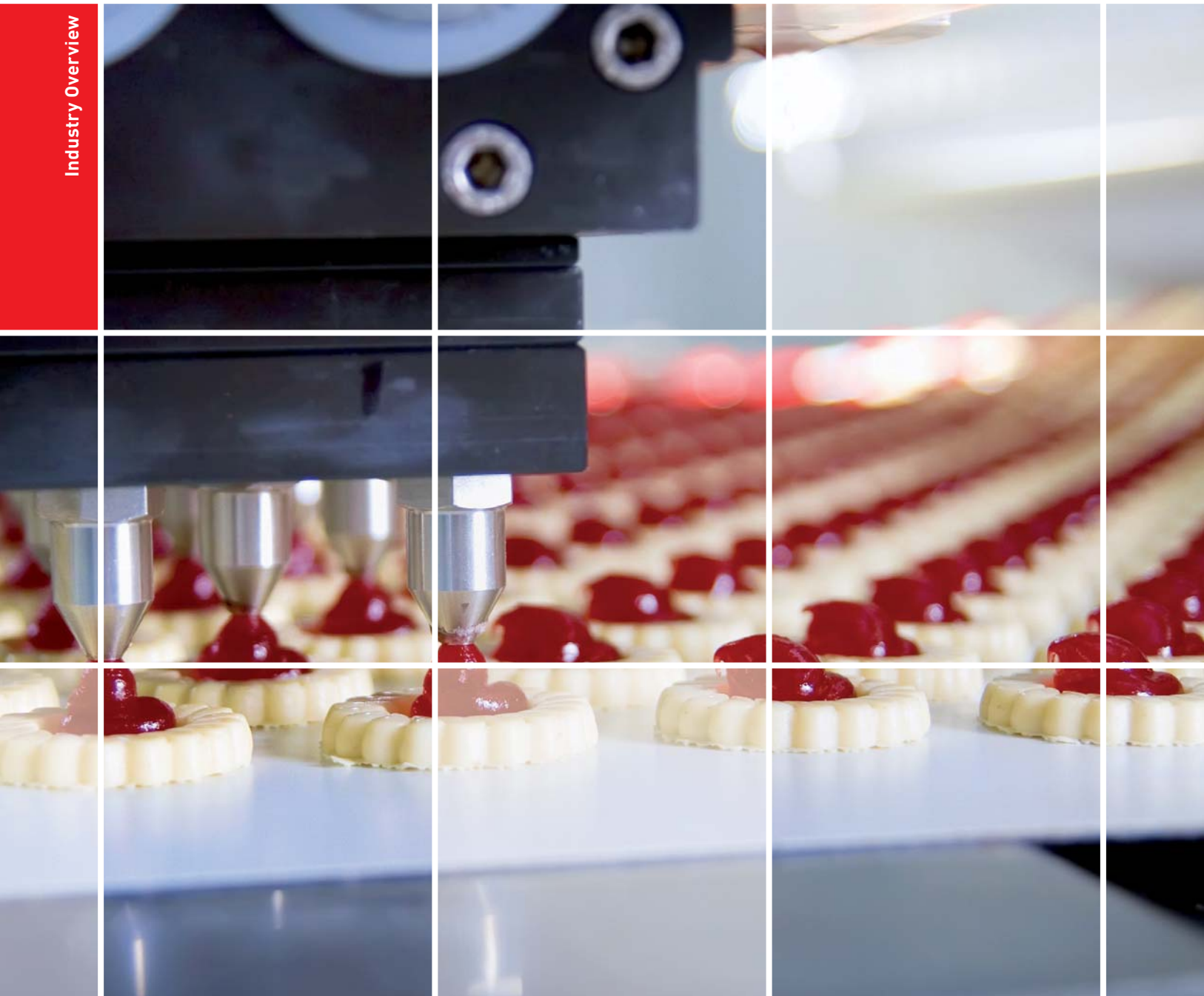


The Food & Beverage Industry in Germany

Issue 2012/2013

Industry Overview



GERMANY
TRADE & INVEST

Germany: Europe's Food and Beverage Market Leader

For many, German cuisine still conjures up images more hearty than haute. Yet, the reality is, that the German national diet is far more diverse than prevailing clichés would lead to believe. Europe's largest food and beverage market offers much more for consumers and producers alike. Highly receptive to new cultural influences and culinary trends, the German food and beverage market offers business opportunities on all fronts. Germany's food industry is not only driven by a commitment to deliver the very best, but also by a desire to actively respond to changing consumer wants and needs.

Increasing health awareness, an aging population, and the resulting demand for health and wellness products have helped a number of previously niche market actors to become significant industry players. Demand for functional foods alone has established Germany as a European leader, with the organic food segment experiencing a threefold increase in sales within a decade.

Germany stands at the forefront of food and beverage market development as it rises to meet the international challenge of increased demand for safe and healthy foodstuffs.



The Industry in Numbers

Europe's Largest Market

Around 82 million consumers helped make Germany the largest food and beverage retail market in Europe. Total food retailing revenue reached the EUR 170 billion mark in 2011. Other important distribution channels include food service sales (EUR 66.4 billion) and exports (EUR 48.4 billion).

