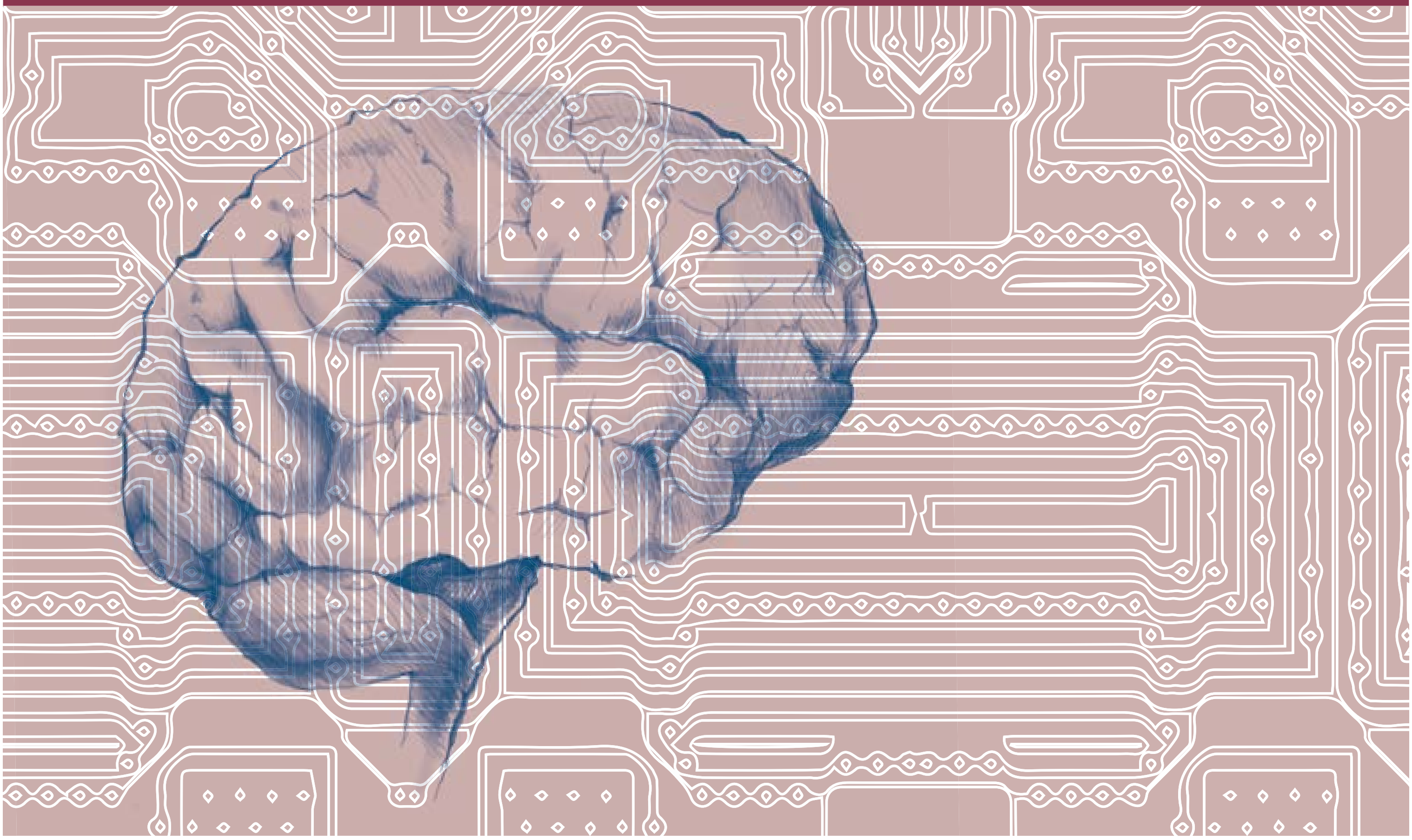
INVESTMENT GUARANTEES



ANNUAL REPORT **2017**

INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Direct Investments Abroad

8,000 jobs

In the host countries, the creation or securing of something like 8,000 jobs was enabled.

31%

About every third application accepted in 2017 went to a small or medium-sized enterprise. That is the highest figure in the last ten years.

59 COUNTRIES

The guarantee portfolio covered 59 countries. The distribution of this was 45% in Asia, 35% in (Eastern) Europe, 13% in Africa and 7% in South and Central America.

1.1 billion

In 2017 the Federal Government assumed investment guarantees to the tune of 1.1 billion euros (capital and earnings).

35.0 billion

Outstanding commitments decreased compared with the previous year from 36.4 billion to 35.0 billion, but still remain at a high level.

49%

According to a poll carried out by the German Chambers of Industry and Commerce (DIHK), 49% of German companies are planning to invest abroad. The central motives here are building up a sales organisation and opening up new markets.

17 countries

Projects in 17 countries received cover. Following the resolution of an earlier claim, it was possible to assume a guarantee for the Philippines again. Iran is among the TOP 5 countries.

25 x CATEGORY A + B

About half of the covered projects (25) fall into Categories A and B, so that they were subjected to a comprehensive audit of their environmental, social and human rights aspects.

8.8 billion

The volume of pending applications stood at some 8.8 billion euros at the end of 2017, some 25% higher than the previous year.

1.8 trillion US dollars

The total volume of foreign direct investments worldwide in 2017 went up to 1.8 trillion US dollars. The main thrust of this was in the industrial countries.

1.1 billion

The covered projects involve a total investment volume of some 1.1 billion euros.

48 projects

The investment guarantees assumed in 2017 are for a total of 48 projects worldwide.

Ladies and Gentlemen,

Investment guarantees have been a central component of the German foreign trade promotion scheme for decades. They support German companies in opening up new and important future markets. Especially in times when we are facing great political uncertainties all over the world, they have a decisive role to play for the investment decisions our companies make. The Federal Government pursues the aim of securing growth and jobs in Germany with the investment guarantees. At the same time they promote sustainable economic development in the host countries.

The Federal Republic of Germany assumed guarantees in a volume of over 1.1 billion euros in 2017. The guarantee volume for 2017 thus came in significantly lower than in the previous year. This was due first and foremost to the difficult geopolitical situation. It is the reason why many German companies have only realised their investments in developing countries and emerging markets as well as in the former transition countries to a lesser extent than planned, or even put them on hold for the time being.

In addition to this, systemic changes in the basis for investment protection in international law are making the assumption of investment guarantees for important host countries more difficult. Overall however, demand remains at a high level. This is particularly apparent in the volume of pending applications, which is up by almost 25 percent. It now stands at 8.8 billion euros.

An especially encouraging fact is that every third guarantee in 2017 went to a small or medium-sized enterprise. We assumed the majority of guarantees in 2017 for projects in Asia, primarily for investments in China, India and Iran. Eastern Europe takes second place, here mainly Turkey and Russia. For the first time in fourteen years we have assumed a guarantee for a project on the Philippines again after a longstanding claim was resolved.

Only projects which are eligible for cover can receive an investment guarantee. Key aspects in deciding this are also the environmental, social and human rights impacts of the project concerned. In 2017 we substantially revised the audit procedure, adapting it to the Common Approaches of the OECD and taking account of the targets set out in the National Action Plan for Business and Human Rights passed by the Federal Cabinet at the end of 2016.

