

General overview for investors in Hungary's agriculture and food industry

"Agriculture ... is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness."

Thomas Jefferson



WHY INVEST?

- Hungary is world famous for its abundant resources of drinking, thermal, mineral and ground waters. Combined with the country's excellent geolocation this provides a unique and remarkable opportunity for various business purposes, such as agriculture and food industry;
- Research on comparative advantage shows that Hungary has advantages of food industry product exports and trade opportunities. Cereals, meat, sugar, and livestock export are especially lucrative segments to invest in;
- Hungarian food production is expected to increase by 20% in the next four years. Domestic demand is also expected to grow by 20%;
- Hungary's agricultural and food industry is strongly integrated into the European markets, giving opportunities for non-EU based companies to reach a huge market of almost 500 million EU citizens. The Russian, Balkan and Eastern European markets are also within a close reach;
- Total arable land in Hungary is 7.4 million hectares, with world class soil quality and crop yields;
- Hungary has a well-structured and logistically planned transportation infrastructure, with one of the most developed highway network system in the EU;
- Approximately 220 R&D centers are working in the various fields of agriculture, employing approximately 2,000 researchers and scientists;



PROMISING GLOBAL AND EUROPEAN UNION TRENDS

According to current United Nations (UN) forecasts world population is expected to grow to 8.3 billion by 2030 and to 9.7 billion by 2050. To provide the optimum nourishment and healthy living to people, the agriculture and food industry is facing great challenges. Increasing output, maximizing value added services, improving logistic systems are capital intensive activities that can also provide substantial returns to investors.

A well-working global marketplace and distribution network of agricultural products are emerging, where competitive advantage favors countries with established and organized agriculture sector. Shrinking supply and increasing demand will inevitably generate a greater inherited value for each hectare arable land. To feed almost 10 billion people, the current agricultural and food production output have to be increased by at least 70% compared to its current values.

Agriculture is a dominant industry within the EU that employs 48 million people (together with food processing, food retail and food services). Total agricultural production reached 410 billion euros in 2015 (decreased by 2.00% compared to 2014).

Hungary, due to its excellent geographical location and well-established agribusiness, has all the opportunity to become a winner of these external market conditions.



SOME IMPRESSIVE FIGURES ABOUT THE HUNGARIAN AGRO SECTOR

Agricultural production of key sectors

	2014	2015
Cereals (including seeds)	2 328	2 055
Industrial crops	903	971
Forage plants	177	185
Vegetables and horticultural products	630	705
Potatoes (including seeds)	115	79
Fruits	348	420
Total crop output (I)	4 620	4 559
Animals	1 758	1 948
Animal products	867	779
Total animal output (II)	2 625	2 728
Total agricultural output (I+II)	7 772	7 836
Total intermediate consumption	4 634	4 695
Gross value added	3 138	3 141
Factor income	3 806	3 660
Net entrepreneurial income	2 458	2 251

Figures are in million EUR
Hungarian Central Statistical Office (2015): Statistical Yearbook of Agriculture