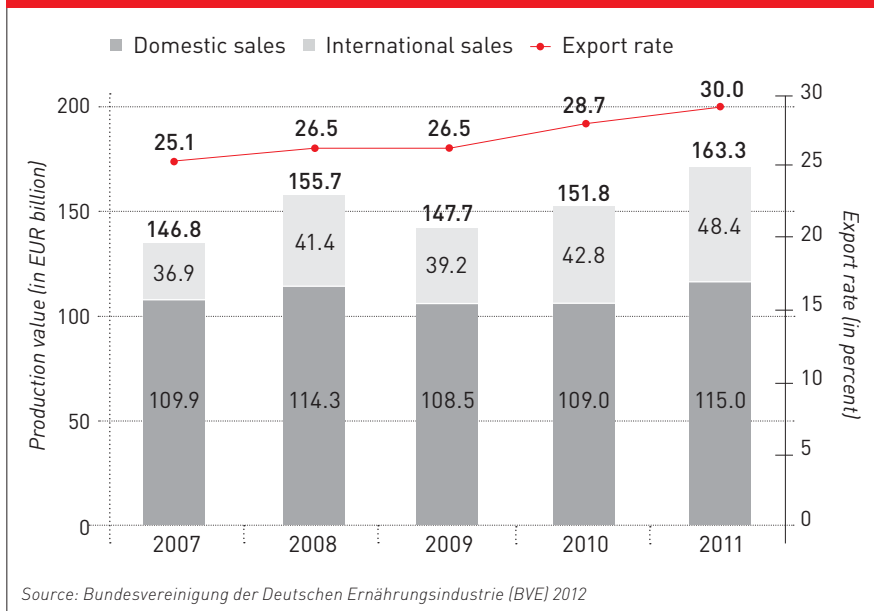
Major Industry Sectors

Germany's food and beverage industry is the fourth largest industry sector in Germany – generating production value of EUR 163.3 billion (8 percent increase on 2010) in 2011. The industry is best characterized by its small and medium-sized enterprise (SME) sector of around 6,000 companies employing 550,000. The largest industry segments by production value are meat and sausage products (23 percent), dairy products (16 percent), baked goods (9 percent), and confectionery (8 percent). Leading companies include well-known brand names such as Nestlé, Dr. Oetker, Vion Food Group, Tchibo, Coca-Cola, and Kraft Foods. R&D spending in the German food and beverage industry reached EUR 355 million in 2010.

International Trade

In 2011, exports of processed foods and agricultural commodities generated around EUR 60 billion in sales. Around 30 percent of all processed foods made in Germany are exported (80 percent to other EU member states). The country is a net importer of food and beverage products and thereby the most important European market for foreign producers. Processed foods and agricultural commodities to the value of around EUR 70 billion were imported in 2011.

German Food and Beverage Industry Production Value 2007-2011



Recent Investment Projects

Current significant investments in the industry include Nestlé's plans to erect a Dolce Gusto production plant in Schwerin (Mecklenburg-Vorpommern). The EUR 220 million factory investment will include 12 production lines, producing two billion coffee capsules a year as of 2013. Four hundred fifty new jobs will be created in the northeast region of Germany.

Beverage multinational PepsiCo has also made a EUR 17 million investment in a new R&D facility in Hamburg which will conduct innovative fruit and vegetable-based ingredient activities. Forty new jobs have been created by the investment.

Cargill has also announced EUR 20 million modernization plans for two cocoa and chocolate production facilities it recently acquired in Berlin. The investment will see production to both the German and eastern European markets increased.

Market Outlook

Industry analysts forecast growth of three percent in 2012, with growing demand for convenience, health, and wellness food products. The domestic food and beverage sector has profited from the fast economic recovery in Germany, with growing demand for domestically produced food products bringing the export quota to an all-time high. Single to two-digit growth was recorded in the dairy products, mill products, non-alcoholic beverage, and tea and coffee segments.

In 2011, food service market sales increased by three percent on the previous year's results, representing the highest growth rate over a five-year period. It is expected that the market will also record moderate growth in 2012 and beyond. Food-oriented business concepts in particular are enjoying growing popularity.

Market Segmentation

Dairy Products

Market

Germany is Europe's largest dairy producer. With milk production volume of 30 million tons in 2011, the country ranks sixth globally. A total production value of around EUR 21 billion, and more than 36,000 workers at around 100 German dairy processors, helped make the German dairy industry the country's second largest food and beverage sector. The milk, cheese, and fresh dairy products produced by the German dairy industry make a major contribution to the well-being of German consumers, underpinning the sector's important role in the promotion of a healthy lifestyle. Milk derivatives such as casein, whey, and milk powder are used in a number of food sectors as ingredients in a large variety of products.

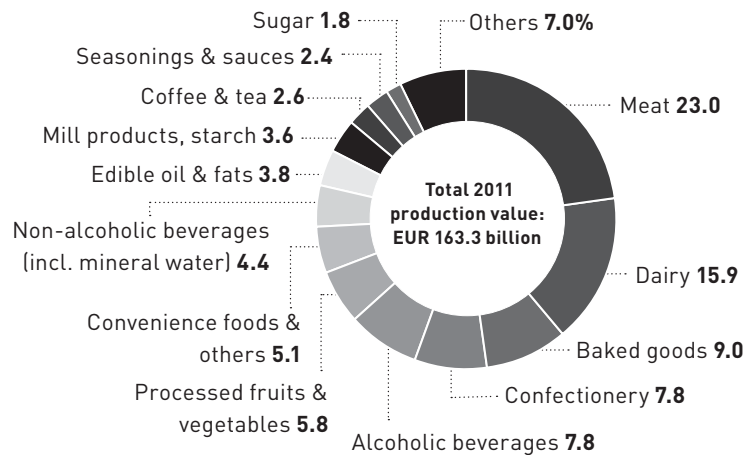
Competitive Landscape

The German dairy industry is largely made up of small to medium-sized players and can still be regarded as highly fragmented: the top three players holding only 19 percent of the total market value. As such, international companies can enter the marketplace more easily, although industry analysts predict an increasing consolidation trend towards fewer but larger companies in the future.

Opportunities

The dairy industry is one of Germany's most innovative food and beverage industry sectors. Companies are constantly improving existing products through the application of new technologies and innovations. The dairy industry has been quick to respond to increased consumer demand for functional foods.

The Food and Beverage Industry by Segment 2011



Source: Bundesvereinigung der Deutschen Ernährungsindustrie (BVE) 2012

The trend for health and wellness food products provides excellent growth opportunities; not just for dairy products using functional ingredients, but also for producers with a focus on natural ingredients such as calcium or reduced-fat formulas for yogurts or desserts.

Baked Goods

Market

Fuelled by an annual per capita bread consumption of 75 kg, Germany is the European leader in the production of bread and rolls. In 2011, the industry generated sales of EUR 13.4 billion (3 percent increase on 2010) and produced 6.4 million tons of bread. In 2010, the German biscuit market had a market value of EUR 2 billion (2 percent increase) with chocolate cookies the largest subsegment (21 percent), followed by butter-based biscuits (17 percent), and cream-filled cookies (14 percent). An average annual market growth of more than two percent is predicted until 2015, outstripping both the UK and French market forecasts.

Competitive Landscape

Although the overall number of companies operating in the German baked goods industry has been decreasing for years due to an ongoing consolidation trend, the industry remains home to a wealth of market actors, being made up of SMEs and leading multinational players alike.

Opportunities

The baked goods segment has firmly established itself in the German retail consumer market. In 2010, artisanal bread and rolls sales accounted for 62 percent of the German bread market, followed by industrial products (33 percent), and in-store bakeries (6 percent) respectively. Artisanal production is increasingly being replaced by industrial production. In-store bakeries are also expected to continue to grow. Further growth potential rests on niche and trend products such as Mediterranean, gluten-free products, and convenience baked goods (e.g. bakery snacks, frozen rolls, tarts and tartlets). Forecasts show that the domestic market for bread and rolls will grow by eight percent by 2015.