I thank you for your interest in this central instrument of our foreign trade promotion scheme and trust that you will find the following pages fascinating reading!

Yours

Peter Altmaier
Federal Minister for Economic Affairs and Energy

INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY AT A GLANCE
AMOUNTS IN MILLION EUR

	2013	2014	2015	2016	2017
Guarantee applications					
Number	108	151	136	135	109
Volume (maximum amounts)	3,676.8	4,712.0	7,897.0	3,353.9	3,042.2
Applications accepted					
Number	116	120	119	101	67
Volume (maximum amounts)	2,982.5	5,043.4	2,597.0	4,277.6	1,123.6
Promoted projects					
Number	76	90	77	72	48
Countries	17	21	16	22	17
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	803	831	858	877	872
Maximum liability	33,423.2	36,322.8	34,970.5	36,350.0	35,029.8

1.1 billion

In 2017 the Federal Government assumed investment guarantees to the tune of 1.1 billion euros (capital and earnings).

17 countries

Projects in 17 countries received cover. Following the resolution of an earlier claim, it was possible to assume a guarantee for the Philippines again. Iran is among the TOP 5 countries.

THE YEAR AT A GLANCE

The volume of newly assumed guarantees in 2017, 1.1 billion euros, is significantly down year-on-year. Nevertheless, the pending applications, which rose by a quarter to 8.8 billion euros, and the doubling of enquiries document the unabatedly strong demand for investment guarantees. The main target regions of the covered projects were Asia and (Eastern) Europe.

8.8 billion

The volume of pending applications stood at some 8.8 billion euros at the end of 2017, some 25% higher than the previous year.

31%

Something like every third application accepted in 2017 was from a small or medium-sized enterprise. This is the highest figure in the last ten years.

RESULT OF THE BUSINESS YEAR

- The volume of cover (capital and earnings), at 1.1 billion euros came in lower than in 2016 (4.3 billion euros), as did the number of applications accepted (67; 2016: 101).

- The distribution of cover by regions saw 61% going to Asia (principally China, India and Iran) ahead of (Eastern) Europe (mostly Russia and Turkey) with 31%, followed by South and Central America (Mexico, Nicaragua, Colombia) with 8% and Africa (Egypt, Ethiopia) with less than 1%. China took first place among the host countries. Iran is once again among the TOP 5 countries for the first time in many years.

- 48 projects (2016: 72) in 17 countries (2016: 22) received cover. These include a project on the Philippines following the resolution of an earlier claim, the first for fourteen years.

- The construction industry headed the field as regards sectors with the chemical and pharmaceutical industries and the energy sector (primarily renewables) as runners-up. Three quarters of all guarantees were accounted for by the industrial sector, ahead of services as well as agricultural and forestry projects and the extraction of raw materials.

- Only equity participations and investment-like loans were covered. The main focus of cover, both in terms of numbers (63%) and volume (81%) lay on equity participations.

- Something like every third application accepted (31%) came from small and medium-sized enterprises. This is the highest figure in the last ten years.

TOP 5 COUNTRIES
(VOLUME APPLICATIONS ACCEPTED) IN MILLION EUR

China		448.2
Turkey		166.7
Russia		165.7
India		80.4
Iran		77.2
Subtotal 2017:	(83.5%)	938.2
Total 2017:	(100%)	1,123.6

TOP 5 COUNTRIES
(NUMBER OF APPLICATIONS ACCEPTED)

China		15
Turkey		9
Russia		9
Iran		6
Colombia		6
Subtotal 2017:	(67.2%)	45
Total 2017:	(100%)	67

- 30% of all **policyholders** in the year under review were granted a guarantee for the first time.

- **Investments of any size** can be covered. The guarantees assumed in 2017 ranged from 25,000 euros to 150 million euros.

- The main focus in the volume of **new applications** (3.0 billion euros; 2016: 3.4 billion euros) was on China, Turkey and Mexico. **Pending applications** at the end of 2017 stood at 8.8 billion euros, some 25% up on the year before (7.1 billion euros).

- The number of **enquiries** more than doubled (164; 2016: 77). The most frequently requested of the 73 (2016: 28) countries asked about were Iran, Brazil, China, Nigeria and Russia. Small and medium-sized enterprises made up 51% of the enquiries.

- The number of guarantees (872; 2016: 877) in **the guarantee portfolio** and the maximum liability under them (35.0 billion euros; 2016: 36.4 billion euros) remain at a high level.

- The Federal Government was active in many cases in crisis management in 2017 **to avert claims**. In the year under review, claims were indemnified. The cumulative result since the inception of the promotion scheme is comfortably in the black for the Federal Government.

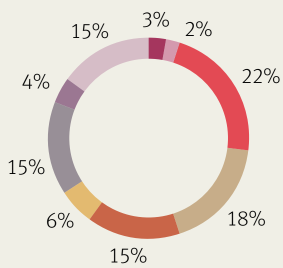
- **Internationally** the investment guarantees came in second place among the other insurers in the Berne Union in terms of its guarantee portfolio in mid-2017.

TOP 5 COUNTRIES (NUMBER OF NEWLY REGISTERED APPLICATIONS)

China		21
Iran		13
Turkey		11
India		11
Russia		11
Subtotal 2017:	(61.5%)	67
Total 2017:	(100%)	109

NUMBER OF APPLICATIONS APPROVED BY SECTORS

Agriculture, forestry and water management	2
Raw materials extraction	1
Construction industry	15
Chemical and pharmaceutical industry	12
Energy industry	10
Automotive industry	4
Other secondary sector (e.g. metal industry)	10
Infrastructure	3
Other tertiary sector (e.g. other services, trade, marketing, representations)	10
Total 2017:	67



In the **Philippines** an earlier claim was successfully resolved. As a consequence of this, the Federal Government can once again assume cover for eligible investments in the country. The Interministerial Committee (IMC) accordingly assumed an investment guarantee for a project on the Philippines again after 14 years during which the country had been off cover. The legal protection requirements needed for this are deemed to be given under the German-Philippine Bilateral Investment Treaty (BIT) which came into effect on 1 February 2000.

The country cover policy decided in 2016 for **Iran** was upheld by the IMC in 2017. The legal protection requirements are fulfilled by the German-Iranian BIT which came into effect on 23 June 2005. The applicability of this treaty has as a condition that the capital investment must have been approved by the Iranian government or an authority designated by them. This means as a rule an approval from the Organization for Investment, Economic & Technical Assistance of Iran (OIETAI). Due to restrictions on the transfer of funds arising from the OIETAI approvals, the Federal Government recently judged that underwriting restrictions excluding the conversion and transfer risk from cover were necessary. A higher premium of 0.6% p. a. is charged for projects in Iran. Additionally, it is a prerequisite for the assumption of cover that the project complies with the EU sanctions currently in place.

It is similarly a condition for investment cover in **Russia** that it does not violate EU sanctions on the country. The IMC has continued its previous country decision practice in the case of projects in Russia, examining each individual case thoroughly and taking the risk situation at the time into account. The Federal Government remains willing to assume guarantees for projects in **Ukraine** after comprehensive scrutiny on a case-by-case basis and taking account of the location of the project.

