percent), followed by livestock farming (approximately 29 percent). Around 55.4 percent of farmland is used to grow crops including corn, followed by forage plants (17.6 percent) and commercial crops (13.8 percent). Companies operating in the organic food sector grew by 11.9 percent in 2007; reaching a total number of 26,820 (including producers, processors, importers, and wholesalers). Accordingly, 5.1 percent of all agricultural farmland is used for organic farming.

Trade

With a total import value of EUR 38.7 billion and exports of EUR 36.3 billion, Germany was a net importing country of food and beverage products in 2007. Germany's main trading partners are other EU countries. Dairy and meat products are

German Food and Beverage Foreign Trade by Segment in 2007



the leading food and beverage segments exported from Germany to other countries, representing total export values of EUR 5.9 and EUR 5.7 billion respectively. Thanks to the enduring popularity of German products abroad, the industry is expected to continue its steep growth curve in the coming years. Despite the fact they currently account for just eight percent of total markets, eastern and central Europe in particular hold promising medium-term prospects.

Retailing

Germany has a rich and diverse retail landscape which provides numerous ways to market products. With a market share of around 40 percent, discounters make up the predominant German retail format, offering a limited selection of goods (mainly private label) at low prices. Traditional consumer markets with a sales area of up to 5,000 m² represent 28.3 percent of total retail volume in Germany. Hypermarkets with an area of 5,000 m² or more offering a warehouse assortment have a share of 13.3 percent. Smaller sized markets are classified as supermarkets and reach nine percent of total sales. Gas stations, convenience stores, and specialized shops represent less than nine

percent but are gaining market share. Key retailers include Edeka, Rewe Group, and Schwarz Group. All three operate chains in more than one distribution channel. In total, the top 10 German retailers control more than 87 percent of the entire German retail market. Foreign food products are mainly marketed by German importers and wholesalers or through own sales offices.



The German Food and Beverage Industry

Investment Incentives

Germany offers numerous incentives for all investors – regardless of whether they are from Germany or not. There is a large selection of programs designed to support a wide variety of business activities at different stages of the investment process available. Support ranges from cash incentives for the reimbursement of direct investment costs to incentives for labor as well as research and development projects (R&D).

Germany's Investment Incentives Package

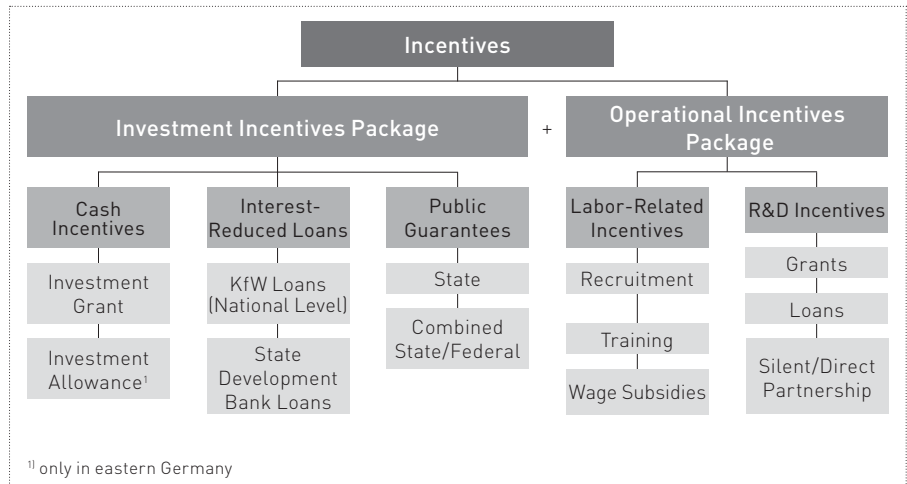
Investor production facility set-up costs can be significantly reduced using a number of different measures from Germany's extensive investment incentives package. The package consists of cash incentives, loan programs offering reduced interest rates, and public guarantees at state and national level. The amount of these investment incentives generally depends on three factors: project scope, investor company size, and the new investment location. Investment incentives can reach up to 50 percent of eligible expenditures once these factors have been taken into consideration.

