ANNUAL REPORT 2014

INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

▶ Direct Investments Abroad

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

	2010	2011	2012	2013	2014
Guarantee applications					
Number	140	155	138	108	151
Volume (maximum amounts)	7,620.8	6,553.5	8,238.0	3,676.8	4,712.0
Applications accepted					
Number	129	131	123	116	120
Volume (maximum amounts)	5,817.7	5,158.7	6,074.5	2,982.5	5,043.4
Promoted projects					
Number	83	86	92	76	90
Countries	24	26	22	17	21
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	788	820	808	803	831
Maximum liability	27,681.0	31,021.3	32,734.2	33,423.2	36,322.8

Investment Guarantees of the Federal Republic of Germany
Direct Investments Abroad

ANNUAL REPORT 2014

Ladies and Gentlemen,

Demand for the investment guarantees of the Federal Republic of Germany rose significantly last year. In 2014 we were able to give a positive answer to guarantee applications from German investors to the tune of five billion euros. That is an increase of two billion euros over the previous year.

This plus shows that investment activity by German companies abroad continues to increase. I am especially gratified that more and more small and medium-sized enterprises are consolidating their international competitiveness through setting up sales and service organisations as well as production facilities locally in the host countries. Alongside our European neighbours, developing countries as well as the emerging economies and former transition countries are interesting places to do business with great market potential. The German companies often find themselves faced here with uncertain political fundamentals and somewhat underdeveloped legal systems, however. The year just ended, in particular, with conflicts breaking out all over the world, has emphatically shown the reality of political risks. For these reasons, the concrete decision whether to invest is only made possible in many cases for companies when the option of covering the risk of losses and being able to rely on political support from the Federal Government is available.

Investment guarantees are available for projects which safeguard jobs in Germany and at the same time create jobs in the host country. The projects covered by them secured or created some 34,000 jobs in the host countries in 2014.

In 2014, 120 applications for 90 projects in 21 countries were approved. Besides one major project in Mexico, the high level of demand for guarantees for projects in China and Russia remained unchanged. A growing demand for investment guarantees for projects in Sub-Saharan Africa was apparent. Guarantees were also assumed for some countries for which applications had hitherto rarely been made, such as Guatemala or Senegal. The covered projects abroad reflect the entire bandwidth of German industry. The sector focus in 2014 was on the automotive and chemical industries.

Supporting small and medium-sized enterprises is particularly important for the Federal Government. The share of such companies in the applications approved in 2014 went up again compared with the year before. The number of small and medium-sized enterprises making applications also showed a marked increase in 2014. We want to pick up on this positive development in future too by means of an actively promoted programme of information and advisory services.

The Federal Government successfully averted impending claims in 2014 through active crisis management. We were able to find a consensual settlement of problems in the case of two projects in Russia by intensive ongoing support for the policyholders. I was personally involved in helping to make the Russian side aware of the difficulties of these projects. Negotiations with the Bulgarian government on the recovery of amounts indemnified in respect of a project were also brought to a successful conclusion.

In order to continue to make sufficient capacity available to German companies for the cover of direct investments abroad, the statutory maximum exposure in the Federal budget was raised to 65 billion euros in 2014. The Federal Government will continue to maintain a close exchange of views with industry with the objective of adapting and modernising the investment guarantees in future too. Valuable impulses for this process came from the dialogue conference on the schemes for foreign trade held at the Federal Ministry for Economic Affairs and Energy in 2014.

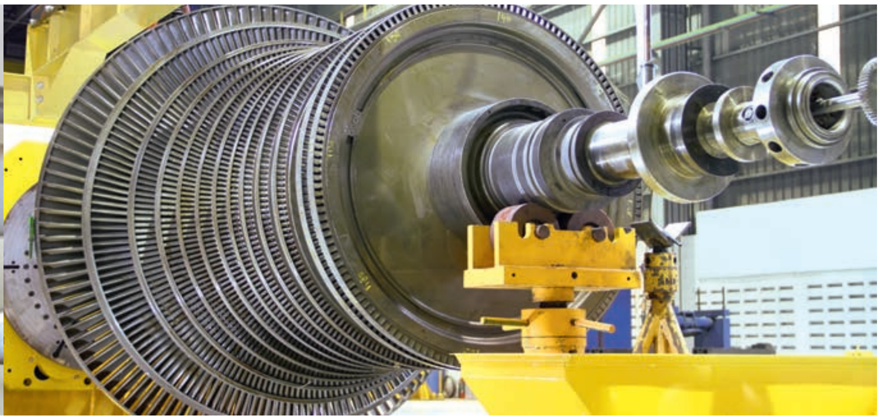
The annual report which lies before you shows it: the investment guarantees of the Federal Republic of Germany continue to make a crucial contribution to supporting German companies abroad. By doing this, they safeguard growth and jobs in our country and support economic development in the host countries. The Federal Government will be a reliable partner for German companies in this in future too!

Yours,

Sigmar Gabriel
Federal Minister for Economic Affairs and Energy

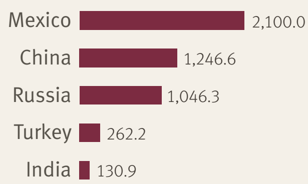
THE YEAR AT A GLANCE

APPLICATIONS WITH A VOLUME OF FIVE BILLION EUROS WERE APPROVED IN 2014. THE REGIONAL FOCUS OF COVERED COUNTRIES WAS AMERICA AND ASIA. DUE TO A SINGLE MAJOR PROJECT, MEXICO LED THE LIST OF COUNTRIES



WITH THE HIGHEST COVER VOLUME FOR THE FIRST TIME. THE SECTOR FOCUS WAS ON THE AUTOMOTIVE AND CHEMICAL INDUSTRIES. THE FEDERAL GOVERNMENT ALSO ACTED SUCCESSFULLY TO PREVENT CLAIMS IN A NUMBER OF PROJECTS. AS A RESULT OF INCREASED RISK AWARENESS, THE NUMBER OF APPLICANTS FROM THE SMALL AND MEDIUM BUSINESS SEGMENT HAS INCREASED. THE GUARANTEE PORTFOLIO OF THE FEDERAL GOVERNMENT WAS ONCE AGAIN THE NUMBER ONE IN AN INTERNATIONAL COMPARISON.