India, **Indonesia** and **Ecuador** have in each case cancelled their respective BIT with Germany. Legal protection is still available for investments made up to the expiry of the treaties in each case on the basis of the grace period written into the BIT for a further 15 years (India and Ecuador) or 20 years (Indonesia). The BIT with India ceased to be in force as of 3 June 2017. According to reports in the press, however, India considers the treaty to have been already cancelled as per the end of March 2017. The BIT with Indonesia ceased to be in force as of 1 June 2017. The BIT with Ecuador will cease to be in force as of 21 May 2018. Whether and, if so, to what extent it will be possible to assume cover for projects in these countries initiated later than these dates on the basis of domestic law, will be discussed by the Committee in due course.

Following the passing of the responsibility for the protection of direct investments abroad to the EU with the Treaty of Lisbon in 2009, the Federal Government continues in principle to be willing to assume cover on the basis of the free trade agreements negotiated by the EU Commission and the investment protection provisions in them. If and when an agreement by the EU and the EU member states countries replaces a BIT of the Federal Republic of Germany, the Federal Government will apply the protection standards of the agreement in question.

The new agreements made by the EU and the EU member countries offer German investors in principle similarly comprehensive protection to the previous BITs. The Federal Government has therefore decided that the legal protection requirements in the host country necessary for the assumption of an investment guarantee are also fulfilled on the basis of the planned EU agreements. That means that the Federal Government will make similarly valuable investment guarantees available to policyholders in the future, together with comprehensive diplomatic support in preventing claims, as in the past.

Knauf sets up its first production facility for gypsum plasterboard on the Philippines

The Knauf Group, with its head office in Iphofen is among the leading manufacturers of building materials and building systems worldwide. Knauf is present on all five continents in more than 86 countries and over 220 production and sales localities. In 2016 the group generated turnover of 6.5 billion euros with around 27,400 employees. The Philippine market for building materials is among the fastest growing anywhere in the world. Knauf will invest 40 million euros in the first local production plant for plasterboard in Batangas Province. Production will commence in 2018 with an annual capacity of 16 million m^2, thus creating some 100 jobs. The Federal Government is covering this project with an investment guarantee against political risks.

Knauf International GmbH,
Iphofen

INTERNATIONAL COOPERATION

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) represents the investment guarantee scheme of the Federal Republic of Germany on the Investment Committee of the "International Union of Credit & Investment Insurers" (Berne Union or BU), founded in 1934, the worldwide leading organisation of state-supported and private credit and investment insurers.

The members of the BU covered some 1,300 billion US dollars' worth of exports and direct investments in the first half-year of 2017. This figure represents a substantial increase of some 15% over the equivalent period year-on-year. In the assessment of the BU members, the awareness for political risks from protectionist tendencies and shifts in global leadership roles, which has grown anyway over recent years, is now even more marked. Demand among companies for ways to adequately protect themselves from such risks is thus on the rise.

The BU intensified its cooperation with the World Bank Group in 2017 by means of jointly held workshops to promote an exchange of experience and to identify underserved market segments. Scientific cooperation with prestigious academic institutes was also continued (e.g. with the "CEO Survey").

In the year under review the work of the Investment Committee focused on the exchange of views as to the options available and of experience in covering projects in power generation and distribution. The problem of how best to deal with the regulatory risks was identified as the greatest challenge here. Demand for cover for specific contractual obligations of the state (in the German system known as "breach of contract cover") thus continues to be very high internationally.

INTERNATIONAL COMPARISON BY VOLUME OF GUARANTEE PORTFOLIO

	December 2015	December 2016	June 2017
1.	SINOSURE*	SINOSURE	SINOSURE
2.	DIA**	DIA	DIA
3.	NEXI***	NEXI	NEXI
4.	AIG****	MIGA*****	MIGA

* SINOSURE = China Export & Credit Insurance Corporation, Beijing.
** DIA = Investment guarantees of the Federal Republic of Germany.
*** NEXI = Nippon Export and Investment Insurance, Tokyo.
**** AIG = AIG Global Trade & Political Risk Insurance, New York.
***** MIGA = Multilateral Investment Guarantee Agency, Washington.

TOP 5 COUNTRIES INTERNATIONALLY BY GUARANTEE VOLUME

	per June 2017
1.	China
2.	Russia
3.	United States
4.	Indonesia
5.	Brazil

A digression: worldwide reach – the state export credit guarantees

State export credit guarantees (so-called Hermes guarantees) enable German exporters and banks to cover the commercial and political risks of their export business. They protect companies e.g. from the risk of non-payment when exporting to high-risk markets and are a trusted risk management tool in export business.

In 2017 the Federal Government covered supplies of goods and services by German exporters to 153 countries to the tune of 16.9 billion euros (2016: 20.6 billion euros). The highest cover volumes were assumed for Russia, Turkey, Singapore and China.

Some 75% of all Hermes guarantees went to cover export business with developing countries and emerging markets. Small and medium-sized enterprises, which regularly submit some 80% of all applications for cover, benefit from the export credit guarantees in particular.

In order to maintain the competitiveness of the export credit guarantee scheme, the Federal Government has expanded its cooperation with German exporters and financing banks. With a covered bond guarantee, a new product which adds an important component to the palette of cover instruments for banks has been brought to market. The Wholeturnover Policy (APG) – one of the Federal Government's central underwriting tools in the scheme, especially for small and medium-sized enterprises, has been considerably simplified. This makes it easier to use and improves the reliability of cover. In addition, an advisory office (Hermesdesk) has been opened in Dubai.

Applications for export credit guarantees are decided by an Interministerial Committee (IMC) on which representatives of the Federal Ministry for Economic Affairs and Energy as lead ministry, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development sit, advised by experts from business, the banks and other institutions important for exporting industry.

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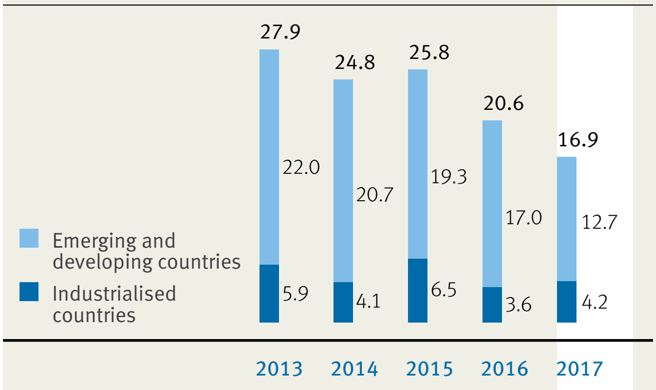
VOLUME OF COVER BY COUNTRY GROUPS IN BILLION EUR



TOP 10 COUNTRIES – RELATING TO NEWLY REGISTERED COVER IN MILLION EUR

		Single	Whole
Russia	2017	692	1,035
	2016	2,857	918
Turkey*	2017	790	780
	2016	484	619
Singapore	2017	1,104	90
	2016	0	117
China	2017	502	517
	2016	294	516
United States	2017	995	0
	2016	2,038	0
Brazil	2017	123	642
	2016	21	621
India	2017	374	359
	2016	423	381
Sweden	2017	626	0
	2016	0	0
Mexico	2017	329	265
	2016	28	242
United Kingdom	2017	552	0
	2016	428	0
Single transaction cover	Subtotal 2017:	6,078	3,688
Wholeturnover policies	Share 2017:	(70.0%)	(45.1%)
	Total 2017: (100%)	8,686	8,177

* Deviating from these statistics (newly granted single transaction cover and Wholeturnover Policies) cover under Wholeturnover Policies is not taken into account for the calculation of the limit on cover for Turkey in 2017 but both all guarantees granted and all offers of cover made for single transactions because of the objectives pursued with the ceiling.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

Investment guarantees cover German investments long-term against political risks. As soon as a project is jeopardized through actions by the sovereign authorities of a host country, the Federal Republic intervenes at the diplomatic level and provides **political support**.