Confectionery and Snacks

Market

High innovation levels and low barriers to new product market entry have helped create a EUR 13 billion confectionery and snack production market in 2011. The leading segments in terms of market value are cocoa and chocolate products (EUR 6.5 billion), fine pastries (EUR 2.3 billion), and sugar confectionery (EUR 1.8 billion) respectively. Average annual confectionery per capita consumption exceeded 32 kg (equivalent to EUR 112).

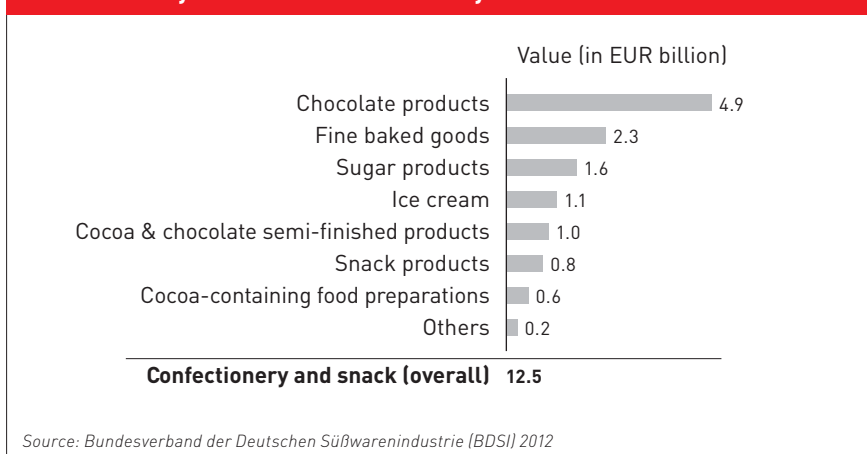
Competitive Landscape

Although the top three market actors in the German confectionery industry occupy around 40 percent of the total market value, the industry is fairly fragmented. The broad palette of brands available (differentiated in quality and price terms) is such that consumer power is not the determining factor in this market. Germany's attractive and competitive location factors are underpinned by an above average export quota rate of currently 46 percent, which makes Germany the world's confectionery export champion – considerably ahead of the Netherlands and Belgium (with just half of German export volume respectively).

Opportunities

International confectionery producers increased their export share to Germany by 6 percent to reach EUR 3.6 billion. Retail sales of savory snacks, above all potato chips, peanuts, and nut mixes, again exceeded previous year's results by three percent. Other growth segments are powered by the health and wellness trend, which has led to increased demand for fat-free, low-sugar, and sugar-free confectionery.

Confectionery and Snack Production by Value 2011



Beverages

Market

Germany is Europe's largest market for soft drinks and alcoholic beverages. In 2011, the average per capita consumption of soft drinks and mineral water increased by 2 and 3 percent to reach 120 liters and 140 liters respectively. In the same year, non-alcoholic beverages accounted for EUR 11 billion in retail sales, whereby mineral waters (EUR 3.3 billion), caffeine-based soft drinks (EUR 2 billion), and fruit juices (EUR 1.5 billion) were the most important categories. Segments with above average growth included energy drinks (40 percent increase), fruit water mixes, and sport drinks (12 percent increase each).

Germany is Europe's leading alcoholic beverages market – around 17 percent of all alcoholic beverages consumed in Europe are sold in Germany. With almost half of the market share, beer and flavored alcoholic beverages represent the largest subsegment, followed by spirits (29 percent), and wines (23 percent) respectively.

Competitive Landscape

Although a number of major international players are present in the German soft drinks market, the industry is highly differentiated. Like the German soft drinks industry, the alcoholic drinks market is diversified, with the leading companies generating only a quarter of total sales. This makes the German alcoholic beverage market an attractive business proposition – particularly for niche or value-added products.

Opportunities

Following the health and convenience megatrend, the industry offers opportunities in segments and niche segments such as functional drinks, smoothies, enhanced water, and organic beverages in particular. Companies new to the market also have the chance to record smaller scale successes by stressing health benefits or unique production methods. Current growth categories in the alcoholic beverages sector include beer mixed drinks, fruit brandies, and alcohol-free beers. Changes in consumer preferences have also led to a higher consumption of organic wines, beers, and spirits.

Meat and Sausage Products

Market

The meat and sausage products industry is the largest segment in Germany's food industry. In 2011, it generated sales of around EUR 38 billion (9 percent increase on previous year). The major segments include pork (68 percent), chicken (17 percent), and beef (14 percent). With a total meat consumption of 90 kg per capita in 2010 (an increase of 1.5 percent over 2009), including around 32 kg (2011) of sausage products, Germany is one of the most attractive markets in Europe.

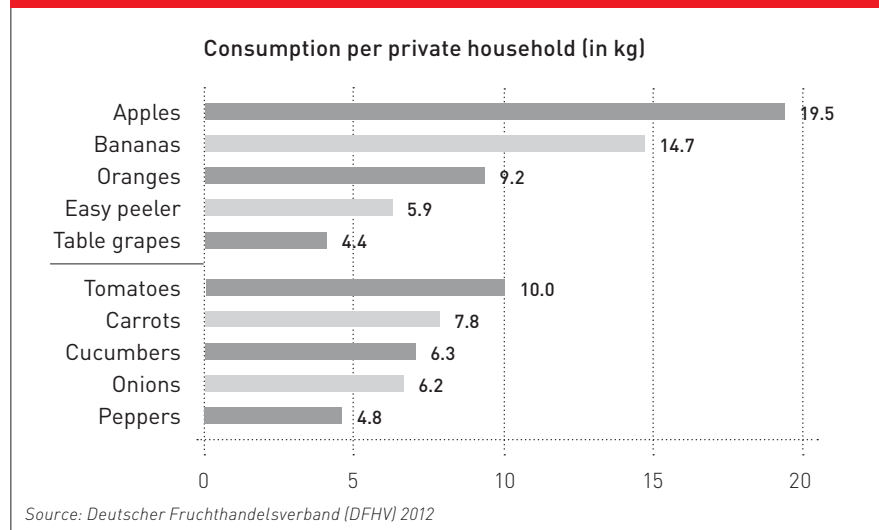
Competitive Landscape

The German meat processing industry is characterized by an ongoing consolidation trend. The top four industry players, for example, account for around 60 percent of all pig slaughtering. As overall competition in Germany can be regarded as strong, companies are prompt to develop new products and explore export markets (total exports reached almost EUR 9 billion in 2011). Some retailers follow a backward integration strategy and operate own slaughterhouses, putting additional pressure on processors.

