Food and Agriculture Investment Opportunities in Bulgaria

Dubai
May 2, 2012
Bulgaria is only 3 hours flight from all major destinations in Europe, Russia and the Mediterranean region.

Strategic geographic location

Major transport corridors pass through Bulgaria

- EU and EFTA
- Russia and CIS
- Turkey and Middle East

Map showing major transport corridors in Bulgaria.
Why invest in Bulgaria?

• Political and business stability
  – EU and NATO member
  – Currency board
  – Low budget deficit and government debt

• Low cost of doing business
  – 10% corporate tax rate
  – Lowest cost of labor within EU

• Access to markets
  – European Union / EFTA
  – Russia
  – Turkey / Middle East

• Educated and skilled workforce

• Government incentives
Bulgaria has one of the lowest business costs in Europe

<table>
<thead>
<tr>
<th>Lowest corporate income tax rate in Europe</th>
<th>Cost of electricity for industrial users is 70% of the EU average</th>
<th>Lowest cost of agricultural land in the European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria 10%</td>
<td>Estonia €0.062, 2011</td>
<td>Bulgaria €1,595, 2008</td>
</tr>
<tr>
<td>Romania 16%</td>
<td>Bulgaria €0.064</td>
<td>Romania €2,000</td>
</tr>
<tr>
<td>Hungary 19%</td>
<td>Romania €0.080</td>
<td>Hungary €3,000</td>
</tr>
<tr>
<td>Slovakia 19%</td>
<td>Turkey €0.086</td>
<td>Greece €4,000</td>
</tr>
<tr>
<td>Czech Rep 19%</td>
<td>Germany €0.090</td>
<td>France €5,000</td>
</tr>
<tr>
<td>Croatia 20%</td>
<td>EU average €0.092</td>
<td>Czech Rep. €5,000</td>
</tr>
<tr>
<td>Turkey 20%</td>
<td>Bulgaria €0.104</td>
<td>Poland €5,000</td>
</tr>
<tr>
<td></td>
<td>Hungary €0.104</td>
<td>Germany €10,000</td>
</tr>
<tr>
<td></td>
<td>Czech Rep €0.110</td>
<td>Spain €11,070</td>
</tr>
<tr>
<td></td>
<td>Slovakia €0.123</td>
<td>UK €11,400</td>
</tr>
</tbody>
</table>

Source: Eurostat; Savills
Educated and skilled workforce is among the main advantages of Bulgaria

Almost 60,000 students graduate every year from over 50 universities

<table>
<thead>
<tr>
<th>Field</th>
<th>Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>19,480</td>
</tr>
<tr>
<td>Social sciences</td>
<td>8,372</td>
</tr>
<tr>
<td>Engineering</td>
<td>7,178</td>
</tr>
<tr>
<td>Education</td>
<td>3,677</td>
</tr>
<tr>
<td>Health</td>
<td>3,166</td>
</tr>
<tr>
<td>Law</td>
<td>1,553</td>
</tr>
<tr>
<td>Architecture</td>
<td>833</td>
</tr>
<tr>
<td>Agriculture</td>
<td>860</td>
</tr>
<tr>
<td>Other</td>
<td>12,684</td>
</tr>
</tbody>
</table>

Bulgaria has one of the highest proportions of students abroad from all European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>17.8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>14.2%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>10.2%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>8.3%</td>
</tr>
<tr>
<td>Greece</td>
<td>5.8%</td>
</tr>
<tr>
<td>Austria</td>
<td>4.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.1%</td>
</tr>
<tr>
<td>EU-27 average</td>
<td>2.8%</td>
</tr>
<tr>
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<td>2.2%</td>
</tr>
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</tr>
</tbody>
</table>

Students in another EU / EEA country, % of all

Source: National Institute of Statistics, Bulgaria
Biggest investors are supported through a priority investment scheme