Active crisis management kicks in immediately when interference with the project is reported. It may take the form of, e.g. negotiations with the competent authorities in the host country, sending trial observers or intervention through discussions, written statements and notes verbales. The concrete measures to be taken by the Federal Government are determined in close consultation with the policyholder. In addition, the Federal Government may participate in reasonable costs incurred to prevent or mitigate losses or for litigation. In the last ten years, crisis management by the Federal Government has prevented claims with a total volume of more than a billion euros.

In 2017 the Federal Government again successfully defended the legitimate interests of policyholders. In a project in Ukraine, it was possible to prevent an event of loss despite problems with the conversion and transfer of payments to Germany. In addition the Federal Government stepped in to help with further projects which encountered problems, e.g. in China and in Belarus. Nevertheless, it is not always possible to prevent an **event of loss** occurring. Thus, for example, there have been applications for indemnification in respect of projects where the investors see no sustainable economic prospect in continuing due to the security situation on site.

It is still not possible to assume cover for investments in **Argentina** due to an as yet unresolved claim. The Federal Government is working here to find a solution.

After the investor has been indemnified, the Federal Government is successful in many cases in negotiating on recourse with the host country and thus securing recoveries for itself and the policyholder. The **balance of amounts paid out in indemnification and recoveries** since the inception of the scheme stands at 226 million euros in favour of the Federal Government (including participation by the Federal Government in costs).

48 projects

The investment guarantees assumed in 2017 are for a total of 48 projects world-wide.

1.1 billion

The covered projects involve a total investment volume of some 1.1 billion euros.

INVESTMENT GUARANTEES AND FOREIGN TRADE PROMOTION

Investment guarantees provide effective protection against political risks for German direct investments abroad if they are eligible for cover and pose a justifiable risk. A revised procedure for examining the environmental, social and human rights aspects of eligibility came into effect in 2017.

8,000 jobs

In the host countries, the creation or securing of something like 8,000 jobs was enabled.

25 x A and B

About half of the covered projects (25) fall into Categories A and B, so that they were subjected to a comprehensive audit of their environmental, social and human rights aspects.

BASICS OF INVESTMENT GUARANTEES

The investment activities of German companies abroad can be seriously endangered due to political risks. Investment guarantees provide reliable protection against risks which defy calculation such as nationalisation, expropriation or expropriation-like acts, war, civil commotion, obstructions to the conversion and transfer of funds and payment embargoes and moratoriums as well as, on special request, breach of contract by state authorities and isolated political acts of terrorism.

All forms of direct investment such as equity participations, investment-like loans, endowment capital for legally dependent branches and other rights qualifying as assets (e.g. concessions) are eligible for cover. In addition to the invested capital, earnings payable such as dividends and interest can also be included in cover. There are no upper and lower limits to the amount covered by a guarantee; only losses below 2,000 euros are not indemnified if there is an event of loss.

A prerequisite for the assumption of an investment guarantee is a sufficient level of legal protection in the host country. This is in principle given if there is a BIT between the Federal republic of Germany and the host country or a comparable agreement exists between the EU and the host country. It is possible to assume a guarantee in the absence of a BIT in exceptional cases, for instance on the basis of the national legal framework in the country concerned or in combination with the national legal framework and universal norms and legal principles of international law or EU law.

The costs of cover comprise a one-off application fee of 0.05% of the application amount, which is only payable from a guarantee amount (capital and earnings) of 5 million euros or above (with a maximum limit of 10,000 euros per application). In addition to this, the guarantee premium is a uniform 0.5% calculated on the contributions in kind from the company and the covered earnings. The self-retention in the event of a claim is 5%. The standard period of validity for a guarantee is 15 years.

Investment guarantees offer German investors the following benefits:

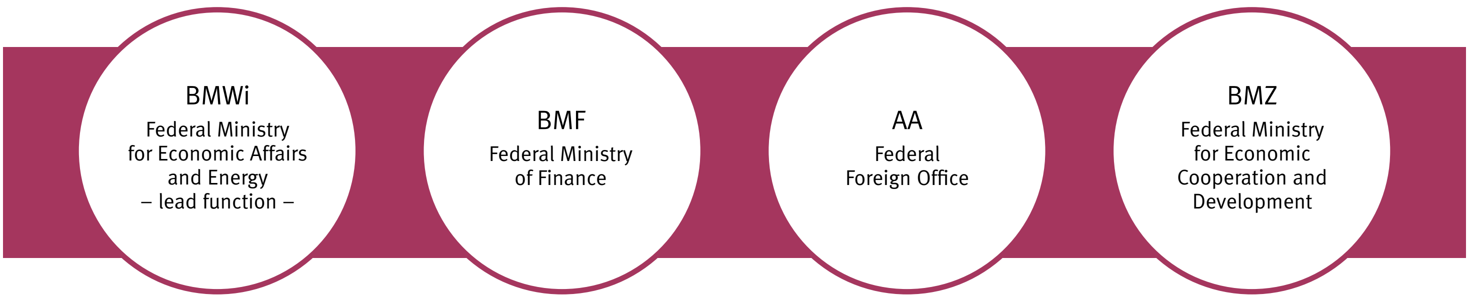
- long-term cover against political risks in difficult countries
- the possibility of diplomatic intervention
- participation by the Federal Government in loss prevention costs in certain circumstances
- in the event of a political event of loss the Federal Government is liable to indemnify for losses incurred
- valuable collateral which can help to obtain higher (re)financing/better conditions

THE INTERMINISTERIAL COMMITTEE (IMC) – MAIN TASKS

Decisions on whether to assume investment guarantees are taken by an IMC chaired by Ministerialrat Tobias Pierlings, Head of the BMWi Department VC 3: “Foreign investments, Paris Club, development banks”. The Federal Ministry for Economic Affairs and Energy (BMWi) decides as lead ministry on applications for the assumption of an investment guarantee with the consent of the Federal Ministry of Finance (BMF) and in agreement with the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ). The IMC meets as a rule six times a year. Alongside the representatives of the Federal Ministries and the mandataries charged with preparing and managing the guarantees, experts from industry and the banks as well as the country associations of the federal states participate in the deliberations in an advisory capacity.

THE INTERMINISTERIAL COMMITTEE – IMC

Ministries



Management

- PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft

Experts

- Business
- Banks
- Country associations

The IMC discusses applications for investment guarantees on the basis of currently valid cover policy taking account of the specifics of each individual case. The main points examined are the eligibility of the project for cover and the justifiability of the risk, which is evaluated in light of the level of legal protection in the host country as well as the current political and economic environment. The goal of the IMCs work is to give the cover most appropriate to the project, comprehensively covering its risks in compliance with budget law while at the same time continually adapting the underwriting tools of the guarantee scheme.