Opportunities

Recent market trends include pre-packed meat products (5.1 percent sales increase in 2010), sausages (2 percent increase in volume in 2010), and fat reduced pre-packed meat products (19 percent market share in 2010). Although organically produced meat and sausage products remained niche markets in 2011, producers are shifting to organic production to meet growing consumer demand. Clear label products as well as poultry sausage variations are gaining in popularity.

Fruit and Vegetable Consumption in Germany by Volume 2010



Besides organic production, the manufacture of meat products in accordance with halal requirements will become more important in Germany thanks to more than 4 million practicing Muslims.

Fruits and Vegetables

Market

Germany's fruit and vegetable market is of particular interest for foreign companies: just one fifth of consumed fruits and a third of consumed vegetables are locally sourced. More than half of Germany's fruit and vegetable imports come from Spain, Italy, and France. Sales of processed fruits and vegetables (excluding juices) reached EUR 5.6 billion in 2011. As such, fruits (EUR 2 billion) and vegetables (EUR 1.5 billion) make up for more than 60 percent of overall production value. Potato products account for EUR 1.4 billion and mixed pickles for around EUR 0.6 billion. In 2011, jellies and jams (38 percent market share) and fruit preparations (32 percent) dominated the processed fruits market.

Frozen vegetables (33 percent) and canned vegetables (28 percent) are the most important subsegments of the vegetable industry. Savory potato snacks (47 percent), frozen potato products (23 percent), and dried potato products (10 percent) are the top three single subsegments within the processed potato segment.

Competitive Landscape

The German fruit and vegetable industry is still fragmented, although some companies are slowly entering a consolidation phase. With market volume and value shares of 55 percent and 45 respectively, discounters were the most important distribution channel for fresh fruit and vegetables in Germany in 2010.

Opportunities

Germany's fresh fruit and vegetable consumption is far behind other European countries. Current consumer trends include convenience products including pre-packed fruit and vegetable salads. Rising market prices and the abolishment of EU common marketing standards increases the attractiveness of the market and eases sales in Germany.

Market Trends

Recent consumer trends in the German food and beverage market have, above all, been influenced by a number of far-reaching changes in society: an aging population is fueling demand for health and wellness as well as functional and organic food products to prevent or overcome conditions including diabetes, high blood pressure, and cholesterol. Healthy nutrition plays an important role in the lives of around 70 percent of the population.

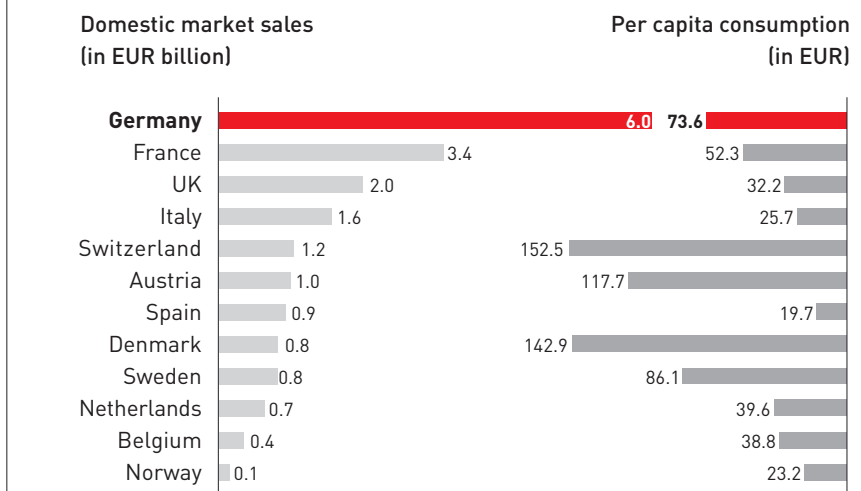
The organic food movement has long since achieved mainstream status in Germany. More and more consumers are seeking to improve their sense of well-being, health, and even their performance levels through the consumption of functional foods. An increasingly fast-paced society and the rising number of single households is driving demand for highly convenient foodstuffs including ready-to-eat meals, desserts, and baked goods.

Other trends include sales of fair trade products, such as coffee and fruit juices, which grew by around 20 percent – reaching EUR 400 million in 2011. Ethnic foods, beauty foods, and “free of” foods (e.g. lactose and gluten-free products) are further trends currently finding favor with Germany’s increasingly discerning consumer base.

Organic Foods

With more than EUR 6.6 billion in organic food sales in 2011, Germany is a frontrunner in the production and consumption of organic food products, and by far the largest market in Europe followed by France (EUR 3.4 billion) and the UK (EUR 2 billion). Organic food sales account for around four percent of total food

European Organic Foods Sales by Country 2010



Source: Bund Ökologische Lebensmittelwirtschaft 2012

retail sales. Per capita sales in Germany are with over EUR 70 more than twice as high as the EU-27 average of around EUR 32. After two years of rather modest growth, organic food sales grew by almost ten percent in 2011. Although some of the growth can be explained by increased prices, some segments experienced significantly real volume growth. Among those organic food categories with significant growth levels are fresh meat (around 40 percent increase), eggs (32 percent increase), hot beverages (22 percent increase), and meat substitutes (20 percent increase).

Other future growth segments include convenience foods, dairy products, confectionery, and non-alcoholic beverages variations to name but a few of the exciting areas of market opportunity. The rising demand for organic foodstuffs in the commercial catering sector – although still nascent – is further driving the market.

In Germany, organic foods are increasingly being sold by supermarkets and discounters. Most supermarkets and discounter chains have successfully introduced their own organic label brands.

The strong trend towards organic food products also makes itself evident in the constantly increasing number of organic food shops. In 2011, approximately 2,400 shops operated in Germany selling solely organic-produced products. The introduction of the new EU-wide organic food logo in July 2010 and a bilateral trade agreement between the US and the European Union further eased the import and distribution of organic foods in Germany and other EU member states.

Functional Foods

More and more people in Germany see food as a way to overcome general health concerns (such as obesity, diabetes, and celiac disease) as well as improve their sense of well-being, and even their performance levels. The global functional foods market has grown significantly, with a 23 percent market increase (EUR 20.6 billion) forecast by 2014. European regions (including Germany, France, UK, Spain, and Italy) will experience significant gains. According to market researcher GfK, German consumers spend a two digit billion euro sum on functional foods each year – with the trend set to increase. Discounters and internet sales are gaining market share as these distribution channels increase their functional and wellness food offerings.