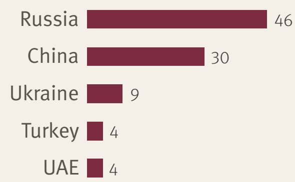
VOLUME OF APPLICATIONS APPROVED (MAXIMUM AMOUNTS) BY MOST IMPORTANT COUNTRIES 2014 IN MILLION EUR



Subtotal 2014: 4,786.0 (94.9%)

Total 2014: 5,043.4 (100%)

NUMBER OF APPLICATIONS ACCEPTED BY MOST IMPORTANT COUNTRIES 2014



Subtotal 2014: 93 (77.5%)

Total 2014: 120 (100%)

RESULT OF THE BUSINESS YEAR

2014 was characterised by the following developments:

- The VOLUME OF COVER, at 5.0 billion euros, is substantially up on the previous year (3.0 billion euros). The reason for this is on the one hand cover assumed for a major project in Mexico at the beginning of the year as well as, on the other, the continuing high level of demand for cover for projects in China and Russia. This result marks once again a very high level overall, thus confirming the trend observable over recent years that demand for investment guarantees remains constant at a high level. The NUMBER OF APPLICATIONS ACCEPTED stood at 120 (2013: 116). This figure is slightly above the mean of the preceding decade.

- The REGIONAL FOCUS of the new VOLUME OF COVER is Central and South America (in particular Mexico) with 42% ahead of Asia (emphasis on China) as well as Europe (mainly Russia), with 28% each, and Africa with 2% (principally South Africa). This puts Mexico up among the five countries with the highest demand in 2014 for the first time. In terms of applications accepted, Russia replaced China, which had previously led the field, in 2014, followed by Ukraine in third place.

- The number of PROJECTS covered (90) once again went up significantly year-on-year in 2014 (2013: 76), thus exceeding the ten-year average. The projects are distributed over 21 countries (2013: 17). These included, with Guatemala and Senegal, some for which there had hitherto only seldom been demand.

- Measured in terms of the number of applications accepted, the automotive SECTOR came in first, just ahead of the chemical industry. Two thirds of newly assumed cover was accounted for by the industrial sector (mainly manufacturing). The service sector (in particular other services and infrastructure), with 31%, came in second. Projects in agriculture and forestry played a rather minor role again in 2014.

- In 2014, cover was again assumed both for EQUITY PARTICIPATIONS and investment-like LOANS. The main focus here, both in terms of number (72.5%) and volume (82.8%), was on equity participations.

- More than every fourth application accepted came from a SMALL OR MEDIUM-SIZED ENTERPRISE in 2014. This share has gone up markedly again by 25.8% year-on-year and represents the highest point over the last five years. In a breakdown of the total of 57 APPLICANTS in 2014, some 60% were large companies and just under 40% small and medium-sized enterprises. The number of applicants from this business segment thus went up by about 20% year-on-year.

- Something like a third of all POLICYHOLDERS in 2014 were granted a guarantee for the first time.

- Almost two thirds of the 91 ENQUIRIES in 2014 were made by small or medium-sized enterprises. The number of countries enquired about also rose year-on-year to 47 (+ 24%).

- INVESTMENTS OF ANY SIZE can be covered. Guarantees were assumed in 2014 for sums ranging from some 21,500 euros up to 2.1 billion euros.

- There were more NEW APPLICATIONS, both as regards number and volume. The volume of new applications (4.7 billion euros) marked a substantial increase of almost 1.1 billion euros year-on-year, as did the number of new applications (151). This is considerably more than in 2013 (108). The newly registered applications referred predominantly to projects in Russia, China and Ukraine.

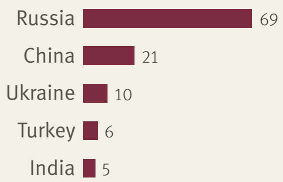
- The number of guarantees in the portfolio (831) at the end of 2014 was considerably higher than in the preceding years. The MAXIMUM LIABILITY rose from 33.4 billion euros in 2013 to a new all-time high of 36.3 billion euros. This development is due to the newly assumed cover, but also to lower disposals.

- The Federal Government also acted in a series of projects in 2014 to PREVENT CLAIMS. Particularly worthy of mention here are two projects in Russia for which an amicable settlement could be found with the foreign partners. Intensive negotiations over recovery payments in connection with indemnifications paid out for a project in Bulgaria led to a satisfactory conclusion of the claim regulation process.

- INTERNATIONALLY the investment guarantee scheme maintained its lead in terms of the guarantee portfolio over all other state and private investment insurers worldwide.

- The RESULT of the guarantee scheme shows that it paid for itself again in 2014 out of the premiums and fees charged.

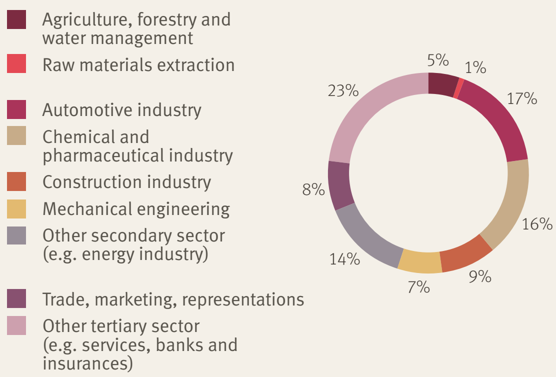
NUMBER OF NEWLY REGISTERED APPLICATIONS BY MOST IMPORTANT COUNTRIES 2014



Subtotal 2014: 111 (73.5%)

Total 2014: 151 (100%)

NUMBER OF APPLICATIONS APPROVED BY SECTORS 2014 IN %



VOLUME OF COVER BY MOST IMPORTANT COUNTRIES INTERNATIONAL

	per June 2014
1.	Russia
2.	China
3.	Kazakhstan
4.	India
5.	Egypt

INTERNATIONAL COMPARISON BY VOLUME OF COVER

	December 2012	December 2013	June 2014
1.	D*	D	D
2.	SINOSURE**	SINOSURE	SINOSURE
3.	NEXI***	NEXI	NEXI
4.	Zurich****	Zurich	MIGA*****

* Investment Guarantees of the Federal Republic of Germany.
** China Export & Credit Insurance Corporation, Beijing.
*** Nippon Export and Investment Insurance, Tokyo.
**** Zurich Emerging Markets Solutions, Washington.
***** Multilateral Investment Guarantee Agency, Washington.

INTERNATIONAL COOPERATION

The investment guarantee scheme is represented through a membership of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) at the International Union of Credit & Investment Insurers (BERNE UNION) with its headquarters in London: this organisation brings together state and private export credit and investment insurers from all over the world. Besides fostering cross-border contacts, their meetings safe first and foremost the purpose of creating internationally recognised standards and promoting cooperation with regional and international financing institutions and development banks.

From the perspective of the investment insurers, 2014 was dominated by the conflicts surrounding the Crimea and in eastern Ukraine. On top of that, the sanctions imposed during the course of the year on Russia and compliance with them in practice have given the international exchange of views particular urgency. First on the agenda of topics dealt with in workshops and discussions was how to adapt the examination procedure for applications and reviews during the term of validity of guarantees appropriately and to what extent developments are relevant for existing guarantees.