The operative management of the investment guarantee scheme is handled on behalf of the Federal Government by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). As mandatary of the Federal Government, PwC advises companies on all questions concerning cover options, receives applications for guarantees and indemnification and prepares the documentation for decision by the IMC.

Investment guarantee application

ELIGIBILITY FOR COVER OF INVESTMENT GUARANTEES INCLUDING SUSTAINABILITY

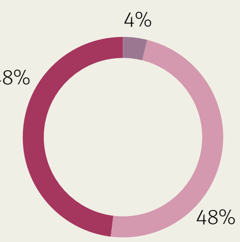
In order to assume an investment guarantee, the IMC must recognize the eligibility of the project submitted for cover. The prerequisite for this is a positive effect in the host country as well as positive feedback effects for Germany.

In the host country, the direct investment submitted for cover must contribute to macroeconomic development as well as to strengthening relations with the Federal Republic of Germany. Particularly relevant aspects here include positive effects on jobs, the generation of hard currency revenues and know-how transfer. In the year under review the investment guarantee scheme once again successfully achieved this goal. Due to the 48 projects with an investment volume totalling 1.1 billion euros, something like 8,000 jobs were directly secured or newly created in the host countries.

A crucial factor in evaluating the eligibility of a project for cover is the environmental, social and human rights aspects connected with it. Possible negative impacts of a project must be prevented, reduced to an acceptable level or compensated. In addition, German companies are explicitly urged to observe the OECD Guidelines for Multinational Enterprises and the principles of the German Sustainability Code.

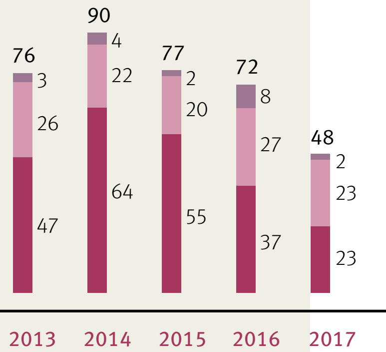
DISTRIBUTION OF ENVIRONMENTAL IMPACT CATEGORIES

A-category	2
B-category	23
C-category	23
Total 2017:	**48**



DISTRIBUTION OF ENVIRONMENTAL CATEGORIES YEAR-ON-YEAR

A-category
B-category
C-category



The procedure for evaluating the environmental, social and human rights aspects of a project is divided into four steps: screening, categorisation, detailed audit and monitoring. During screening, the main points to be examined in the audit are identified. Among these, besides the specifics of the sector and the location aspects such as emissions, health and safety at work or possible effects on biodiversity are relevant factors. This includes e.g. to what extent the core labour standards of the International Labour Organisation (ILO) are enforced in the country concerned, risks in the supply chain or possible interactions between projects and communities affected by them in former conflict zones.

Based on the screening, each project is allocated to a category (A for high, B for medium and C for low risks) and the depth and basis of the audit procedure prescribed. Alongside the national standards in the host country, the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC Performance Stan dards) are the benchmark criteria taken for the audit.

In case it is not possible to determine the complete implementation of the relevant IFC Performance Standards in the project at the time of the audit, the assumption of a guarantee may be subject to conditions (e.g. the implementation of an environmental management system according to IFC Performance Standards). This approach allows the Federal Government to make a decision already in an early phase of the project. At the same time the guarantee conditions ensure that the requirements and recommendations arising out of the IFC Performance Standards will be implemented within a reasonable time period. Thus it sometimes happens e. g. that not all the requirements have been fulfilled at the time of commissioning a work and the investor is given the time needed to implement the standards.

When the IMC makes a positive decision on a guarantee application, the implementation of the measures agreed will be followed up in a project monitoring process. In the case of A and B projects, a report on the environmental, social and human rights aspects of the investment must be submitted annually.

The main goal of the Federal Government in the investment guarantee scheme is to safeguard and expand jobs in Germany. It is therefore the crucial factor when assessing eligibility for cover that the projects should have **positive feedback effects** on Germany. Opening up new markets was once again the prevailing motive for policyholders in their investments in the year just ended. Positive effects for the German labour market – such as securing and creating highly qualified jobs – once again flowed from this.

REVISED VERSION OF THE SCREENING PROCEDURE FOR ENVIRONMENTAL, SOCIAL AND HUMAN RIGHTS ASPECTS

For the Federal Government, the protection of human rights is a particularly important criterion when assuming investment guarantees. At the end of 2016 the Federal Government passed the National Action Plan for Business and Human Rights (NAP). In this, the Federal Republic of Germany implements the relevant guiding principles of the United Nations at the national level. The NAP was developed in an intensive and constructive dialogue with representatives of business, politics, civil society, associations and academia. It deals explicitly in one of its chapters with the instruments for the promotion of foreign trade.

The IMC has implemented the changes required by the NAP and revised the screening procedure of the environmental, social and human rights aspects in deciding on the eligibility of investments for cover. The new procedure has been in place since 1 July 2017.

In order to ensure a consistent approach between the instruments for the promotion of foreign trade, the new procedure is now also aligned for the investment guarantees with the OECD Common Approaches, which form the framework for the screening of environmental, social and human rights aspects for the Federal export credit guarantee scheme. At the same time the procedure has been designed to provide a risk-based enhancement to the already existing processes. In this way the extra work involved will be kept to the absolute minimum necessary for everyone involved.

The procedure ensures comprehensive and appropriate compliance with national and international developments in environmental, social and human rights standards. This addresses the central concerns of civil society actors while at the same time ensuring that the instrument remains attractive for German investors.