In functional foods, highly nutritious components like probiotics, fiber, and vitamins are added to make the eating experience more beneficial in terms of positive health effects and taste. Major segments in Germany include probiotic yogurts, yogurt drinks, and beverages such as vitamin-enhanced waters.

Although the Europe-wide implementation of regulations on nutrition and health claims is likely to slow market growth, it is expected that functional foods will become one of the most dynamic and important segments of the food and beverage industry, with most industry innovations forecast to take place in this fast-growing sector. 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.

Convenience Foods

The rising number of single households, as well as an increasingly mobile society, are changing food and beverage consumption patterns in favor of the convenience food industry.

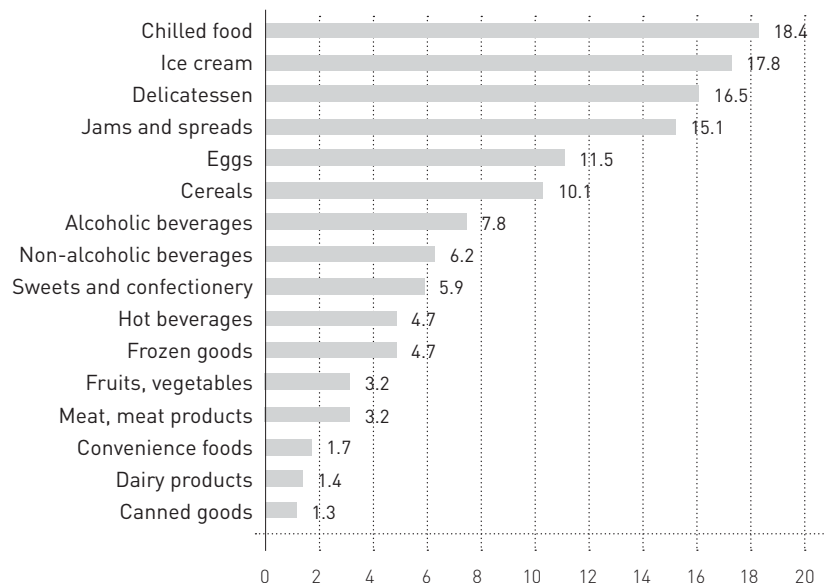
Germany already has the largest frozen food market in Europe, with total sales of EUR 12 billion in 2011 (EUR 7 billion from retail and EUR 5 billion from the catering sector). The largest retail segments are deep-frozen ready-to-eat meals (18 percent) and vegetables (16 percent). Current growth segments include frozen dairy products and confectionery (13 percent increase on 2010), frozen fruits (3 percent increase), and frozen baked goods (2 percent increase). The catering industry has also recorded a grow-

ing demand especially for frozen snacks (11 percent increase), frozen dairy products and confectionery (9 percent increase), and vegetables (7 percent increase). Experts predict future growth in both segments.

The German chilled and deli food market grew by around 2 percent in 2010 to reach EUR 26.3 billion. Deli foods such as fresh noodles, dips and pickled vegetables account for two thirds of the market value followed by chilled meat products (22 percent) and sandwiches & salads with five percent of the market value. Growth markets within the chilled food industry are fruit juices, soups and sauces, fresh pasta, desserts, ready-made meals, and savory snacks. Organic convenience products also promise growth.

Trends in Private Demand for Selected Food and Beverages Segments 2007-2010

Increase for period 2007-2010 (in percent)



Source: Metro Handelslexikon 2011/2012, 2012

Innovative Excellence

The German food industry and public and private institutes alike continuously conduct R&D activities to develop new products, enhance nutrition, and improve general food safety.

Internal R&D spendings in the German food and beverage industry for 2012 is expected to reach almost EUR 340 million. More than 2,600 people worked in food and beverage R&D in 2010. More than 90 percent of all R&D was conducted in-house. Companies put their main focus on experimental development (50 percent of total spending) and applied science (40 percent of total spending).

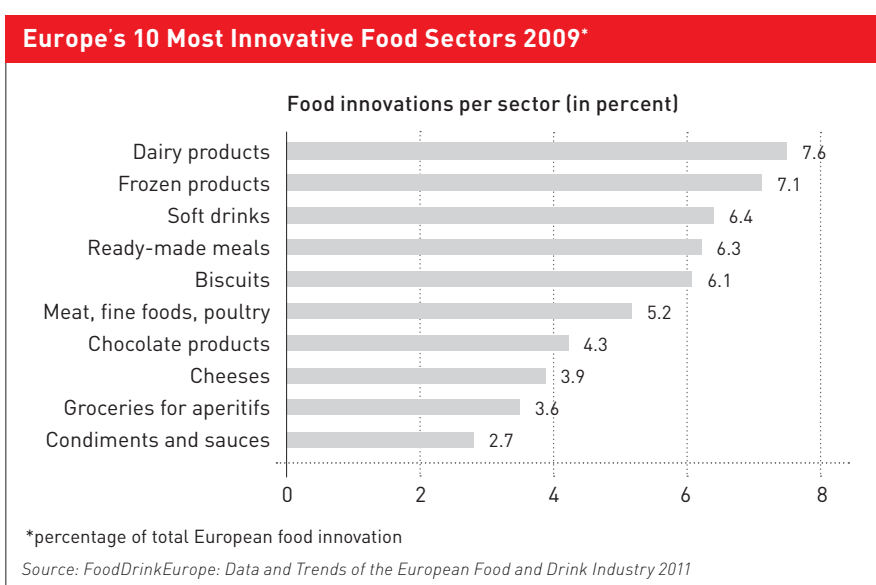
Almost half of private R&D spending in the German food and beverage industry is foreign company derived – underpinning the importance of local R&D to adapt products to the local market. Local research teams are able to research and develop new products according to culinary customs, tastes, and preferences.

The non-profit Research Association of the German Food Industry (FEI) supports research projects in all fields of food science, food technology, and nutritional science. The main focus of the FEI's activities are the coordination and promotion of industrial collective research projects initiated by the Federal Ministry of Economy and Technology.