- Priority projects can be related to all sectors of the economy, which do not contradict regulation 800/2008 of the European Commission
  - Subsidies not allowed in mining, primary agriculture production, and shipbuilding
- Priority projects should exceed €50m and create at least 200 new working places for a 3-year period
  - €25 + 100 working places for certain manufacturing projects
  - €10m + 50 working places for high-tech services and R&D
- Priority projects receive all benefits for certified investors, as well as the following:
  - Lowest possible costs for the acquisition of government and municipal land + waived taxes for land status changes
  - Working group for project support is assigned by the Council of Ministers
  - Financial grant scheme for up to 10% of the investment project cost (50% for R&D)
Bulgaria is a R&D, service and manufacturing hub for a number of leading multinationals

- In 2008, Lufthansa opened an aircraft repair facility at Sofia airport
- State-of-the-art hangars and equipment. Over 500 workers
- D-checks, the most extensive scheduled maintenance is carried in Bulgaria

- Johnson Controls International has one of its major IT & software development centers in Sofia since 2001
- Develops automotive software for BMW, Ford, Citroen
- Over 460 engineers work in the Sofia office

- Hewlett Packard has over 4000 people in its Bulgarian office
- In 2010 Bulgaria became one of the 6 designated delivery hubs worldwide
- Customers include 21 companies from 2011 Fortune Global 500

- Nestle acquired one of the largest confectionery factories in Bulgaria in 1994
- Over €80m invested so far in plant modernization and new equipment
- Major brands produced in Bulgaria for the entire CEE market
Bulgaria is a R&D, service and manufacturing hub for a number of leading multinationals

- The copper smelter and refinery, owned by German company Aurubis, is the third largest in Europe
- Annual turnover exceeds €2bln.
- The plant was established in 1955 and purchased by Belgian group Umicore in 1997

- Montupet is a leading supplier of automotive aluminum parts
- Greenfield investment project in Ruse for €80m
- Bulgarian plant produces engine heads for Audi’s 4- and 6-cylinder engines

- Agropolychim is one of the leading manufacturers of nitrogen and phosphorus fertilizers in the region
- About 400 ths tons exported to Europe, America, Middle East and Asia in 2010

- Sisecam (Trakiya Glass) is the largest greenfield manufacturing investment in Bulgaria
- The plant produces glassware, flat glass, household glassware, mirrors and car glass factories
- Clients include IKEA, Coca Cola, Indesit, Bosch, Audi, BMW
Industry focus: Food and Agriculture

Bulgaria provides an overall proposition for the development of food and agricultural sectors

- Unique environmental conditions support wide variety of crops, fruits and vegetables
- 50% of the territory is agricultural land
- Environmentally clean and fertile soil
- Very high quality organic products (ban on GM products)
- Established local manufacturers and strong traditions in the sector
- Strong distribution channels in the former Eastern block
- EU food legislation integrated in the Bulgarian legislation
- Outstanding health and environmental standards make Bulgarian food products fully prepared to meet the highest and most sophisticated demands from consumers
- Significant foreign investment, with multinationals building strong, even dominant, market shares in several key sectors such as confectionery, dairy and beverages
- Rising demand for novel and ethnic food and drink across Western Europe and beyond will boost demand for traditional Bulgarian produce and beverages
Industry focus: Food and Agriculture

Bulgaria has long-standing traditions in the food sector

~ 500 BC
The Thracians were one of the three primary ancestral groups of modern Bulgarians. They discovered a new method for fermentation of milk, isolating lactobacilli from the green plants

14-19 century
During the Ottoman rule agriculture was the main occupation of the prevailing rural population in Bulgaria

1882
Franz Milde, together with some entrepreneurial Shoumen citizens mark the beginning of one of the oldest breweries in Bulgaria – “Shoumen Pivo”

1888
Ernest Solvay, the famed founder of Belgian industrial conglomerate Solvay, opened the first Bulgarian sugar-making plant in Sofia

1893
Kamenitza beer, started by three Swiss entrepreneurs in 1881, wins a gold medal at the prestigious Exposition internationale de boissons fermentes hygiéniques in Brussels

1898
Bulgaria is the first country in the former Communist bloc where Coca-Cola has been produced

1965
Bulgaria was the world’s second-largest exporter of bottled wine

‘70s – ‘80s
Bulgaria leads the export of tomatoes to Europe – up to 220 000 tons per year

90s
In 1990 Bulgaria was the world’s largest exporter of rose oil, used worldwide for perfume production

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Industry focus: Food and Agriculture

Food sector largely supported by thriving agriculture

- In 2010 agriculture accounted for 5.2% of Bulgaria’s gross domestic product. The sector’s value added growth rate of 10.9% yoy was the highest in the economy.