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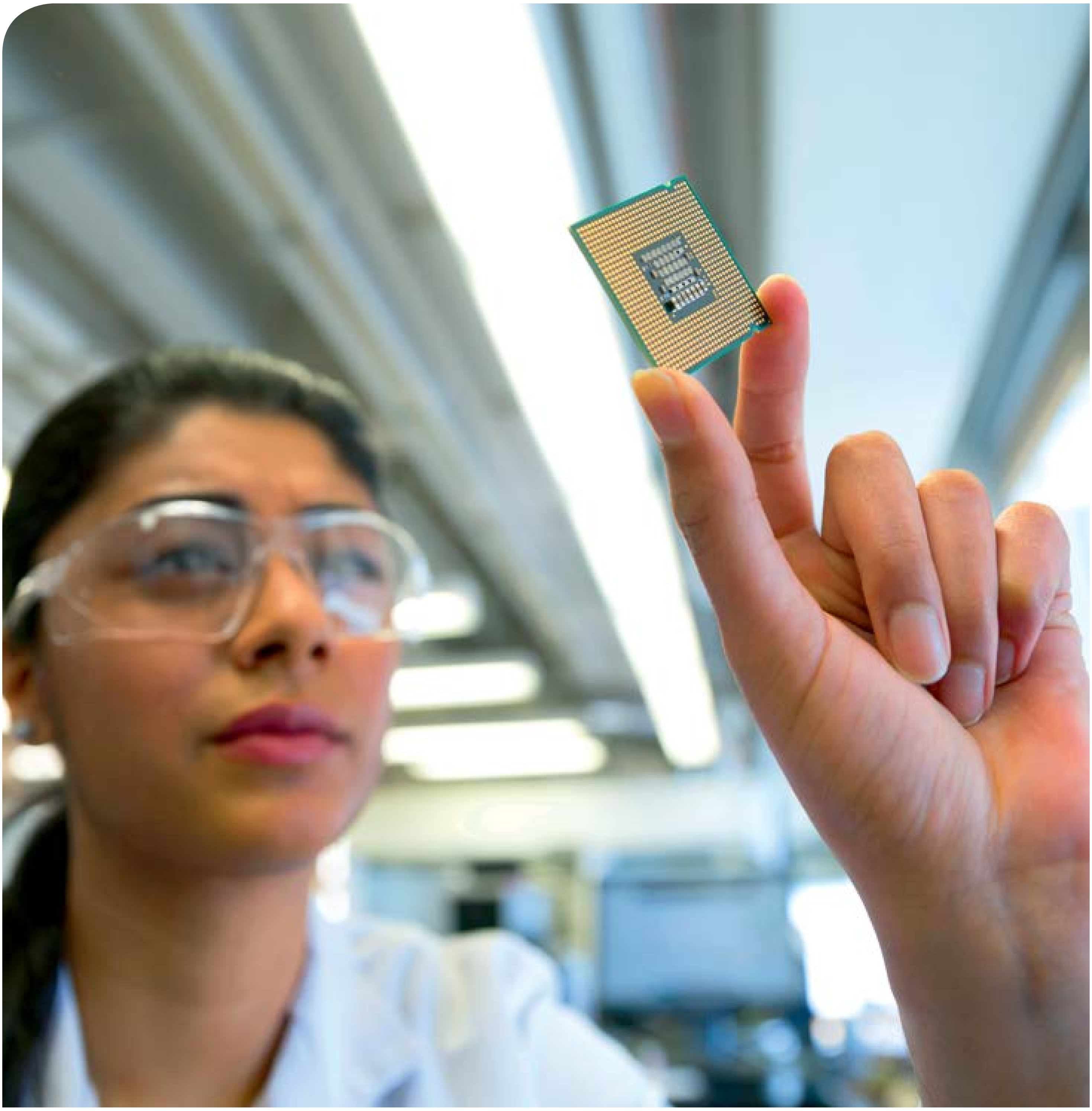


1.8 trillion US dollars

The total volume of foreign direct investments worldwide in 2017 went up to 1.8 trillion US dollars. The main thrust of this was in the industrial countries.

49%

According to a poll carried out by the German Chambers of Industry and Commerce (DIHK), 49% of German companies are planning to invest abroad. The central motives here are building up a sales organisation and opening up new markets.

DEVELOPMENT OF THE INVESTMENT GUARANTEES

Worldwide direct investments rose once again in 2017. 56% of global investment flows go to the industrialised countries. Investments in the developing countries and emerging markets have been put on hold in many cases due to political uncertainties or will only be realised with a delay. The countries with the highest volume of cover at the end of 2017 were Russia, China, India, Mexico and Egypt, which together make up some 79% of total German exposure.

35.0 billion

Outstanding commitments decreased compared with the previous year from 36.4 billion to 35.0 billion, but still remain at a high level.

59 countries

The guarantee portfolio covered 59 countries. The distribution of this was 45% in Asia, 35% in (Eastern) Europe, 13% in Africa and 7% in South and Central America.

DIRECT INVESTMENTS WORLDWIDE

After the slowdown in the global economy and weak global demand had inhibited investment activity in 2016, the worldwide investment climate improved again in 2017. The reasons for this were the recovery of growth impulses in many economic regions, robust growth on the financial markets and reinvigorated global trade.

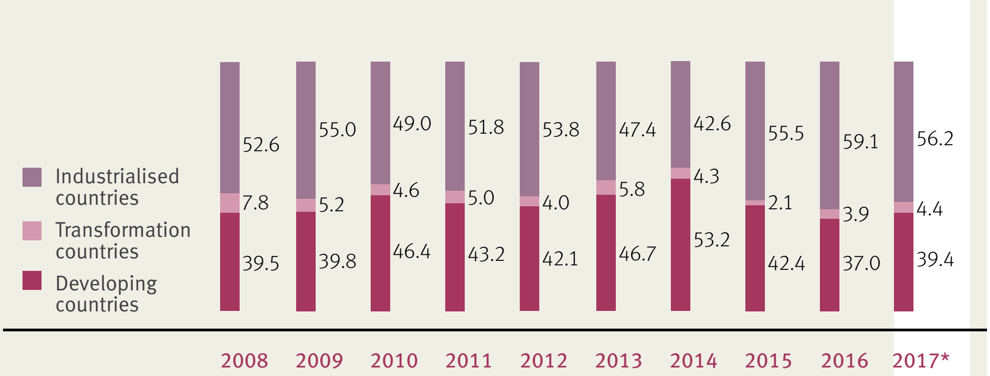
The volume of global direct investments is thus projected to have risen by 5% to just under 1.8 trillion US dollars in 2018. Of this, the developing countries and emerging markets account for 44%. The main focus in terms of regions is once again Asia (515 billion US dollars) followed by South and Central America (130 billion US dollars) and Africa (65 billion US dollars). While investment flows increased here again compared with the year before, they still fall far short of the levels three years earlier. The main thrust of global direct investments in 2017, however, was once again projects in the industrialised countries. A further increase of direct investments to some 1.85 trillion US dollars is predicted for 2018.[1]

The total volume of German direct investments abroad in the first three quarters of 2017 was approximately 93 billion euros, and thus already significantly up on the previous year's figure after nine months. With a total volume of 61.9 billion euros, Europe led here by a comfortable margin before America (19.7 billion euros), Asia (9.6 billion euros) and Africa (0.9 billion euros). The sharp increase in total volume can be primarily attributed to projects in Europe (+48%) and America (+26%), while investment flows to Asia and Africa decreased slightly. The focus lay mostly on northern and western Europe as well as the USA.[2]

[1] Preliminary estimates by UNCTAD: World Investment Report 2017, May 2017.

[2] Deutsche Bundesbank: Balance of payments statistics, Statistical Supplement 3 to the Monthly Report, November 2017.

DIRECT INVESTMENTS WORLDWIDE BY COUNTRY GROUPS IN %



Source: UNCTADSTAT: Inward and outward foreign direct investment flows, annual, 1970-2016.

* Preliminary estimates by UNCTAD: World Investment Report 2017, May 2017.

This increase is also reflected in the poll of German companies carried out by the German Chambers of Industry and Commerce (DIHK), which found that 49% of firms were planning to invest abroad in the near future. It has to be said here, though, that this trend applies mainly to large corporations.[1] On the other hand, according to a study by the German government-owned development bank KfW in October 2017, fewer than 4% of small and medium-sized enterprises invested abroad during the period 2012 to 2015. It was primarily major companies in the manufacturing sector who were active here. The investments mostly (66%) go to northern and western Europe and to China.[2] The principal motives for investing abroad for companies of all sizes are to build up a sales organisation and to open up new markets.