Germany's federal and regional institutes support R&D activities with around EUR 500 million every year. Germany's strong food industry R&D landscape is supported by world-renowned public institutes such as the Julius Kühn-Institut (Federal Research Centre for Cultivated Plants), the Max Rubner-Institut (Federal Research Institute

Overview of R&D Projects in Food Technology				
Sector	Institutes	Ongoing projects	Finished projects	All projects
Food processing	142	57	291	348
Food chemistry	85	26	158	184
Food microbiology	48	21	80	101
Overview of R&D Projects in Nutritional Science				
Nutrition physiology	89	21	162	183
Nutritional behaviour	49	14	57	71
Toxicology	40	18	172	190
Home economics	14	0	15	15

Source: Bundesanstalt für Landwirtschaft und Ernährung 2012



of Nutrition and Food], and six institutions of the Leibniz Association. Main research areas include nutrition science, food technology, plant and animal production, and aquaculture. The majority of all completed and ongoing publicly supported research projects in production concern new technological and biotechnological processes. Bavaria, North-Rhine Westphalia, and Hessen are the federal states with the highest R&D spending and

number of researchers. In late 2012 the German federal government will outline future research objectives in the fields of health prevention and nutrition research. Successive measures designed to enhance the competitiveness of the German food & beverage R&D landscape and increase innovation and product development in this sector will be introduced. The program is equipped with a budget of EUR 90 million.

Market Location Advantage

The German food and beverage market including food service sales was worth around EUR 230 billion in 2011, making Germany the leading European food and beverage sector nation. Important contributory factors include increasing purchasing power, a strong local agriculture sector, and state-of-the-art infrastructure. Germany's position as a global consumer trends frontrunner is underscored by competitive labor and tax conditions. These factors combine to make Germany the ideal point of entry into both German and European markets.

Retail Landscape

The German food and beverages retail landscape is consolidated and mature, but remains relatively diversified compared to many other European countries.

This provides manufacturers with numerous ways of marketing products. In total, the top five German retailers (Edeka, Rewe Group, Schwarz Group, Aldi Group, and Metro Group) have a market share of 73 percent of the entire German retail market. Edeka, Rewe Group, and Schwarz Group operate chains in more than one distribution channel (e.g. supermarkets and discounters).

In 2010, the overall market share of discounters offering a limited selection of mainly private label goods at low prices remained stable at around 41 percent. Hypermarkets and large-scale superstores (>2,500 sqm) have a total sales volume of 28 percent of the market. Conventional supermarkets (<2,500 sqm) have a market share of 27 percent. Convenience stores and small supermarkets are losing ground.

Consumer Purchasing Power

Germany is a prosperous consumer market, boasting a disposable income per capita of around EUR 20,000 in 2011. Of this sum, EUR 18,000 was allocated for total private consumption – far above the EU average of EUR 14,000 (2010). The largest and most free-spending consumer group is the 50+ “best agers” segment.

Local Sourcing

Germany's abundant farmland offers countless opportunities for local sourcing and underpins Germany's attractiveness as a production location. In 2011, around 300,000 companies cultivated around 17 million hectares of land. Around 70 percent of the total available farmland is used for farming – including growing crops (55 percent) and forage crops (21 percent). The number of companies operating in the organic food sector grew by 6 percent in 2011. As a result, 7 percent of all agricultural farmland is used for organic farming.

Top 10 Food Retailers in Germany in 2011

Retailers	Retail brands	Food sales (in EUR billion)*	Share of food sales (in percent)	Change 2010-2011 (in percent)
Edeka Group	Edeka, Marktkauf, Netto, Plus, Treff 3000	42.7	90.5	+4.5
Rewe Group	Penny, REWE, Kaufpark, Fegro, Selgros	25.1	70.7	-7.0
Schwarz Group	Lidl, Kaufland, Handelshof	23.2	81.1	+0.9
Aldi Group	Aldi Nord, Aldi Süd	20.3	82.0	+0.8
Metro Group	Real, Metro C+C, Galeria Kaufhof	11.4	38.6	-2.2
Lekkerland	Lekkerland, others	7.6	95.0	-2.8
DM-Drogeriemarkt	DM	4.0	90.0	+10.0
Schlecker	Schlecker, Ihr Platz, Drosipa	3.7	92.0	-7.0
Rossmann	Rossmann	2.9	75.5	+11.8
Transgourmet Group	Cash & Carry	2.6	86.4	n.a.
Total Top 10		143.5		

*Source: Lebensmittel Zeitung 2012

Logistics Excellence

Providing a regular supply of food to a population of almost 82 million people makes significant demands of the food logistics sector: customer deliveries must be fast, secure, and on time. A high-performance road infrastructure is an essential requirement for customer-oriented delivery of food.

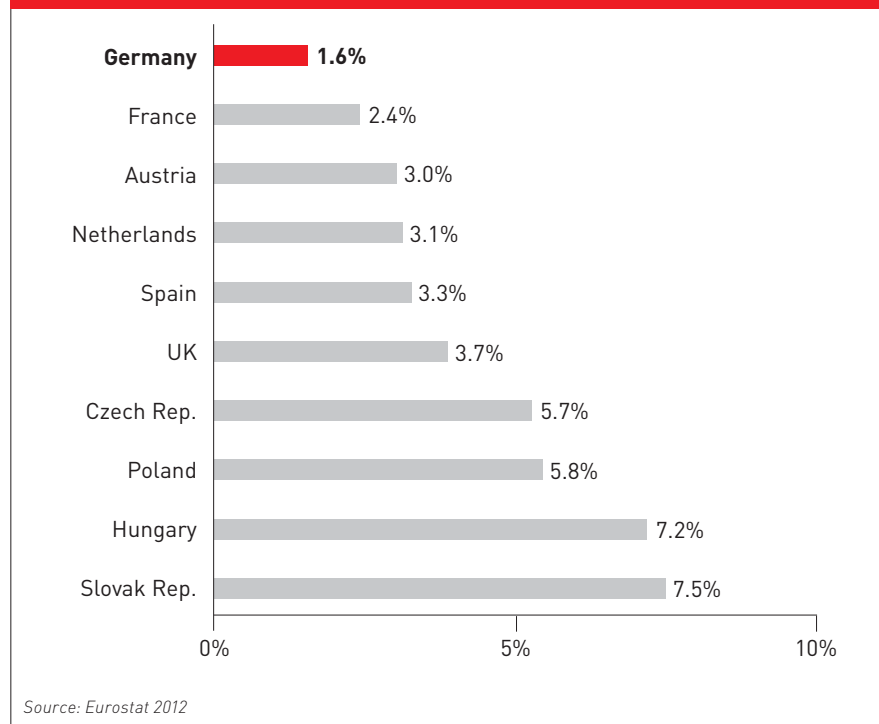
Germany's infrastructure excellence is confirmed by a number of recent studies: The 2011-2012 Global Competitiveness Report of the World Economic Forum (WEF) ranked Germany second for infrastructure; singling out Germany's extensive and efficient infrastructure for highly efficient transportation of goods for special praise. Accumulated in this score for Germany are high marks for the quality of roads and air transport, excellent railroads and port infrastructure, as well as its communications and energy infrastructure.