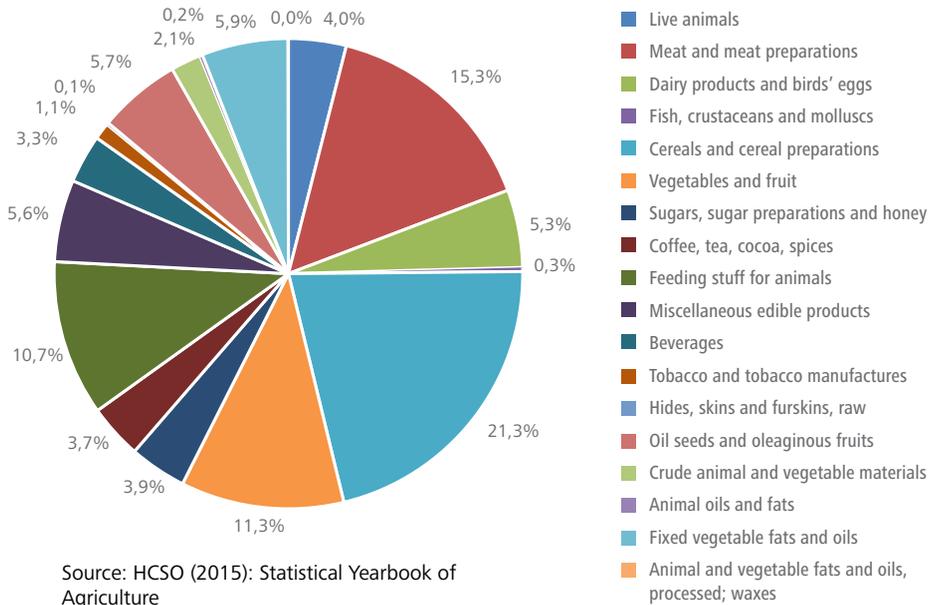


EXPORT/IMPORT IN 2014 & 2015

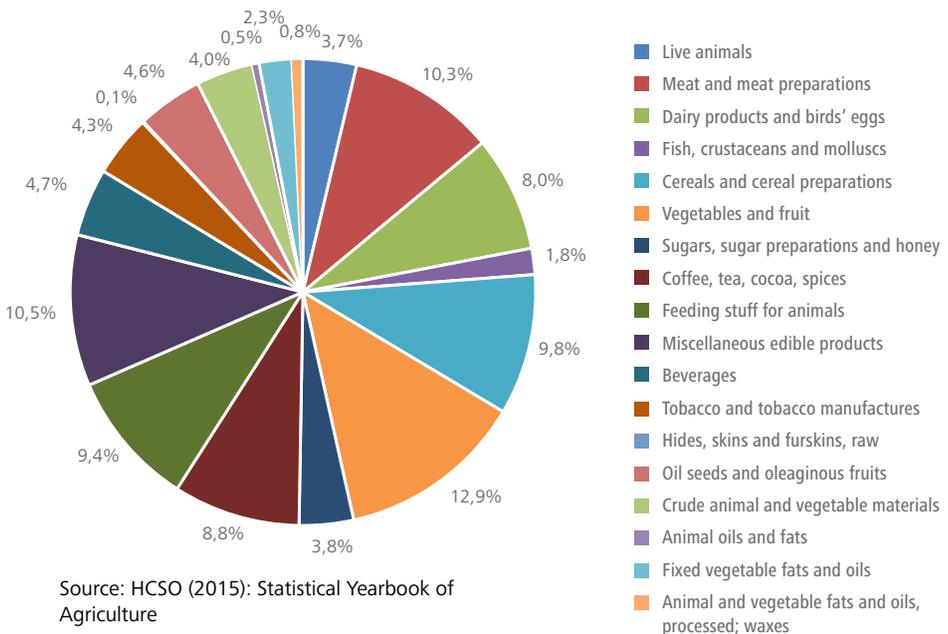
	2014		2015	
	Export	Import	Export	Import
Total volume in million EUR	7 796	4 666	7 614	4 806

Source: HCSO (2015): Statistical Yearbook of Hungary

COMPOSITION OF AGRICULTURAL EXPORTS, 2015



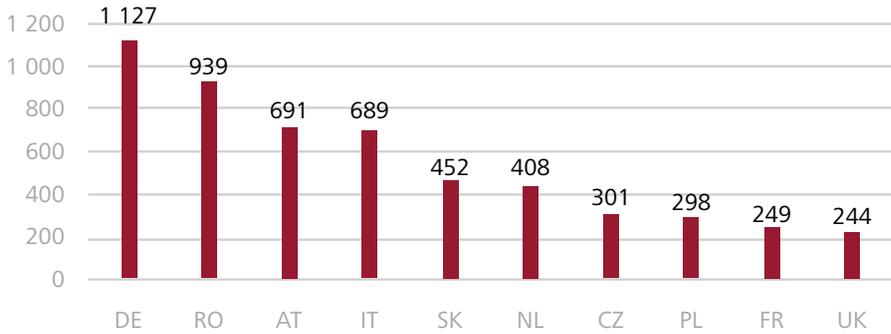
COMPOSITION OF AGRICULTURAL IMPORTS, 2015





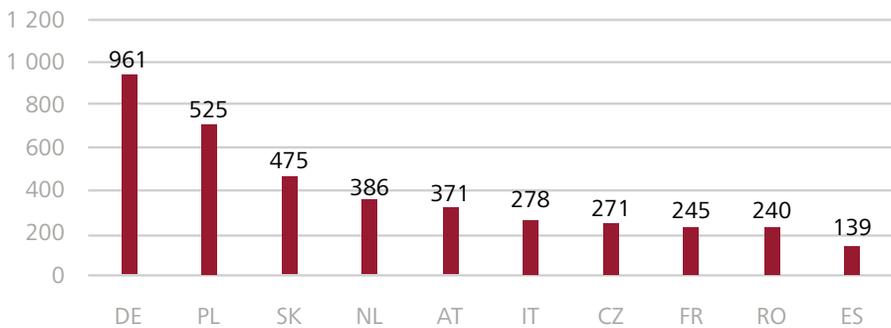
AGRICULTURAL PRODUCTS' EXPORTS AND IMPORTS BY COUNTRIES

Export (million EUR)



Source: HCSO (2015): Statistical Yearbook of Agriculture

Import (million EUR)



Source: HCSO (2015): Statistical Yearbook of Agriculture



OPPORTUNITIES IN THE HUNGARIAN AGRIBUSINESS

GEOLOCATION

Hungary is located in Central and Eastern Europe and has a population of 9.9 million people. Hungary is the member of the OECD, the NATO and the EU. Due to its strategic location with an easy access to both EU and non-EU markets, foreign investors have long been investing into the Hungarian economy. The cumulative stock of FDI since 2000 is close to 80 billion USD.