Value of the final output of the agricultural sector, 2007 - 2010 (€ in mln)

- In 2010, the agricultural sector was the only sector to exhibit growth in each quarter of the year.
- In 2010, Bulgaria’s agriculture trade balance stood at positive US$ 994 mln, up form US$ 385 mln in 2009. The sector accounted for 17% of total Bulgarian exports and 10% of total imports.
- Bulgaria's agricultural exports amounted to US$ 3.468 bln compared to US$ 2.795 bln an year ago, a growth of 24% yoy.
- About 72% of the Bulgarian agricultural export goes to the rest of the EU with Russia, Ukraine, Turkey, and the Arab world re-emerging as important markets as well.

Source: Agricultural Report 2011
Industry focus: Food and Agriculture

Excellent natural conditions for wide variety of crops

Structure of the final production value (2010)

Key crops cultivated in Bulgaria (2009)

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>In hectares 2009</th>
<th>As % of utilized agricultural area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>1,254,151</td>
<td>24.9%</td>
</tr>
<tr>
<td>Sunflower</td>
<td>687,209</td>
<td>13.7%</td>
</tr>
<tr>
<td>Maize</td>
<td>303,881</td>
<td>6.0%</td>
</tr>
<tr>
<td>Barley</td>
<td>264,689</td>
<td>5.3%</td>
</tr>
<tr>
<td>Fallow land</td>
<td>196,336</td>
<td>3.9%</td>
</tr>
<tr>
<td>Industrial and oilseed production crops</td>
<td>115,013</td>
<td>2.3%</td>
</tr>
<tr>
<td>Grasslands with leguminous crops</td>
<td>94,226</td>
<td>1.9%</td>
</tr>
<tr>
<td>Other industrial crops</td>
<td>60,629</td>
<td>1.2%</td>
</tr>
<tr>
<td>Oats</td>
<td>28,894</td>
<td>0.6%</td>
</tr>
<tr>
<td>Fresh vegetables</td>
<td>28,715</td>
<td>0.6%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>27,865</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

The largest share in the value of final output in 2010 was attainable to the following sectors of plant-growing production:

- Cereals – 19.6% (€755 mln)
- Industrial crops – 15.8% (€593 mln)
- Forage – 5.9% (€228 mln)
- Vegetables – 5% (€191 mln)

Within the livestock segment, livestock breeding represented 16.7% (€640 mln) of total final production value while products from livestock breeding accounted for 14.2% (€544 mln) of total

Did you know?
- Bulgaria is one of the top eight EU member states in terms of the growth of the average income from agriculture. In 2010, Bulgaria’s average agriculture income grew by 23% compared with 12.3% for the EU 27
- Bulgaria registered the highest growth in agricultural land in use in the EU between 2003 - 2010

Source: Agricultural Report 2010
Industry focus: Food and Agriculture

Wage costs in the sector and overall in the economy remain competitive

- The country has a good source of labour, including in the sector
- There are experienced engineers, technicians and biotechnologist available at very reasonable labor cost
- Very reasonable overall quality/cost ratio of the workforce

Annual country average wage in 2011, (€)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>4,429</td>
</tr>
<tr>
<td>Serbia</td>
<td>6,033</td>
</tr>
<tr>
<td>Romania</td>
<td>6,204</td>
</tr>
<tr>
<td>Hungary</td>
<td>9,385</td>
</tr>
<tr>
<td>Slovakia</td>
<td>10,083</td>
</tr>
<tr>
<td>Poland</td>
<td>11,042</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>11,932</td>
</tr>
<tr>
<td>Croatia</td>
<td>13,402</td>
</tr>
<tr>
<td>Slovenia</td>
<td>19,171</td>
</tr>
</tbody>
</table>