Cash Incentives

The main instrument of Germany's investment incentives package are cash incentives provided in the form of non-repayable grants. These are offered in several incentive regions in Germany. The actual incentive amount granted varies from region to region subject to economic development level. Investment projects in lower-developed economic regions usually receive more incentives than their higher-developed counterparts. In order to benefit from investment grant provision, long-term jobs must be created.

In Eastern Germany, a second part of cash incentives provision is the so-called Investment Allowance (*Investitionszulage - IZ*), which is provided in the form of a cash

Types of Incentives in Germany



payment and/or tax credit. As with investment grants, eligible Investment Allowance costs include the purchase or production costs of buildings, machinery and equipment.

Interest-Reduced Loans

Special loan programs make up a second component of Germany's investment incentives package. They are offered by publicly organized financial institutions. These programs usually offer loans at below market interest rates as well as subordinated loans similar to equity. The provision of such loans makes it easier for investors to access additional funding from private lending banks.

Public Guarantees

The investment incentives package is completed by public guarantees. This tool is offered by the state and the federal government to help secure private bank loans.

Germany's Operational Incentives Package

Labor-Related Incentives

Labor-related incentives are available throughout Germany. The Federal Employment Agency and all German states offer a range of different labor-related incen-

tives programs. They can be divided into four main groups: programs focusing on recruitment support, pre-hiring training, on-the-job training, and wage subsidies respectively.

Incentives for R&D Projects

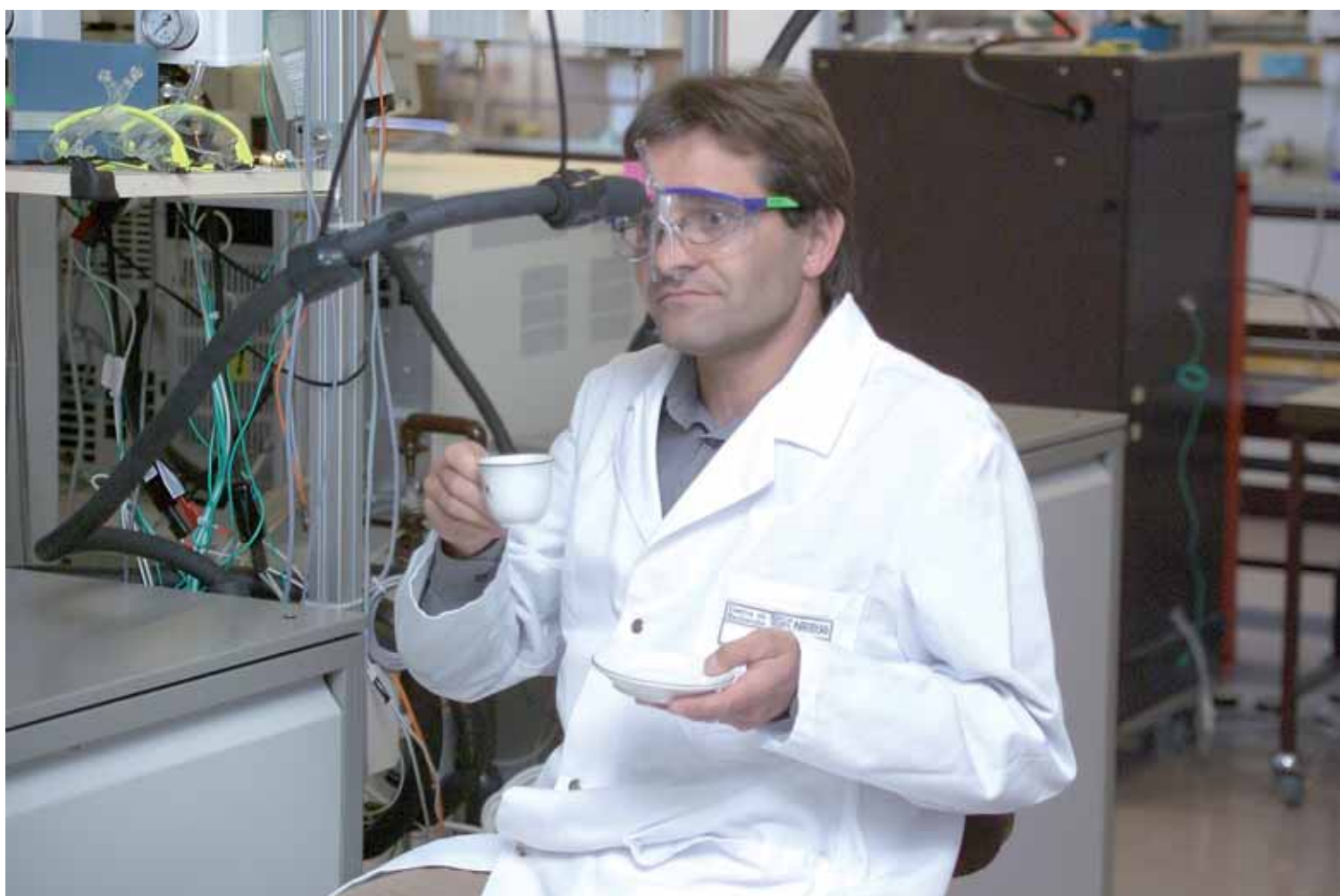
Germany offers several incentives programs targeted at reducing the operating costs of R&D projects. Programs operate at the regional, national, and European level and are wholly independent from investment incentives.