The country's agricultural and food industry is strongly integrated into the European markets, giving opportunities for non-EU based companies to reach a huge market of almost 500 million EU citizens. The Russian, Balkan and Eastern European markets are also within a close reach. The two most important export countries are Germany and Romania, however Slovakia, Austria, the Netherlands, Italy and Poland are also considerable importers of Hungarian agricultural and food industry products. Hungary is maintaining foreign trade relationships with more than 160 countries.

INFRASTRUCTURE

The food industry is not yet exploiting its full growth potential with regard to the production and the export of high quality semi-finished and finished products. Despite the excellent soil conditions, irrigation, and crop yields Hungary is not yet taking advantage of its natural resources and agricultural opportunities.

Total arable land in Hungary is 7.4 million hectares. Agricultural production accounts for 57% and forestry for 21% of land usage. As almost 2/3 of the total available land space is under farming activities, the opportunities in R&D activities and the adoption of global best practices provide a lucrative business opportunity for new entrants.

Hungary has a well-structured and logistically planned transportation infrastructure, with one of the most developed highway network systems in the EU. Among the various transportation options, rail is the most dominant. It carries more than 20% of total freight, which is well above the EU average. Hungary also has an intensive logistic center offering: 195 industrial parks can be accessed countrywide. Logistics is a growing sector contributing with 6.25% to the country's GDP (2015).

WATER RESOURCES

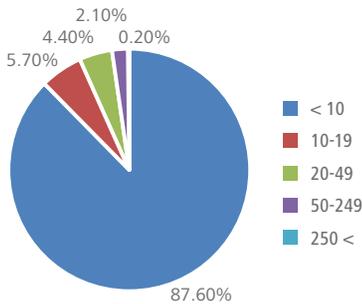
Hungary is world famous for its abundant resources of drinking, thermal, mineral and ground waters. Combined with the country's excellent geolocation this provides a unique and remarkable opportunity for various business purposes. Hungary has built a long lasting tradition in thermal bathing and recreational tourism. Hévíz is a Europe famous bathing city attracting hundreds of thousands tourists each year. Thermal water is also a great renewable energy source for the green economy.

Land irrigation is available throughout the country, as groundwater can be exploited with minimal costs. This is especially important as the global water crisis is already causing growing tensions worldwide. According to the World Health Organization (WHO) 1.1 billion people have no access to any type of improved drinking source of water.

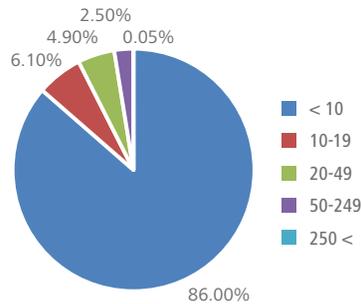
STRONG CULTURAL HERITAGE

The heritage of agriculture and food industry is deeply rooted in the Hungarian population. The traditional, strong agricultural vein resulted however in micro farming activities, which is still conflicting with European standards of 100-500 hectare holdings. At the end of 2015 there were approximately 473 thousand registered companies operating in the agriculture and food industry. Most of them (97%) are self-employed. The majority of the enterprises has less than 10 employees.

THE DISTRIBUTION OF THE REGISTERED ENTERPRISES BY STAFF CATEGORIES, AGRICULTURE



THE DISTRIBUTION OF THE REGISTERED ENTERPRISES BY STAFF CATEGORIES, FOOD



Source: HCSO (2015): Statistical Yearbook of Agriculture

BUSINESS OPPORTUNITIES AND TRADE

The real business opportunity lies not only in satisfying domestic market needs, but to increase the export volume of excellent quality Hungarian products. Hungaricums – a term which refers to products that can only be made in Hungary – such as Tokaji, Pick or Zwack Unicum already built a fame for the Hungarian food and beverage industry. Research on comparative advantage also validates the advantages of exports and trade opportunities. Cereals, meat, sugar, and live animal export are especially lucrative segments to invest in.

Import volumes have grown to a yearly 4.8 billion euro in 2015, meanwhile exports have increased to 7.6 billion euro. This is an almost 400% increase since 2004. The production of semi-finished goods increased by 160%, and that of finished goods by 172%. To make the sector even more lucrative, the Hungarian government provides large financial subsidies for investors.

According to the European Commission (Food & Farming: Focus on Jobs and Growth, 2015) the total output of the European agribusiness sector was almost 410 billion euro in 2015, employing approx. 48 million people.