Many investment insurers have implemented these insights during 2014 and put in place reliable and practicable internal procedures.

As a consequence of these current political developments, it also became apparent that small and medium-sized enterprises are in general becoming more interested in investment protection for their foreign engagements. These companies have traditionally been rather underrepresented among applicants in a worldwide comparison. The Berne Union has therefore set up a working group to further improve access for them to the instruments for the promotion of foreign trade.

Internationally, the investment guarantee scheme of the Federal Government maintained its lead in terms of the guarantee portfolio over all other insurers worldwide in the middle of 2014.

Joint general meeting of Berne Union and Prague Club in London in October 2014

A digression: worldwide reach – the state export credit guarantees

EXPORT CREDIT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

Hermes Cover

State export credit guarantees (Hermes guarantees) enable German exporters and banks to cover their commercial and political risks arising out of export business. The state export credit guarantees safeguard companies from the risk of non-payment when exporting to markets with an elevated risk. As a part of the scheme for the promotion of foreign trade, they are a trusted tool for the risk management in export business.

Something like 80% of all Hermes guarantees go to cover export business with developing countries and emerging markets. This benefits first and foremost small and medium-sized enterprises, which account for approximately three quarters of all applications for cover.

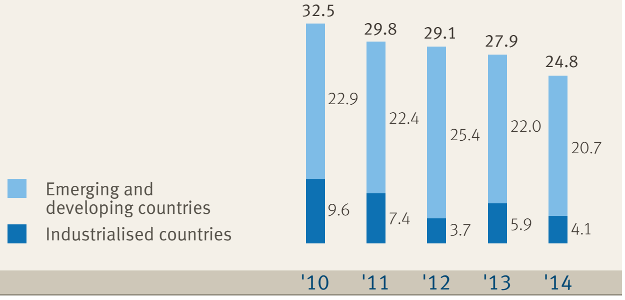
The responsibility for granting export credit guarantees lies with an Interministerial Committee (IMC) consisting of the Federal Ministry for Economic Affairs and Energy (BMWi, as lead ministry), the Federal Ministry of Finance (BMF), the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ). On principle, only export transactions which are judged eligible for cover and where the risk can be justified receive cover. The management of the export credit guarantees is handled by a consortium mandated by the Federal Government and consisting of Euler Hermes Aktiengesellschaft (Euler Hermes) and PwC. Their staff advise the exporters and banks and prepare applications for the decision on cover by the Federal Government.

A palette of standardised or tailor-made cover instruments is available to fit every export transaction. Thus both risks during production and post-shipment risks can be covered, as can deals with various credit horizons. In addition, there are cover options for export finance such as buyer credit guarantees, Federal Government counter-guarantees or cover for confirmation of letter of credit risks. Cover for project finance deals and structured finance complete the product range.

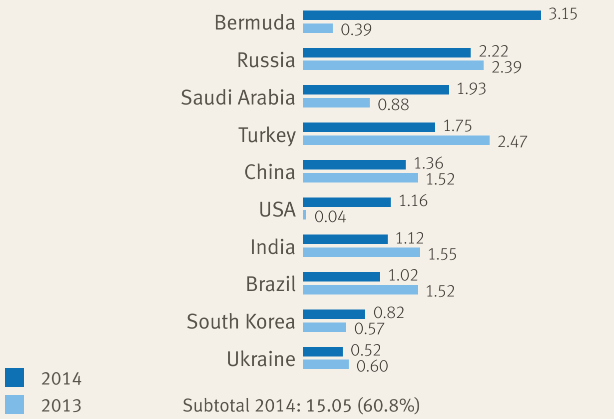
Hermes guarantees have been a tried and trusted tool for the promotion of foreign trade since 1949. Through their anticyclic function they offer reliable cover for German exporters, especially in crisis situations, thus helping to safeguard jobs.

For further details please contact:
Phone: +49 (0)40/88 34 - 90 00
info@exportkreditgarantien.de
www.agaportal.de

VOLUME OF COVER BY COUNTRY GROUPS IN BILLION EUR



NEW GUARANTEES 2014/2013 BY MOST IMPORTANT COUNTRIES IN BILLION EUR



Total 2014: 24.75 (100%)

HOST COUNTRY RISK ASSESSMENT

In 2014, the Interministerial Committee (IMC) assumed cover for the first time for a project in Guatemala on the basis of the bilateral investment treaty (BIT) between Germany and GUATEMALA which came into force on 29 October 2006. Full guarantee cover was assumed for the capital invested in this, both for the equity participation and the investment-like loan. Cover for earnings was not applied for.

For the first time in many years, the IMC dealt with an investment project in SENEGAL in 2014 and approved a guarantee for the capital allotted to this. No application was made for earnings cover for this project. The basis for the positive decision was the German-Senegalese BIT which came into force on 16 January 1966. In view of the option to terminate this BIT at any time and the fact that it remains effective for ten years after termination, it was only possible to approve the guarantee with a term of ten years in the first instance. With regard to its applicability, the BIT further stipulates that Senegal must issue a permit for certain capital investments. The IMC felt it necessary to notify the government in Dakar of the intended guarantee in order to clarify this legal precondition.

The IMC extended its country cover practice for NIGERIA in 2014 in connection with its decision on a new project in the food and luxury foods industry, and assumed unrestricted cover on the basis of the German-Nigerian BIT which came into force in 2007 for both capital and earnings.

German investors were also able to apply for cover for their projects in RUSSIA and UKRAINE in 2014. In the case of investments in Russia, the IMC discussed each individual case in depth, taking account of ongoing developments in the risk assessment in its decisions. It was in addition a precondition for acceptance that the project did not violate currently valid sanctions. The assumption of guarantees for projects in Ukraine was decided after a comprehensive case-by-case review, also with regard to the location for the project.

The German-South African BIT ceased to be in force as of 22 October 2014 following its cancellation by SOUTH AFRICA on 23 October 2013. The committee still gave positive decisions for two projects in 2014 in which the investments were made in full prior to the BIT ceasing to be in force. Whether and, if so, to what extent cover can be assumed for future investments on the basis of the country's internal legal system depends first and foremost on how far South African legislation is able to guarantee unimpaired and enforceable protection for foreign investments.

For reasons of budget law, no cover could be assumed in 2014 for investments in Argentina, the Philippines as well as Bulgaria due to pending recovery action.