Monthly country average wage in 2011, (€)

<table>
<thead>
<tr>
<th>Year</th>
<th>Земеделие</th>
<th>Производство на храни</th>
<th>Производство на напитки</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>194</td>
<td>230</td>
<td>257</td>
</tr>
<tr>
<td>2009</td>
<td>216</td>
<td>256</td>
<td>276</td>
</tr>
<tr>
<td>2010</td>
<td>242</td>
<td>271</td>
<td>297</td>
</tr>
</tbody>
</table>

- Salaries are in the low bracket. Average monthly wage is 450 BGN.
- The salary level for the production of drinks and food sector is close to the national average – 500 – 600 BGN a month.
- Compensation not only in the industry but also in the economy in general is among the most competitive in the EU
- It is expected that wages will remain low in the foreseeable future

Source: Eurostat, Manpower, NSI
High quality agricultural land

- Even though land designated for agricultural use in Bulgaria covers only 5,490,513 hectares, it offers farmers many more opportunities compared to most Central and Northern Europe countries.

- The high quality of agricultural land in combination with favorable climate conditions in the country enables the cultivation of wide variety of crops.

- Land for agricultural use in 2009 was 5,490,513 hectares or 49.5% of the countries territory.

- Arable lands are the areas included in the crop rotation system, temporary grasslands with wheat and leguminous grasses. In 2009 they occupied 3,122,516 hectares and represented 62.1% of the utilized agricultural area (UAA).

Source: Agricultural Report 2010; Elana Agricultural Land Fund
Industry focus: Food and Agriculture

Cheap and accessible fertile agricultural land

- Prices of agricultural land in Bulgaria are among the lowest in Europe
- In 2010, the average sale price of land was between €1,530 - €1,590 per hectare according to data of Bulgarian Association of Agricultural Land Owners

![Average prices of land in Europe for 2008](image)

- In 2010, rent levels were €112 - €138 per hectare, depending on the region. One exception is Dobrudzha region were rents were traditionally higher, €205 - €307 per hectare
- Rent levels are directly related to the size of subsidies received by farmers and the average rent is approximately equal to the subsidy granted to farmers for a decare of arable land

![Land rented by regions](image)

Industry focus: Food and Agriculture

Success story: Organic Farming

- About 90% of the land in Bulgaria is suitable for organic agriculture
- Bulgaria has a ban on GMO products
- Recent years have shown a remarkable growth trend in both supply and demand for organic foods and products in Bulgaria.
- Bio-assortment on local markets has increased from some 1400 to more than 2600 items for the last year

Agro-ecological conditions, a proper legal framework, a commitment to sustainable development and technical expertise all make Bulgaria a highly diversified and reliable producer for the world’s most demanding markets

- Organic product portfolio includes dairy products, honey, herbs and tea, fresh and canned vegetables, spices, nuts
- More than 90% of the local production is exported to Germany, Switzerland, France and the Netherlands
- Bulgaria needs to secure, that until 2013 no less than 3% of all F&B products, sold in the country will be from organic origin
- Certified organic farming took place on only about 12,000ha of land in 2004, according to Organic Europe. That figure should rise considerably, since Bulgaria’s CAP restrictions kicked in at the start of 2007
InvestBulgaria Agency

InvestBulgaria Agency is a Government investment promotion arm, part of the Ministry of Economy, Energy and Tourism

IBA services:

• Macroeconomic data on Bulgaria
• Legal advice
• Data on operational costs
• Regional information: industrial zones and infrastructure, data on unemployment, skilled labour force and level of education
• Recommendation of investment project sites
• Identification of potential suppliers, contract manufacturers and joint-venture partners
• Personalized administrative servicing
• Liaison with central and local governments
• Liaison with branch chambers and NGOs