[1] DIHK: Auslandsinvestitionen so hoch wie nie zuvor. Auslandsinvestitionen in der Industrie, Spring 2017.

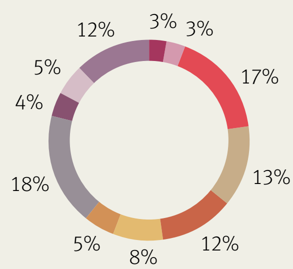
[2] KfW Research: The happy few – Auslandsinvestitionen im deutschen Mittelstand, October 2017.

GERMAN INVESTMENT GUARANTEES – TRENDS

Asia was the **regional focus** in 2017. Here, demand for China and India has been consistently strong for years. Iran has currently established a position for itself among the TOP 3 countries. Conditional on the stable political development in the region, this trend is expected to strengthen even more in future. Russia was rather less strongly represented in the last year due to political uncertainties and the concomitant economic downturn. Demand for cover in Turkey is stable. The main interest in cover for South and Central America is for Argentina and Brazil, whereas in Africa it is Egypt and South Africa. In the guarantee portfolio Asia has led the field since 2014, followed by (Eastern) Europe, Africa and South and Central America. There has been no change in the **TOP 10 countries** in the guarantee portfolio compared with the preceding year.

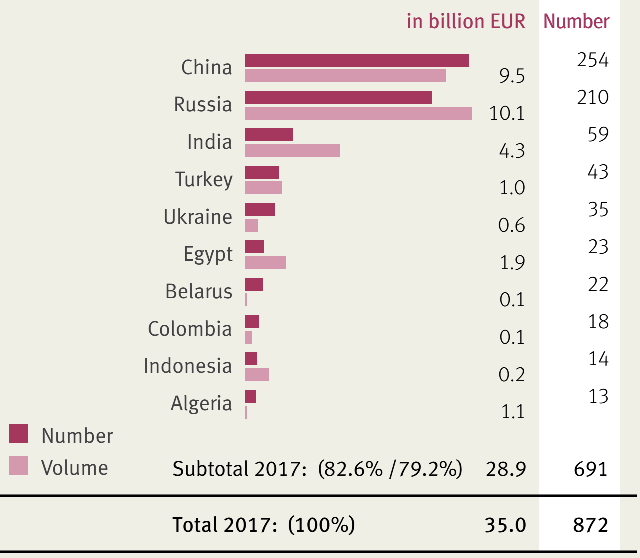
NUMBER OF GUARANTEES IN THE GUARANTEE PORTFOLIO BY SECTORS

Extraction of mineral resources (mainly oil and gas)	28
Agriculture, forestry and water management	23
Chemical and pharmaceutical industry	146
Automotive industry	110
Construction industry	106
Electrical and optical industry, apparatus engineering	73
Mechanical engineering	43
Other secondary sector (e.g. glass and ceramics industry)	159
Financial services	38
Trade, marketing, representations	39
Other tertiary sector (e.g. infrastructure)	107
Total 2017:	**872**

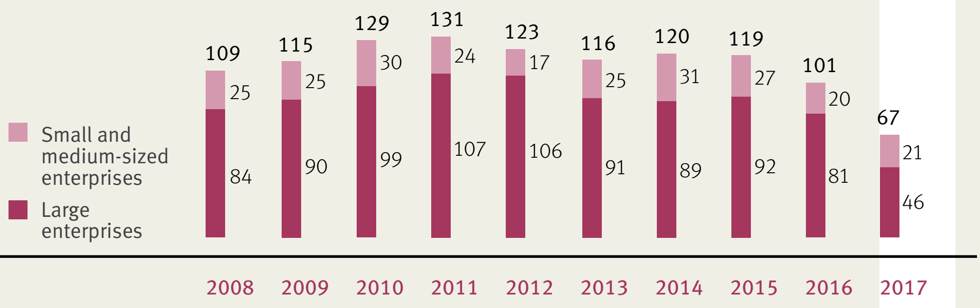


Manufacturing industry with the target sectors chemicals and pharmaceuticals as well as the construction industry account for the lion's share of the guarantee portfolio. With regard to the sectors, increased demand for guarantees for renewable energy projects is on the cards.

TOP 10 COUNTRIES RELATING TO GUARANTEE PORTFOLIO BY NUMBER AND VOLUME OF GUARANTEES AS PER END OF 2017



NUMBER OF APPLICATIONS APPROVED BY SIZE OF ENTERPRISE



Every third newly assumed guarantee and each fifth guarantee in the portfolio is for a small or medium-sized enterprise. The Federal Government is thus actively supporting the internationalisation of the German Mittelstand.

In the guarantee portfolio, equity participations have been the preferred type of cover for years now (81% by number and 77% by volume), ahead of the other forms of investment eligible for cover "investment-like loans", "other rights qualifying as assets" and "endowment capital".

Pending applications stood at 8.8 billion euros at the end of 2017, thus coming in 25% higher than the previous year. By volume, they are concentrated on projects in Russia (3.3 billion euros), Argentina (1.0 billion euros) and Greece (0.6 billion euros). The highest numbers are for Russia (49), China (47), Ukraine (27) and Iran (25). These are often applications which were made now in order to observe the stipulated deadline, but which are successively being completed during the realisation of the project concerned and submitted to the IMC for a decision.

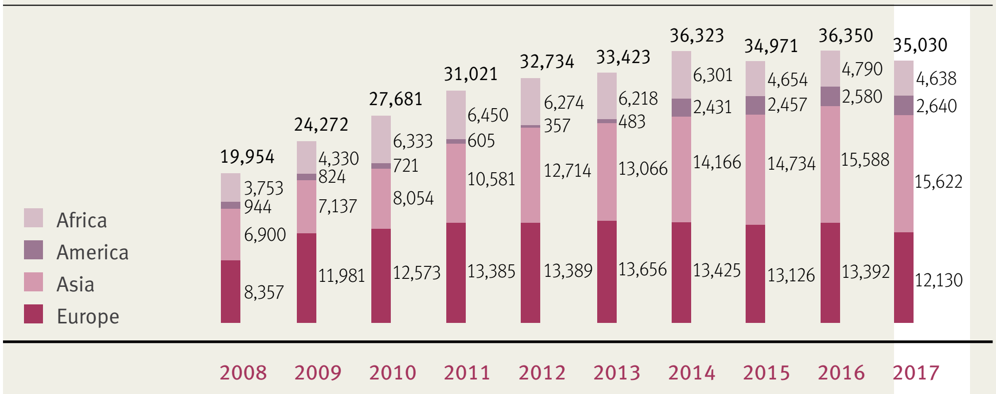
STATUTORY MAXIMUM EXPOSURE AND MAXIMUM LIABILITY (EXPOSURE)

A statutory maximum exposure for the cover of foreign direct investments and other guarantees in connection with untied loans (UFK-guarantees) and loans from the European Investment Bank is laid down annually in the Federal Budget Law (§ 3 Paragraph 1 sentence 1 number 2 letters a-c). In the fiscal year 2017 the statutory maximum exposure amounted to 65 billion euros. In the case of guarantees with an exposure of more than 1 billion euros, the Budget Committee of the Lower House of the German Parliament must be informed before the guarantee is assumed.