The Hungarian EU accession in 2004 had a great impact on the agricultural and food industry however it could not dramatically change the existing and obsoleted market structure. Hungary is still highly dependent on raw material export and the high value added sectors couldn't expand fast enough. The sector's total share in the Hungarian GDP in 2014 was 4.50%.

Due to recently launched reorganizing programs and investment projects, the Hungarian food production is expected to increase by 20% in the next four years. Domestic demand is also expected to grow by 20%. This is further supported by the fact that 13 billion euro worth of EU co-financed projects will be implemented by 2020 in the sector.

The construction of the largest slaughterhouse of Hungary in Mohács (there is only one comparable in the country owned by Hungary Meat Ltd.) has been launched in 2015 and will be finished in 2016 with an annual processing capacity of 1 million pigs. An integration network has been established to foster the sufficient demand for the processed meat.

M&A ACTIVITIES

The agriculture and food industry has long been a frequented target of foreign investors. Global companies such as Danone, Coca-Cola, Nestlé, Heineken and Unilever, to name a few, have all invested to establish a presence in the Hungarian market. These multinational companies fueled the growth of not only their local supply chain but the culture and infrastructure of growing local companies as well.

Lucrative investment opportunities in the sector resulted in significant M&A transactions in the recent years. Szentkirályi, the leading mineral water and soft drink producer was acquired by the Czech Karlovánské Minerální Vody. Szentkirályi had been previously awarded with the golden medal at the prominent Aqua-Eauscar competition in 2004, showing that the Hungarian companies can successfully compete even in the global mineral water segment.

Another success story of 2015 is the acquisition of Fornetti, the Hungarian based regional frozen bakery product company. Fornetti was acquired by a Swiss company, Aryzta, the global leader in frozen bakery products with the intent to further increase production capacity and to exploit the growing potential in the CEE region.



BANKING AND FINANCE

Banking plays a crucial role in the health of the economy by providing the necessary finances that stimulate growth. As the returns on agricultural investments are becoming more dominant, lending activities also increased significantly. One of the major Hungarian banks is already investing about 10% of its portfolio into the sector, and there is a growing interest from other major financial institutions as well.

FOREIGN LAND PURCHASES IN HUNGARY

The purchase of agricultural land by foreign citizens and other legal entities is regulated by Law No. 122 of 2013 on transfer of agricultural lands and lands of forestry (there are also some other transitional rules).

As a general rule land might be purchased by any natural person (from Hungary or from any other county within the EU) or legal person, or any association not having legal personality. Domestic natural persons and EU citizens who can be regarded as “non-farmers” could only purchase 1 hectare agricultural land. Legal entities considered as “farmers” could purchase agricultural lands up to 300 hectares. The maximum land that could be rented is up to 1,200 hectares. In case of livestock enterprises the maximum size of the area cannot be more than 1,800 hectares.

AGRICULTURAL SUBSIDIES IN HUNGARY

The Common Agricultural Policy (CAP) is the agricultural policy of the European Union. It implements a system of agricultural subsidies and other programs. During the 2014-2020 financial period 38% of the overall EU budget is dedicated to this program out of which Hungary will receive 13.061 billion euro. The table below represents the structure of the Hungarian agricultural subsidies system.

COMMON AGRICULTURAL POLICY		
Pillar 1 (8.916 billion euro, 100% EU)		Pillar 2 (4.145 billion euro, 83% EU, 17% HU)
1/A Direct payments	1/B Market actions	National Rural Development Program (RDP)

The so-called “Single Area Payment System (SAPS)” under “Direct payments (1/A)” plays one of the greatest roles in the Hungarian agricultural subsidies system: it is 70,000 forint/ hectare (approx. 225 euro/hectare).

AGRICULTURE AND SCIENCE

Since Prince Albert Casimir of Saxony, Duke of Teschen, established the Agricultural Higher Educational Private Institution of Magyaróvár in 1818 (now University of West Hungary) almost 40 agricultural science related institutions had been established in Hungary. The diverse agriculture fields such as environmental protection, bioenergetics, and rural development have become more inspiring to young researchers and aspiring professionals. Approximately 221 R&D centers are working in the various fields of agriculture, employing more than 2,009 researchers and scientists.

SUCCESS STORIES

- There are plenty of famous and well-known Hungarian products.
- The term Hungaricum refers to a unique set of ultimate quality goods – mainly from the food and beverage industry, which are under community protection law and are world famous many of the times.
- These world famous, but not yet fully exploited products such as pálinka, Pick Salami, Tokaji wine, Unicum, Túró Rudi and other agricultural products such as onion from Makó and paprika are representing great potential for expanding into the global markets.
- The unique history, craftsmanship and superior quality are lifting Hungaricums into the group of world class products.
- The new wave of emerging local trendy restaurants and hotels use these agricultural and food industry products to satisfy their clients' needs.