Trade

With total import and export values of around EUR 70 billion and EUR 60 billion respectively, Germany was a net importer of processed foods and agricultural commodities in 2011. The rising share of exports underpins Germany's competitive location factors and its excellent geographical position to serve not only national but also international markets.

Germany's main trading partners are other EU countries. Both meat and sausage products and milk and dairy products are the leading food and beverage segments in terms of exports, representing total export values of around EUR 9 billion and EUR 8 billion in 2011. Thanks to the enduring popularity of German-made products abroad, the industry is expected to continue its steep growth curve in the coming years.

Labor Cost Growth in Total Economy 2002-2011 (annual average growth in percent)



Despite the fact that they currently account for less than ten percent of total export value, eastern and central Europe in particular hold promising mid-term prospects.

Labor Cost Development

High productivity rates and steady labor costs make Germany an attractive investment location. Labor cost increases have been the lowest in Europe in recent years, with a modest annual growth rate of 1.6 percent for the total economy between 2002 and 2011.

German productivity rates are more than five percent higher than the average of the EU's 15 core national economies and more than one quarter higher than the OECD average. Highly flexible working practices such as fixed-term contracts, shift systems, and 24/7 operating permits contribute to

enhance Germany's international competitiveness as a suitable investment location for internationally active businesses.

Tax Conditions

Germany has developed one of the most competitive tax systems in the world. Significant company taxation reforms have resulted in a decrease of the corporate tax burden by around 25 percent. The overall average corporate tax burden has sunk to just below 30 percent, with a number of federal states providing even more competitive tax rates. Standard corporate income tax has also been reduced by ten percent to just 15 percent on all corporate taxable earnings.

Financing & Incentives

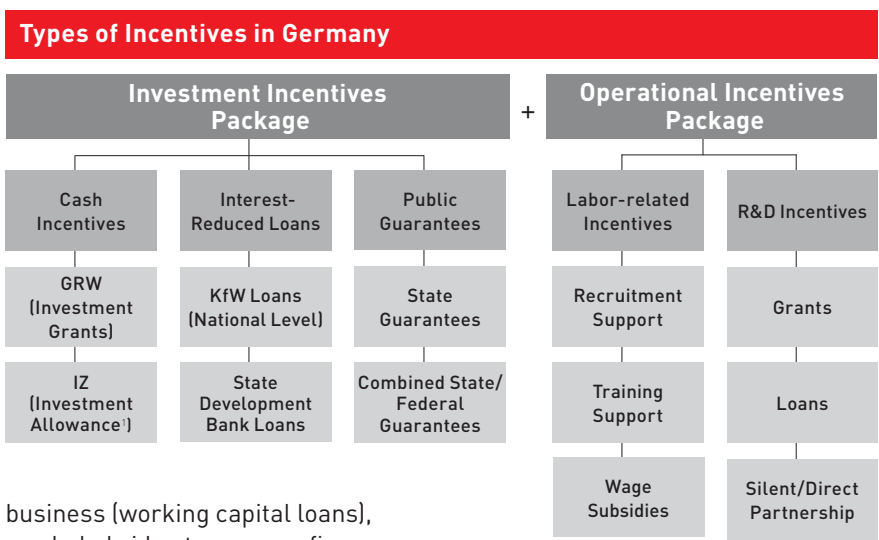
In Germany, investment projects can receive financial assistance through a number of different instruments. These instruments may come from private sources or consist of public incentives programs available to all companies – regardless of country of provenance. They fit the needs of diverse economic activities at different stages of the investment process.

Early Stage Investment Project Financing

Technologically innovative start-ups in particular have to rely solely on financing through equity such as venture capital (VC). In Germany, appropriate VC partners can be found through the *Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V* (BVK – “German Private Equity and Venture Capital Association”). Special conferences and events like the *Deutsches Eigenkapitalforum* (“German Equity Forum”) provide another opportunity for young enterprises to come into direct contact with potential VC partners. Public institutions such as development banks (publicly owned and organized banks which exist at the national and state level) and public VC companies may also offer partnership programs at this development stage.

Later Stage Investment Project Financing

Debt financing is a central financing resource and the classic supplement to equity financing in Germany. It is available to established companies with a continuous cash flow. Loans can be borrowed for day-to-day



¹⁾ only in Eastern Germany

business (working capital loans), can help bridge temporary financial gaps (bridge loans) or finance long-term investments (investment loans). Besides offers from commercial banks, investors can access publicly subsidized loan programs in Germany. These programs usually offer loans at attractive interest rates in combination with repayment-free start-up years, in particular for small and medium-sized companies. These loans are provided by the state-owned KfW development bank and also by regional development banks.

Cash Incentives for Investment Projects

When it comes to setting up production or service facilities, investors can count on a number of different public funding programs. These programs complement the financing of an investment project. Most important are cash incentives provided in the form of non-repayable grants applicable to co-finance investment-related expenditures such as new buildings, equipment or machinery. In Eastern Germany, investment grants are complemented by an investment allowance (*Investitionszulage IZ*), which is usually allotted in the form of a tax credit but which can also be provided in the form of a tax-free cash payment.

Labor-related Incentives and R&D Project Grants

After the location-based investment has been initiated, companies can receive further subsidies for building up a workforce or the implementation of R&D projects. Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses. The range of programs offered can be classified into three main groups: programs focusing on recruitment support, training support, and wage subsidies respectively. R&D project funding is made available through a number of different 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 project funding has been concentrated in the so-called High-Tech-Strategy to push the development of cutting-edge technologies. Substantial annual funding budgets are available for diverse R&D projects.

Best Practice Example: VIVA Coffee

A British-based investor decided to further diversify his business interests by setting up an innovative instant coffee factory trading under the VIVA Coffee name. The company expected to benefit from the substantial growth being forecast in the soluble coffee market in the Middle East and Europe thanks to strong private label strategy.

VIVA Coffee's Objectives

VIVA Coffee required a location that would connect it to the world as it expected to make up to 60 per cent of its revenue from exports. Accordingly, first class transport infrastructure and close proximity to a seaport were decisive location requirements.