"IN INTENSIVE EXCHANGE WITH INDUSTRY" – CONCLUSIONS FROM THE DIALOGUE CONFERENCE 2014

Dialogue conference at the Federal Ministry for Economic Affairs and Energy in May 2014

The dialogue conference traditionally held every two years at the Federal Ministry for Economic Affairs and Energy (BMWi) took place again on 15 May 2014 – a meeting point for the German foreign trade community. Almost 300 representatives of companies and banks in 2014 grasped the opportunity to inform themselves comprehensively in six workshops about the newest developments in the export credit and investment guarantee scheme and to take an active part in the discussions.

The workshop "FOREIGN INVESTMENTS – OPPORTUNITIES AND RISKS FOR GERMAN COMPANIES" focused on the motives and strategies of German companies for becoming more involved in setting up sales and service organisations and production companies abroad. Despite differences of perspective, both Mittelstand and large companies agreed that they could only further expand their international competitiveness through DIRECT PROXIMITY TO THEIR MARKETS AND CUSTOMERS.

The political instability and the increasingly critical situation in several regions of the world also figured prominently in the discussions. The fact that companies are opening themselves to activities in new countries despite an investment environment increasingly beset with uncertainties or maintaining their existing engagements even in the midst of crises was regarded as being an expression of forward-looking entrepreneurial thinking. INADEQUATE FUNDAMENTALS in terms of legal security, equal treatment with a country's own companies or reliably functioning civic institutions were rated as serious obstacles to inward investment. They can present an insurmountable hurdle, especially for small and medium businesses.

The increased awareness of German companies concerning political risks is balanced by a correspondingly elevated need for effective RISK MANAGEMENT MEASURES. The representatives of the companies and banks underlined here the importance of the investment guarantees in protecting against political risks. The crucial function of the instrument was seen as being effective POLITICAL SUPPORT for German investors in the host country and the prevention of threatening losses. The participants showed that they were convinced of the usefulness of the instrument, but also urged ongoing modernisation in order to improve the options available from the point of view of those involved in foreign trade. One suggestion, for instance, was to expand the cover options for holding constructions.

The workshop "SUSTAINABILITY IN THE GUARANTEE INSTRUMENTS – INTEGRATING HUMAN RIGHTS IN THE ENVIRONMENTAL AND SOCIAL AUDIT" had as its principal aim to determine the current position of the instruments for the promotion of foreign trade. The Federal Government firmly advocates in this context the COMPLIANCE WITH BINDING INTERNATIONAL ENVIRONMENTAL AND SOCIAL STANDARDS. As regards the criteria for the environmental and social audit, industry representatives expressed the wish for a differentiated and reasonable approach, taking into account the real possibilities the German exporters and investors have to influence the project.

CRISIS MANAGEMENT AND CLAIMS PAYMENT

The investment guarantee scheme supports German companies which want to pursue long-term engagements in foreign markets. Such investments should also have positive effects for the host country. Companies which cover capital investments against political risks by means of investment guarantees profit first and foremost from POLITICAL SUPPORT FROM THE FEDERAL GOVERNMENT.

ACTIVE CRISIS MANAGEMENT kicks in after the initial notification of problems by the policyholder. This may consist of supporting the project company in negotiations with the competent authorities in the host country, sending trial observers to legal proceedings or discussions as well as letters and notes verbales up to and including the highest diplomatic levels. In addition, the Federal Government may participate in the costs of litigation or similar measures undertaken to prevent losses. The Federal Government again intervened successfully in 2014 in support of the legitimate interests of policyholders. In two projects in Russia, it was possible to prevent the occurrence of a claim due to the intensive involvement of the Federal Government. In one of these cases, a local instance took over the project itself following a compensation payment for the value of the investment. At the same time the German company was able to continue its further engagement in Russia. In another case, the policyholder was enabled to exit the project in an orderly fashion thanks to the mediation of a buyer by the local administration. A policyholder also received help with problems experienced by a Russian project company in proceedings at local courts. The Federal Government was also active in preventing losses in a project in Ukraine which was experiencing difficulties due to inappropriate administrative action by a number of government agencies.

While a recovery case against Ukraine is still pending, a settlement was reached in another case against Bulgaria through involving the policyholder.

Crisis management by the Federal Government once again proved itself an effective loss prevention instrument in 2014. In the year just ended, losses with a liability volume of more than one billion euros were prevented. The balance of amounts paid out in indemnification and recoveries since the inception of the scheme stands at 152 million euros (including participation by the Federal Government in costs).

INVESTMENT GUARANTEES IN THE PUBLIC EYE

Demand for investment guarantees rose markedly in 2014, in particular from small and medium-sized enterprises. This is apparent from the increase in the number of applications as well as in the number of acceptances. One major cause of this rise is without doubt the growing risk awareness of German investors. The greater use made of the instrument is also the result of continued intensive public relations work in 2014, however. This has the goal to give interested companies the information they need about the cover options available for investments abroad. In order to make it as effective as possible, the mandatary consortium strives to achieve a close linkage of the schemes for the promotion of foreign trade in personal consultations with clients and at conferences. The central medium of information here continues to be the common website www.agaportal.de including the AGA Report. The investment guarantees are also part of IXPOS – the foreign trade portal of the Federal Ministry for Economic Affairs and Energy (www.ixpos.de). In addition to these, publications appeared in external print media (inter alia in the magazine of the German-African Business Association, Hamburg). The annual and interim reports in German and in English were once again our most important own publications.

The investment guarantees of the Federal Republic of Germany were presented in detail during 2014 at the following conferences and in cooperation with the following organisations:

- conferences of the country associations such as the Latin America Day (Lateinamerika Verein), Economic Conference Middle East (Nah- und Mittelost-Verein), the conference of ambassadors in the Federal Foreign Office, the annual meeting of the German-African Business Association in Hamburg, joint stands with Euler Hermes at trade fairs (among others, at the NRW Foreign Trade Day);

- a joint conference held by Euler Hermes/PwC with the Eastern Europe Business Association (Osteuropaverein) on Russia, Ukraine and Belarus in Hamburg with the participation of a panel of experts including the departmental heads of the Federal Ministry for Economic Affairs and Energy responsible for the export credit and investment guarantees;

- a training seminar for the EZ-Scouts (a programme for the experts of the Federal Ministry for Economic Cooperation and Development in collaboration with industry associations, country associations, the chambers of industry and commerce, the chambers of craft trades etc.), organised by the German Society for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ) in Berlin;

- information presentations for banks (including the KfW) and companies.