At the national level, all R&D incentives programs are subsumed under the Federal Government's four-year High-Tech Strategy. The High-Tech Strategy defines specific sectors with a high dependency on new high-tech developments. Each sector comprises various R&D programs. Approximately EUR 12 billion in total is reserved for non-repayable project grants until 2009.

The European Union is subsidizing transnational R&D projects through its 7th Research Framework Program. A budget of EUR 1.9 billion for the period 2007 to 2013 has been earmarked for the funding areas food, agriculture and fisheries, and biotechnology.

Incentives Available at Different Stages of the Market Entry Process

1. Sales Office	4. Joint Venture
Interest-reduced loans	Cash incentives
Labor-related incentives	Interest-reduced loans
2. Headquarters	Labor-related incentives
Interest-reduced loans	5. Production Site
Labor-related incentives	Cash incentives
3. R&D Center	Interest-reduced loans
Cash incentives	Public guarantees
Interest-reduced loans	Labor-related incentives
R&D incentives	R&D incentives

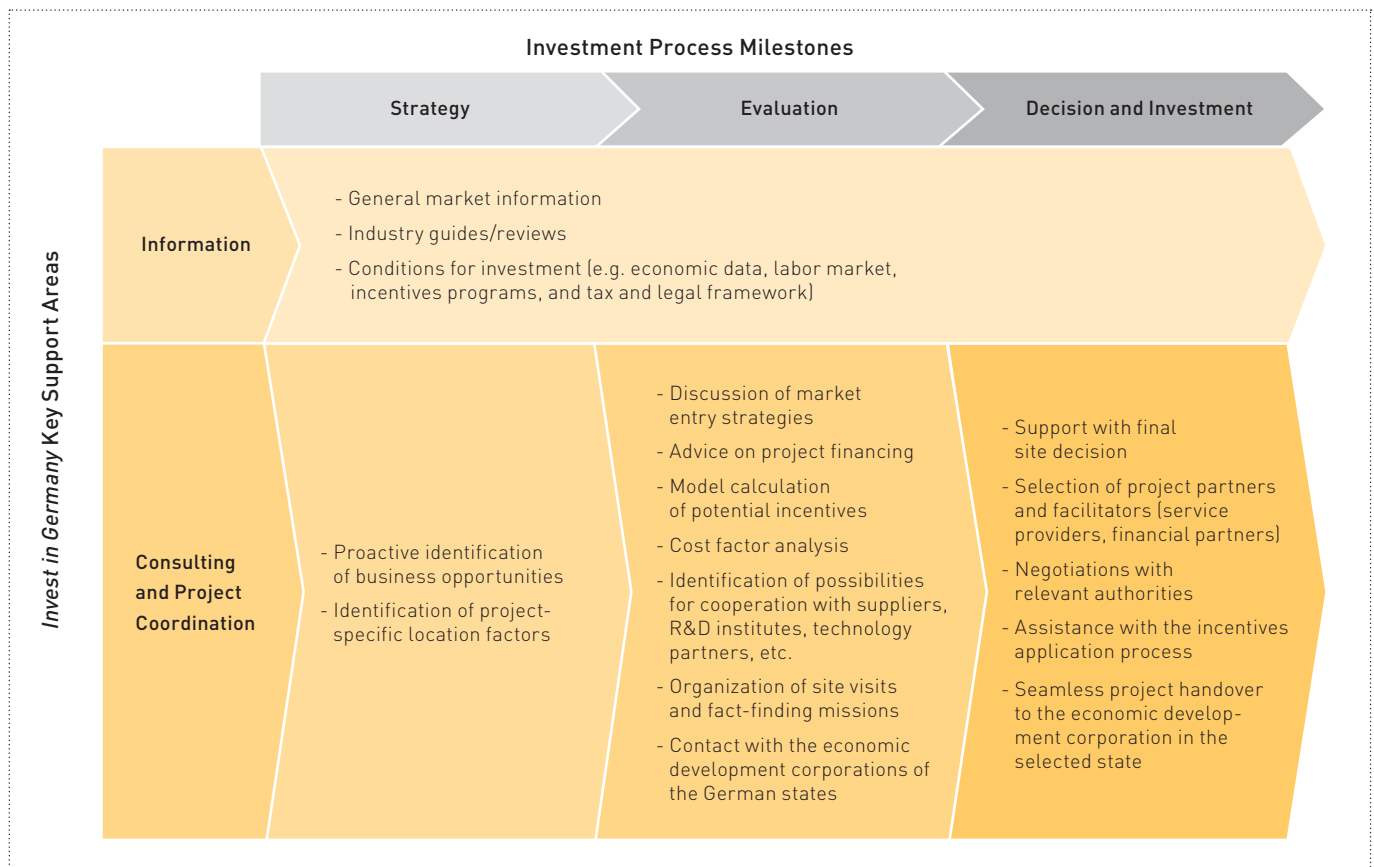


Taste and sensory test – Nestlé Research Center

The German Food and Beverage Industry

Invest in Germany closely supports your project management team throughout the entire investment decision process

Investment Decision Process – Areas of *Invest in Germany* Support



Invest in Germany Helps You

Our team of industry experts in the food and beverage industry will assist you in setting up your operations in Germany. From simple sales offices, and complex production plants to innovative R&D centers, we can support your project management team from the earliest stages of your expansion strategy.

We do this by providing you with all of the industry insider information you need – covering everything from markets and segments to industry trends and the supplier landscape. Profit from our experience