The exposure of the Federal Government at the end of 2017, at 35.0 billion euros, was 1.4 billion euros down on the previous year. The maximum liability of the Federal Republic of Germany under all guarantees finally issued in 2017 (minus the self-retention of 5%) stood at 1 billion euros. It referred mainly to projects in China, Turkey and Russia. At the same time the outstanding commitments in 2017 decreased by 2.4 billion euros, mostly because policies expired, loans were repaid or projects were not realised, as well as to a lesser extent through the cancellation of guarantees and rebates due to indemnification.

The number of guarantees in the portfolio (872) is almost unchanged over the previous year's high figure (877), and significantly exceeds the mean of the last ten years. The guarantee portfolio referred to 59 countries, of which 45% was accounted for by Asia, 35% by (Eastern) Europe, 13% by Africa and 7% by South and Central America. The countries with the highest exposure were Russia (10.1 billion euros) before China (9.5 billion euros), India (4.3 billion euros), Mexico (2.0 billion euros) and Egypt (1.9 billion euros); together, these five countries account for 79% of total exposure.

MAXIMUM LIABILITY (EXPOSURE) FROM OUSTANDING COMMITMENTS
10-YEARS SURVEY REGIONAL DISTRIBUTION IN MILLION EUR



DESIGN OF THE COVER PAGE

The cover pages of the Annual Reports of the Investment Guarantee Scheme of the Federal Republic of 2017 are the result of a tender procedure carried out at the Hamburg Design Factory International – College of Arts and Interactive Media.

The Design Factory International has been training communication designers since 1992. International cooperation partnerships with universities e.g. in the UK, Israel and China foster a lively and inspiring exchange of ideas, cultural values and experience.

In the framework of this project, students of the Design Factory submitted ideas for the graphic design of the cover pictures for the two annual reports 2017. The design by Olesja Reiser was the one chosen. Ms Reiser convinced the jury with her interpretation that both "heart and mind" were needed to understand and put into practice the complex subject matter of foreign trade promotion.

Olesja Reiser: "The organically drawn heart symbolises the economy, which produces goods for people and creates a worldwide network of relationships through trade. The heart works together with the mind, which examines its impulses rationally and makes decisions. Graphically linked by electronic circuit paths, both symbols correlate perfectly with one another and unleash millions and millions of impulses through their interaction."

Olesja Reiser, born on 5.10.1980 in Shymkent, Kazakhstan, is a design student in her second semester and a fully qualified lawyer. She has long been keenly interested in visual design. Even as a child, the highlight of her week was always her visit to the art school.

Olesja Reiser draws constantly, meanwhile principally using digital means, and is overjoyed that the training she is currently receiving brings together all her interests and abilities and develops them.

DEFINITIONS AND EXPLANATIONS

Breach of contract cover:
Cover provided on special application against the risk of breach of contract by the government, state-directed or state-controlled authorities

Conversion and transfer risk/payment embargo and moratorium risk:
Risks due to the impossibility of converting or transferring amounts deposited with a sound bank for transfer to the Federal Republic of Germany as well as payment embargoes or moratoriums

Cover for capital (capital cover):
Includes the contributions made to the capital investment (e.g. nominal capital investments); the value of the capital investment capitalized in accordance with accounting principles generally accepted in Germany can be covered in principle

Cover for earnings (earnings cover):
Includes distributed profits or profits payable (e.g. dividends, interest) on covered capital investments

Direct investments:
Capital investments related to entrepreneurial influence and control of business activity

Endowment capital:
Capital, goods or other services, provided on a long-term basis to a legally dependent branch

Guarantee:
Warranty of the Federal Republic of Germany to pay an indemnification for the loss of a capital investment caused by the occurrence of a political event of loss

IFC Performance Standards:
Principles of the International Finance Corporation (member of the World Bank Group) with regard to the identification and the handling of environmental and sustainability issues of projects abroad (www.ifc.org)

Issued policies:
Approved guarantee applications insofar as guarantee declarations have been issued

Loan, investment-like:
Has to be long-term and differ from a financial loan by an appropriate form of contract according to the project

Other rights qualifying as assets:
Rights made long-term in cash or other in-kind contributions and the objective of entrepreneurial activity (e.g. rights under production agreements for oil)

Maximum amount:
Total sum of cover for capital and earnings

Maximum liability (exposure):
Total sum of cover for capital and earnings minus retention

National Action Plan for Business and Human Rights (NAP):
The NAP enshrines the responsibilities of German companies to observe human rights in the form of universal common and verifiable standards (http://www.csr-in-deutschland.de/DE/Wirtschaft-Menschenrechte/Ueber-den-NAP/ueber-den-nap.html).

Outstanding commitments:
Portfolio of policies under which claims may still be made against the Federal Republic of Germany

Small and medium-sized enterprises:
Enterprises with a workforce up to 2,000 or a turnover of up to 500 million euros and not belonging to a larger group of companies

Statutory maximum exposure:
Maximum amount stipulated in the Federal Budget up to which liability in the form of issued guarantees may be accepted by the German Government

Terrorism, isolated acts of:
Acts of terrorism which are not related to civil commotion or the like (= isolated) can be covered insofar as it is impossible to cover the risk on the private market at economically acceptable conditions and the situation in the host country must be such that acceptance of such a risk appears justifiable. The extension of cover is initially limited to five years with an increased premium of 0.6% p.a.

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Cover, 30 Olesja Reiser, Hamburg

4 Bundesministerium für Wirtschaft und Energie, Berlin

6 Getty Images, shanghaiface

11 Getty Images, ferrantraite

12 Knauf Engineering GmbH, Iphofen

16 Getty Images, Hero Images

21 Getty Images, Klaus Vedfelt

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NOTES

Rounding differences:
For reasons of calculation, tables and figures may show rounding differences of +/- 1 unit (EUR, % etc.)

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The lead function for underwriting decisions for the investment guarantees of the Federal Republic of Germany is exercised by the Federal Ministry for Economic Affairs and Energy:

Bundesministerium für Wirtschaft und Energie
Referat V C 3
Scharnhorststraße 34-37
10115 Berlin
www.bmwi.de

The investment guarantee scheme is managed on behalf of the Federal Government by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) as mandatary of the Federal Government. Further information as well as detailed consultation concerning the cover available may be obtained from PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. the latest information in the DIA-Report, an informational video, the General Terms and Conditions, leaflets, a flyer as well as the annual and semi-annual report.

We have created a special hotline for small and medium-sized enterprises. For details of this, please see our website (www.investitionsgarantien.de).

Editorial deadline March 2018
Date of publication: April 2018

www.investitionsgarantien.de

Investment Guarantees of the Federal Republic of Germany

Investment Guarantees have been an established and effective foreign trade promotion instrument of the Federal Government for decades. Investment Guarantees protect eligible German direct investments in developing countries, emerging economies and former transition countries against political risks. This promotion instrument plays an important role in fostering economic growth as well as in protecting and creating jobs both in the host country and in Germany.

The investment guarantee scheme is managed on behalf of the Federal Republic of Germany by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the search term “Promotion of foreign trade and investment”.

Federal Ministry
for Economic Affairs
and Energy

OUR PARTNER

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