Above: joint conference held by Euler Hermes and PwC with the Eastern Europe Business Association on Russia, Ukraine and Belarus in Hamburg in October 2014

Below: Latin America Day of Lateinamerika Verein in Cologne in October 2014

BASICS OF INVESTMENT GUARANTEES

Investment guarantees protect German businesses and their direct investments abroad against POLITICAL RISKS which can present serious obstacles to an economy heavily engaged in the international arena such as that of Germany. Political risks eligible for cover are nationalization, acts equivalent to expropriation, war as well as moratoriums and convertibility and transfer problems. The breach of contract by authorities and isolated political acts of terrorism can be included in cover on request. The following recent examples from our crisis management and claims activities illustrate the forms a covered political risk can take for a German investor:

- court decisions which put the investor at a disadvantage
- the arbitrary refusal to pay tax rebates to the project company
- the unlawful refusal by the authorities to grant crucial approvals
- the introduction of capital and exchange controls in conjunction with the impossibility of converting or transferring monies
- the deprivation of business premises due to unlawful resolutions passed by municipal authorities
- the withdrawl of licences and concessions by governments.

The crucial precondition for assuming an investment guarantee is an ADEQUATE LEVEL OF LEGAL PROTECTION for an investment in the host country. The IMC as a rule assumes the existence of such a situation when Germany has concluded a BIT with the host country. A BIT provides in each case comprehensive protection for German companies under international law for their investments.

ALL TYPES OF DIRECT INVESTMENT such as equity participations, investment-like loans, endowment capital and other rights qualifying as assets, can be covered. Earnings generated by the invested capital such as dividends and interest can additionally 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.

Guarantees can only be assumed for projects which have proved in the application review process that they are ELIGIBLE FOR COVER and that THE RISKS CAN BE JUSTIFIED. Projects which are eligible for cover are mostly characterised by their positive impacts in the host country as well as by positive feedback effects on the applicant's company in Germany. Covered investments safeguard jobs in Germany, since as a rule they, among other things, involve deliveries of goods from Germany. On top of this, the project may not lead to any negative impacts in the host country from the perspective of environmental compatibility and sustainability. A sufficient level of legal protection in the

host country is a decisive precondition for the justifiability of the risk involved in a project. This can normally be taken as given as soon as a BIT between the Federal Republic of Germany and the host country in question is in place. In individual cases (e.g. Brazil), a guarantee can be assumed on the basis of the national legal system of the country concerned. In addition, the current economic and political situation in the host country as well as specific questions relevant for the project in hand must be taken into account when evaluating the risk. Claims can lead to the Federal Government no longer being able to assume guarantees.

The COSTS OF COVER include a one-off APPLICATION FEE of 0.5‰ of the application amount from a guarantee amount of 5 million euros or above (with a maximum limit of 10,000 euros). In addition to this, the GUARANTEE PREMIUM is 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 normally 5%.

THE INTERMINISTERIAL COMMITTEE (IMC) – MAIN TASKS 2014

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 is the body which takes the decision, and meets as a rule six times a year. It is chaired by Ministerialrätin Dr Ursina Krumpholz, head of the BMWi department VC3 “Foreign investments, National Contact Point for the OECD Guidelines for

Meeting of the Interministerial Committee consisting of representatives of the Federal ministries and the mandataries as well as experts in Hamburg in May 2014

Multinational Enterprises". 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 participate in the deliberations in an advisory capacity.

Direct investments submitted for cover are discussed in detail in the IMC on the basis of currently valid cover practice and taking into account in each case the specifics of the individual case. The crucial focus is to determine whether the preconditions for the eligibility of the projects for cover are fulfilled. In addition, the justifiability of the risk must be comprehensively evaluated, factoring in the level of legal protection in the host country as well as the current political and economic environment. If needed, this includes obtaining up-to-the-minute information from the German embassy in the host country. Where appropriate, insights gained from threatening claims and experience with other projects in the host country flow into this. The information on the host country made available by the members of the Berne Union is also taken into account in the discussions. Decisions are taken by the Federal Government in line with the aim of giving the cover most appropriate to the project and its risks while complying with budget law. On top of this, the IMC is responsible for the further development of the guarantee scheme.

The Federal Government has entrusted a mandatary consortium (consisting of PwC and Euler Hermes) with processing and managing the investment guarantees. In this function, PwC advises companies as lead mandatary of the Federal Government about the guarantees, receives applications for new guarantees and adaptations of guarantees to changes in the underlying project fundamentals as well as claims for indemnification, prepares the documentation for the decision by the IMC and administrates the guarantees.

INTERMINISTERIAL COMMITTEE – IMC

Ministries

- BMWi Federal Ministry for Economic Affairs and Energy – lead function
- BMF Federal Ministry of Finance
- AA Federal Foreign Office
- BMZ Federal Ministry for Economic Cooperation and Development

Mandataries

- PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft – lead partner
- Euler Hermes Aktiengesellschaft

Experts

- Business
- Banks
- Country associations

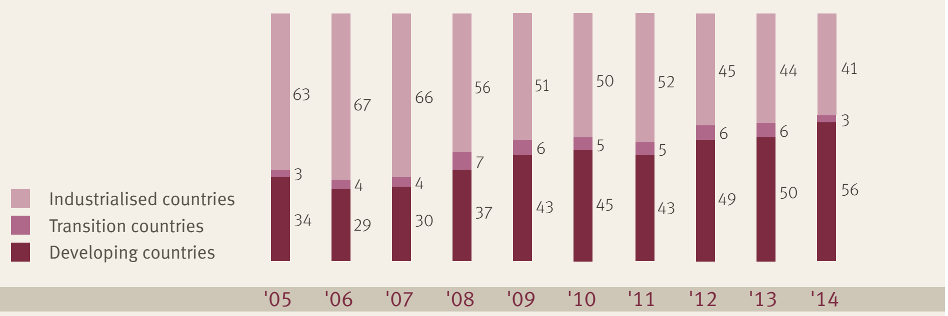
DEVELOPMENT OF THE INVESTMENT GUARANTEES

DIRECT INVESTMENTS WORLDWIDE DECLINED AGAIN AFTER THEIR RALLY IN 2013. THE DEVELOPING COUNTRIES AND EMERGING MARKETS ONCE AGAIN ATTRACTED BETWEEN THEM WELL OVER HALF OF ALL INVESTMENT FLOWS.

BUCKING THIS TREND, GERMAN INVESTMENTS ABROAD INCREASED AGAIN IN 2014. THE MARKETS TARGETED BY GERMAN COMPANIES AMONG THE DEVELOPING COUNTRIES AND EMERGING ECONOMIES REMAIN, ACCORDING TO STUDIES BY THE GERMAN ASSOCIATION OF CHAMBERS OF INDUSTRY AND COMMERCE (DIHK), THE ASIAN REGION – MOST NOTABLY CHINA – AND EASTERN EUROPE, BUT ALSO CENTRAL AND SOUTH AMERICA AS WELL AS AFRICA. AS IN PREVIOUS YEARS, THE PREDOMINANT MOTIVE GUIDING INVESTMENT DECISIONS IS THE WISH TO BE CLOSER TO CUSTOMERS LOCALLY, WHICH IS SEEN AS VITAL IN ORDER TO BETTER ACCESS MARKETS AND ESTABLISH A FIRM PRESENCE ON THE GROUND. DUE TO THE SPREAD OF CRISES, HOWEVER, GERMAN COMPANIES FIND THEMSELVES FACED WITH A MUCH MORE DIFFICULT INTERNATIONAL INVESTMENT ENVIRONMENT.