and know-how to identify the investment location which meets your specific investment criteria. We help turn your requirements into concrete investment site proposals, providing free consultation services to ensure you make the right location decision.

We coordinate site visits, meetings with potential suppliers, service providers, technology partners, universities and other institutes active in the food and beverage sector. Our team of experts is at hand to provide you with the relevant background information on Germany's tax and

legal system. *Invest in Germany's* financial experts help you create the appropriate financial package for your investment and bring you into contact with suitable financial partners.

Incentive specialists provide you with detailed information about available incentives, support you with the application process, and arrange contacts with local economic development corporations. Take advantage of our range of free of charge services.

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Page 3 The Market

Photograph: ©Südzucker AG

Page 5 Market Segments and Opportunities

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Page 7 Why Germany

Photograph: ©Petra Reinartz – Fotolia.com

Page 9 Germany's Operational Incentives Package

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About Us

Invest in Germany is the inward investment promotion agency of the Federal Republic of Germany. We assist and advise potential investors interested in Germany. Foreign enterprises planning to establish their business operations in Germany can ob-

tain information on the business environment, such as the corporate investment framework, tax regulations, and subsidies.

Our range of services includes strategic planning, market research and competitive analysis. Our experts provide comprehensive project management and support

services from site selection to the final realization of the investment. All inquiries are kept confidential and our services are free of charge.

We support investors from our headquarters in Berlin and from our offices in the US, China, and Japan.

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