Additionally, a competitive cost structure and a large labor pool of highly qualified workers was needed in order to comply with international production standards. Potential synergy effects with existing food and beverage manufacturers in the region and the availability of attractive investment programs complemented the company's location requirement criteria.

The Solution: Investing in Germany

Thanks to Germany's optimal location factors and the excellent work carried out by *Germany Trade & Invest* and its partners, the investor was convinced of the benefits of adding Germany to the potential location shortlist.

Within a brief period of several months, our food and beverage industry experts identified, analyzed, and set up potential production site visits on behalf of the investor.



"Upahl was identified as the optimal production location thanks to a number of important factors: its close proximity to the port of Hamburg, a competitive cost structure, and the availability of highly qualified staff.

Moreover, the strong presence of businesses in the retail grocery sector in the vicinity and the synergy opportunities this created all worked strongly in the location's favor."

Dr. Albrecht Frischenschlager
CEO, VIVA Coffee GmbH

VIVA Coffee Investment Project Time Line

1	Aug. 2005	Initial contact
2	Sept. 2005	Site selection initiation and long list preparation
3	Nov. 2005 -Jan. 2006	Location short list and site visits
4	Feb. 2006 - June 2006	Due diligence
5	July 2006	Final site decision
6	Sept. 2006 -Spring 2009	Construction phase
7	Summer 2009	Test run
8	Spring 2010	Start of operations

After a thorough selection process designed to refine and meet the exact needs and requirements of VIVA Coffee, Upahl in the state of Mecklenburg-Vorpommern was selected as the preferred location.

Our Investment Project Consultancy Services

Germany Trade & Invest Helps You

Germany Trade & Invest's teams of industry experts will assist you in setting up your operations in Germany. We support your project management activities from the earliest stages of your expansion strategy.

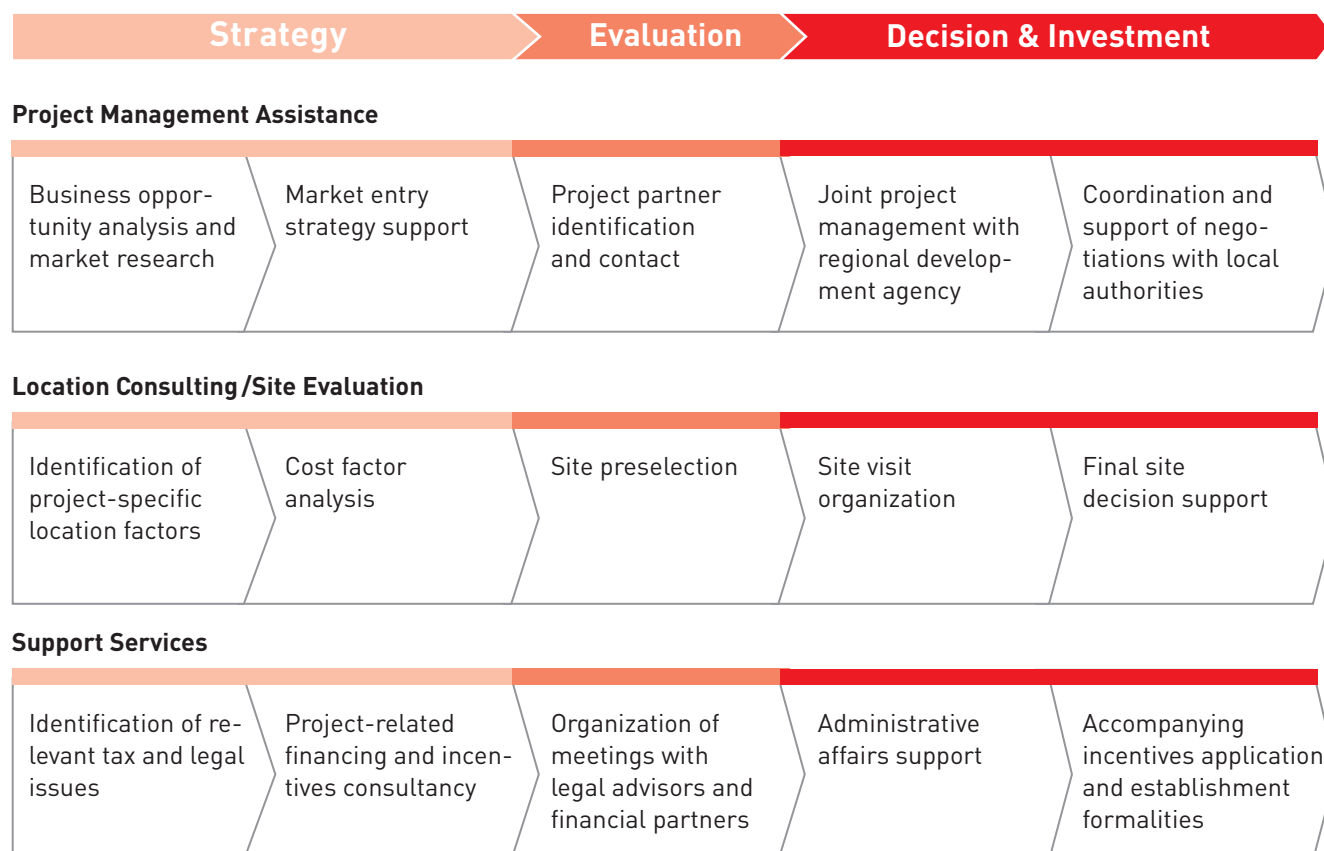
We provide you with all of the industry information you need – covering everything from key markets and related supply and application sectors to the R&D landscape. Foreign companies profit from our rich ex-

perience in identifying the business locations which best meet their specific investment criteria. We help turn your requirements into concrete investment site proposals; providing consulting services to ensure you make the right location decision. We coordinate site visits, meetings with potential partners, universities, and other institutes active in the industry.

Our team of consultants is at hand to provide you with the relevant background information on Germany's tax and legal system, industry regulations, and the domestic labor

market. *Germany Trade & Invest's* experts help you create the appropriate financial package for your investment and put you in contact with suitable financial partners. Incentives specialists provide you with detailed information about available incentives, support you with the application process, and arrange contacts with local economic development corporations.

All of our investor-related services are treated with the utmost confidentiality and provided free of charge.



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Endnotes

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About Us

Germany Trade & Invest is the foreign trade and inward investment agency of the Federal Republic of Germany. The organization advises and supports foreign companies seeking to expand into the German market, and assists companies established in Germany looking to enter foreign markets.

All inquiries relating to Germany as a business location are treated confidentially. All investment services and related publications are free of charge.

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