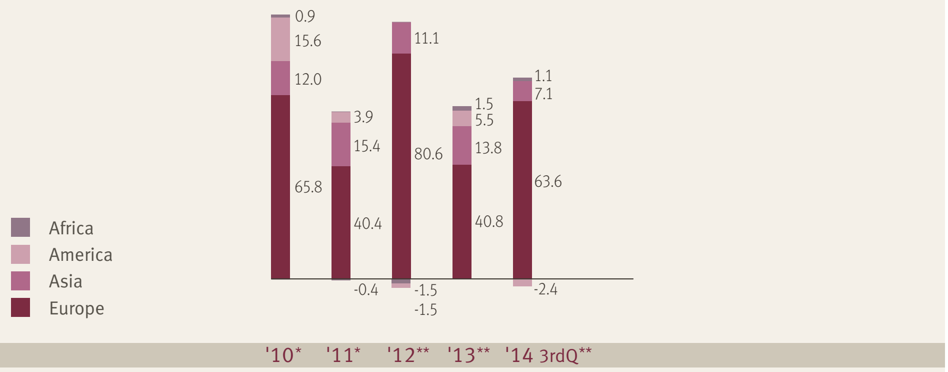
THE OPTIONS AVAILABLE FOR RISK MANAGEMENT AND A COVER POLICY WITH A LONG-TERM PERSPECTIVE HAVE THUS GAINED A NEW RELEVANCE, AND WITH THEM THE FEDERAL INVESTMENT GUARANTEE SCHEME. THIS IS ALSO INCREASINGLY TRUE OF SMALL AND MEDIUM-SIZED ENTERPRISES WITH INTERNATIONAL ACTIVITIES.

DIRECT INVESTMENTS WORLDWIDE BY COUNTRY GROUPS IN %



* Provisional estimates by UNCTAD: Global Investments Trends Monitor No. 18, January 2015.
Sources: UNCTADSTAT: Inward and outward foreign direct investment flows, annual, 1970-2013 (as per 01.09.2014).

GERMAN NET DIRECT INVESTMENTS ABROAD IN BILLION EUR



* Deutsche Bundesbank: Direktinvestitionen lt. Zahlungsbilanzstatistik, June 2014.
** Deutsche Bundesbank: Zahlungsbilanzstatistik, Statistisches Beiheft 3 zum Monatsbericht, January 2015.

DIRECT INVESTMENTS WORLDWIDE

Following a moderate increase of 3% to 1.36 trillion US dollars in direct foreign investments in 2013, the global investment climate was inhibited in the year under review by numerous uncertainties as a result of geopolitical conflicts. Direct investments made globally in 2014 fell by 8% to 1.26 trillion US dollars. Some 56% of the total volume of all inward investment flows were accounted for by the developing countries and emerging markets. Asia, with 492 billion US dollars, maintained its lead here, ahead of Central and South America (153 billion US dollars) and Africa (55 billion US dollars). Investment streams to the tune of 511 billion US dollars went to the industrialised countries. The EU was able to post growth of 13% in this context. For North America, there was a decrease of 54%. In the former transition countries, foreign direct investment plunged by 51%. This is attributable above all to the sharp fall in investments in Russia (-70%) due to the drying up of investment flows from the industrialised countries. The United Nations Conference on Trade and Development (UNCTAD) does not expect any improvement in the global investment climate for 2015. Among the reasons for this are the generally fragile global economic situation and the still unresolved geopolitical tensions.[1]

The total volume of German net direct investments (the balance of in- and outflows from direct investments) in the first three quarters of 2014 was approximately 70 billion euros, 15% up on the same period year-on-year. With a total volume of 63.6 billion euros, Europe was the principal recipient of German net direct investments, followed by Asia (7.1 billion euros) and Africa (1.1 billion euros). America posted a negative balance of circa -2.4 billion euros.[2]

Foreign investment remained attractive for German companies, in particular to establish and expand local sales and customer service organisations. According to a poll carried out by the DIHK in spring of 2014, this was the primary goal they were pursuing in their activities abroad for 45% of the industrial companies polled. In addition, 34% of the companies intended to set up production facilities abroad (2013: 35%). As in previous years, opening up new market opportunities by expanding their service outlets and production capacity on the ground were the central motivation for German direct investments. Only about every fifth company invests abroad for cost reasons. Direct investments abroad strengthen competitiveness in the international arena for Germany as an economic player, and thus mean the safeguarding of jobs here at home. Increasing barriers to trade with high-growth emerging markets, first and foremost those of a non-tariff kind such as import restrictions and local content requirements, are in addition pushing companies towards establishing a local or regional presence.[3]

---

1 The data are provisional estimates by UNCTAD: Global Investment Trends Monitor No 18, January 2015.

2 Deutsche Bundesbank: Zahlungsbilanzstatistik, Statistisches Beiheft 3 zum Monatsbericht, November 2014.

3 DIHK: Auslandsengagement steigt – besonders in Europa. Auslandsinvestitionen in der Industrie, spring 2014.

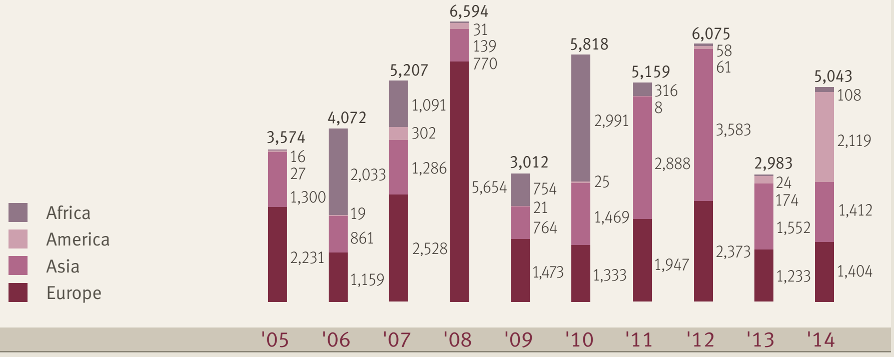
INVESTMENT GUARANTEES – TRENDS

The development of the investment guarantees in 2014 can be summarised as follows:

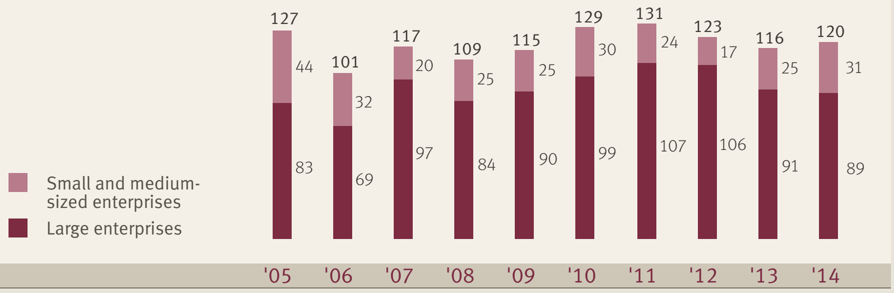
- In 2014, **AMERICA** came in first as the main **REGIONAL FOCUS** again for the first time since 1999. The reason for this is the assumption of a guarantee for a large-volume one-off project in Mexico. Over and above this non-recurring effect – measured by the number of newly covered projects and newly registered applications – a further positive trend is also apparent in the demand for Central and South America. Brazil, Ecuador, Panama and Guatemala thus seem to be promising countries for investments by German companies.

- **EUROPE** – replaced since 2011 by Asia as the preferred target region for investments – has once again gained considerable ground due to the continuing high level of demand for projects in Russia. This puts the region almost on a par with Asia – measured by

VOLUME OF APPLICATIONS ACCEPTED (MAXIMUM AMOUNTS) BY CONTINENTS IN MILLION EUR



NUMBER OF APPLICATIONS APPROVED BY SIZE OF ENTERPRISE



guarantee volume. The share of Europe in the number of guarantees already stands at over 50%. As regards newly covered projects and newly registered applications, (Eastern)Europe also leads the field as target region. The significantly higher demand from German investors for cover in Russia, but also in Ukraine in 2014 is responsible for this development. Continuing high demand for cover for projects in these two countries is to be expected in 2015 too.

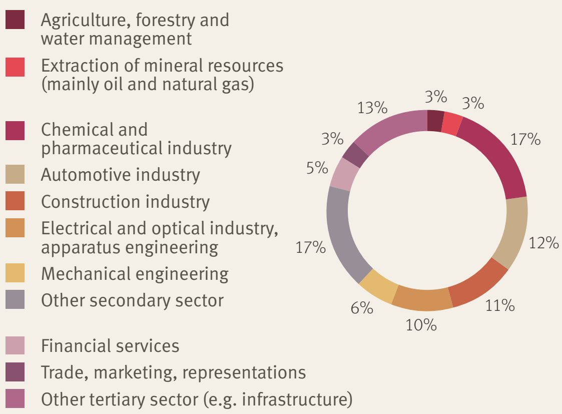
Interest in cover for ASIA remained high, as in previous years. The cause for this is the virtually unchanged high demand for China, way ahead of the rest, but also for India and the countries of the Arabian Peninsula.

Demand for projects in AFRICA went up in 2014. The main emphasis of cover in 2014 was once again South Africa. Cover was also assumed for other countries in Sub-Saharan Africa such as Kenya, Senegal and Nigeria. Besides the traditional focus on manufacturing, projects there in the energy industry and the service sector also received cover. This development shows that German companies are also interested in accessing future markets with considerable growth potential in Africa. The investment guarantee scheme can accompany them in this with effective support.

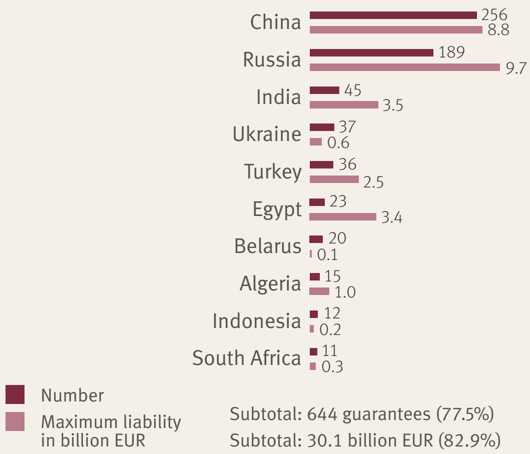
- The list of the TOP 10 COUNTRIES in the guarantee portfolio – ranked by number of guarantees – hardly changed in its composition in 2014 too. China still leads the field ahead of Russia. Then come India, Ukraine and Turkey. South Africa has supplanted Kazakhstan in tenth position, pushing the country out of the Top Ten.

- Approximately every fourth application submitted and approved in 2014 was for a project by a SMALL OR MEDIUM-SIZED ENTERPRISE. This represents the highest figure in the last five years. This trend shows that companies are increasingly seeking ways to cushion themselves from non-calculable risks, so as to continue successfully their activities on international markets. The increased number of enquiries from this segment of companies also leads to expectations of stable demand for investment guarantees in the coming year too.

NUMBER OF GUARANTEES IN THE GUARANTEE PORTFOLIO BY SECTORS AS PER THE END OF 2014 IN %



TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO BY NUMBER OF GUARANTEES AS PER THE END OF 2014



Subtotal: 644 guarantees (77.5%)
Subtotal: 30.1 billion EUR (82.9%)

Total: 831 guarantees (100%) 36.3 billion EUR (100%)

ASSUMED COVER AND APPLICATIONS UP TO NOW
AMOUNTS IN MILLION EUR

Between 1959 and 2014 cover was assumed or applications were registered for capital investments (and their earnings) for the following countries and regions:

		Assumed cover				Application cover			
		Number	in %	Volume	in %	Number	in %	Volume	in %
Africa		1,002	19.1	11,782.1	14.7	1,651	18.9	22,537.4	17.6
e.g.	Egypt	83		5,652.4		124		7,750.9	
	Libya	35		2,729.8		72		8,901.3	
	Algeria	15		1,142.1		65		1,677.9	
	South Africa	32		1,072.6		69		1,485.7	
	Morocco	49		351.1		86		537.0	
South and Central America		1,045	19.9	8,953.4	11.1	1,628	18.6	14,404.4	11.3
e.g.	Brazil	530		3,739.1		699		5,900.7	
	Mexico	48		2,865.7		103		3,303.5	
	Argentina	96		903.2		178		2,263.2	
	Venezuela	21		573.1		40		642.0	
	Trinidad and Tobago	6		268.0		10		400.9	
Asia		1,509	28.7	26,086.7	32.4	2,443	28.0	36,127.8	28.3
e.g.	China	575		13,566.9		838		17,057.1	
	India	154		4,564.5		221		5,311.0	
	Indonesia	101		2,235.8		155		2,819.4	
	Philippines	43		1,563.0		84		2,349.8	
	Kazakhstan	27		627.6		47		953.6	
Europe		1,693	32.3	33,624.3	41.8	3,015	34.5	54,629.1	42.8
e.g.	Russia	459		17,808.4		761		28,747.4	
	Turkey	190		6,935.3		270		9,554.2	
	Croatia	24		2,517.8		43		3,512.8	
	Czech Republic	140		1,549.5		225		2,060.2	
	Ukraine	97		1,221.9		187		1,746.6	
Worldwide		5,249	100.0	80,446.5	100.0	8,737	100.0	127,698.7	100.0

8,737 **applications,** thereof:
5,249 approved
3,123 withdrawn
54 rejected

applications pending as per the end of 2014: 311

- In terms of the TYPE OF COVER, investment guarantees were mainly assumed for "equity participations". Both in the number (78.9%) and volume (66.3%) of outstanding commitments in the portfolio, these come in the clear winner. Runners-up are the "investment-like loans" (19.3% and 18.3% share by number and volume) in front of the "other rights qualifying as assets". That said, these – due to large-volume crude oil and natural gas projects – account for a high share of volume (15.3%). "Endowment capital" provided over the long term to a legally dependent branch continues to play only a minor role.

- Companies from all sectors of the German economy apply for investment guarantees. The distribution of demand over the individual SECTORS is correspondingly diverse. The secondary sector with the automotive, chemicals, construction as well as electrical, optical and apparatus engineering sectors continue to dominate both in new guarantees (63.3%) and in the existing portfolio (72.2%).

  The share of the service sector, measured by the number of approved applications, is markedly up on the previous year's unusually low level of 21.6%, coming in at 30.8%. The increase in covered projects in the area of other services such as trade and sales, as well as infrastructure, is responsible for this development. This underlines the trend towards greater diversification in German foreign investments over recent years.

In order to compete successfully in the international arena, besides expanding their production facilities companies must also especially bolster their presence on the ground through sales, customer service and financial services. For the future, the investment guarantees are expected – judging by the enquiries received – to see above all stronger demand for projects in the renewable energy sector.

- The PENDING APPLICATIONS at the end of 2014 had a volume of 4.4 billion euros. They refer primarily to projects in Russia (1.2 billion euros), China (0.5 billion euros) and Argentina (0.5 billion euros).

ANNEX

DEFINITIONS AND EXPLANATIONS

AGA:
AuslandsGeschäftsAbsicherung of the Federal Republic of Germany (investment guarantees, export credit guarantees and UFK-guarantees)

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

BRIC(S)-countries:
Brazil, Russia, India, China, South Africa

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 the 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 with 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

Environmental, Health and Safety (EHS) Guidelines:
Contain the World Bank Group's sector specific technical limits for environmental impacts of projects (www.ifc.org)

Export credit guarantees:
Cover for German exports and financings against economic and political risks

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 were issued

IXPOS:
Internet portal of the Federal Ministry for Economic Affairs and Energy as a directory for the German trade and investment promotion scheme (www.ixpos.de)

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

Maximum amount:
Total sum of cover for capital and earnings

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

National Contact Point OECD-Guidelines for Multinational Enterprises (NCP):
The German NCP belongs to the BMWi-department VC3 (Foreign investments, National Contact Point for the OECD Guidelines for Multinational Enterprises); it mainly has to increase awareness of the OECD-Guidelines, to promote their application and to offer a forum for mediation in the case of appeals due to non-compliance.

OECD-Guidelines for Multinational Enterprises:
Common recommendations of the OECD member states and other participating countries for the responsible and legally correct conduct of enterprises in their activities abroad (www.bmwi.de)

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)

Outstanding commitments:
Portfolio of policies under which claims may still be raised 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 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.

UFK-guarantees:
Guarantees for financial loans not tied to German goods and services and intended for projects abroad which especially safeguard the security of raw materials supplies to Germany

NOTES

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

Legal information:
The project reports used in this publication were written or authorised by the respective enterprises or banks.

REFERENCES

Cover	Ian Allenden, Dreamstime
4	Bundesministerium für Wirtschaft und Energie, Berlin
6	PathomP, Shotshop.com
6, 9	Anastasiia Usolceva, Shotshop.com
7	zefart, Shotshop.com
7	photosoupy, Shotshop.com
12, 13, 19	Berne Union, London
14	Jake Wyman, Getty Images
16	Bundesministerium für Wirtschaft und Energie, Berlin, Anja Blumentritt
19	Lilly Latranyi, Wedel
19	Lateinamerika Verein, Hamburg
21	lucidwaters, Shotshop.com
22	Florian Karges, Hamburg
24	Iurii, Shotshop.com
24	Monkey Business Images, Dreamstime.com
24	Mauricio Jordan De Souza Coelho, Dreamstime.com
25	Andres Rodriguez, Dreamstime.com
28	Dainis Derics, Dreamstime.com
28	Photographerlondon, Dreamstime.com
30	kodda, Shotshop.com
33	Nanditha Rao, Dreamstime.com

The lead function for underwriting decisions for 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 Federal Government has appointed a consortium formed by PRICEWATERHOUSECOOPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Frankfurt am Main, branch office Hamburg, (PwC) and EULER HERMES AKTIENGESELLSCHAFT, Hamburg, (Euler Hermes) to manage the investment guarantee scheme. Further information as well as detailed consultation concerning the cover may be obtained by contacting PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. current information from the AGA-report, the General Terms and Conditions as well as leaflets, a flyer and the annual report in German and English.

We have created a special hotline for small and medium-sized enterprises. You can find details on our website (www.agaportal.de).

Press deadline: February 2015
Date of publication: April 2015

*www.**aga**portal.de*

Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and political risks of untied loans to finance projects which are particularly deserving of support.

The German Government has mandated a consortium formed by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Euler Hermes Aktiengesellschaft to manage these promotion schemes.

Federal Ministry
for Economic Affairs
and Energy

OUR PARTNERS

pwc

EULER HERMES

PricewaterhouseCoopers AG
Wirtschaftsprüfungsgesellschaft
Investment Guarantees of
the Federal Republic of Germany

Postal address
P.O. Box 60 27 20
22237 Hamburg, Germany

Office address
Gasstraße 27
22761 Hamburg, Germany

Phone: +49 (0)40 / 88 34 - 90 00
Fax: +49 (0)40 / 88 34 - 94 99

info@investitionsgarantien.de
www.agaportal.de

Branch offices: Berlin, Frankfurt,
Hamburg, Cologne, Munich, Stuttgart

09 1501 0415