ANNUAL REPORT 2012

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

	2008	2009	2010	2011	2012
Guarantee applications					
Number	199	166	140	155	138
Volume (maximum amounts)	10,756.0	10,101.5	7,620.8	6,553.5	8,238.0
Guarantees					
Number	109	115	129	131	123
Volume (maximum amounts)	6,593.9	3,012.1	5,817.7	5,158.7	6,074.5
Promoted projects					
Number	72	76	83	86	92
Countries	16	24	24	26	22
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	779	778	788	820	808
Maximum liability	19,953.5	24,272.0	27,681.0	31,021.3	32,734.2

Investment Guarantees of the Federal Republic of Germany
Direct Investments Abroad

ANNUAL REPORT 2012

Ladies and Gentlemen,

There was strong demand for Federal Government investment guarantees in 2012, too. Guarantee volume reached 6.1 billion euros – an increase of almost a billion euros year-on-year and at the same time the second highest result since the introduction of the guarantee scheme in 1960.

The high demand shows just how important the investment guarantees are for expanding existing business relationships as well as for opening up new growth markets. The particular focus for German companies was once again on emerging markets outside Europe. In 2012 we covered 92 projects in 22 countries. A clear regional focus was on Russia and also the Asian region, in China and India. Increased demand was also apparent for cover for projects in Central Asia (Uzbekistan and Kazakhstan) as well as South-East Asia (especially Indonesia). The same is true of the African continent, primarily for projects in North Africa. The last year also saw guarantees assumed for countries which were hitherto never or very rarely the recipients of cover, such as Lebanon, Ecuador and Panama.

In order to be able to give broad-based support to German companies in financing and insuring their projects abroad in future too, the statutory maximum amount of cover available for investment guarantees in the Federal budget was increased to 60 billion euros. At the same time the Federal Government is making efforts, together with German industry, to optimise the guarantee scheme. In 2012, for instance, we were thus able to considerably expand the assumption of cover for loans in local currency.

With the Lisbon Reform Treaty, the responsibility for concluding treaties on foreign direct investments has passed to the EU. The bilateral investment treaties of the Federal Republic of Germany, which as a rule provide the basis for the assumption of investment guarantees, will therefore be replaced in the medium and long term by EU treaties for investment protection. Until then, investors can rely on the 131 German investment protection treaties which remain in force. This has been confirmed by the so-called “grandfathering directive” which came into force on 9th January 2013. We are pressing to ensure that the high standard of protection provided by the German BITs is maintained in the new EU treaties too.

Today, as in the future, investment guarantees are an indispensable instrument in our foreign trade policy. They enable entrepreneurial growth and safeguard jobs in Germany. For many companies, they are not only important as a component of their risk management, but also because they facilitate obtaining credit to refinance foreign investment. It is precisely small and medium-sized enterprises, which find it considerably more difficult to structure a project abroad and to find the appropriate financing partners for it, which profit from this. All the more encouraging that about a seventh of accepted applications in 2012 came from SMEs.

The annual report presented here shows it: investment guarantees are, more than ever before, making a significant contribution to safeguarding growth and jobs in our country. We shall continue, together with industry, to pursue this successful path.

Yours,

Dr Philipp Rösler
Federal Minister of Economics and Technology

THE YEAR AT A GLANCE

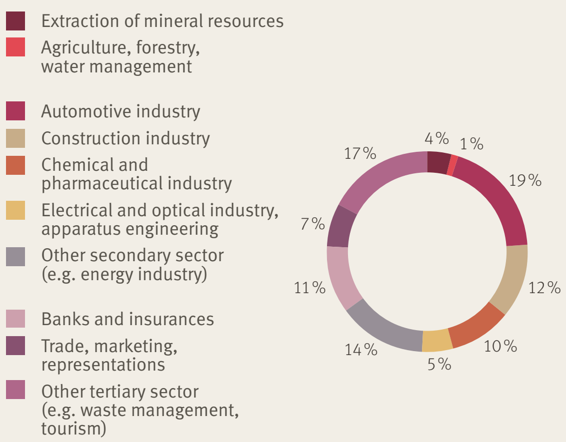
WITH A GUARANTEE VOLUME OF 6.1 BILLION EUROS, THE SECOND BEST RESULT SINCE THE INTRODUCTION OF THE INVESTMENT GUARANTEES WAS ACHIEVED IN 2012. THE MAIN FOCUS WAS ASIA, WITH CHINA, INDIA AND INDONESIA. A PARTICULARLY HIGH NUMBER OF GUARANTEES WERE FOR AUTOMOBILE AND CONSTRUCTION PROJECTS. FOR THE FIRST TIME, GUARANTEES IN RUSSIAN, CHINESE, TURKISH AND INDONESIAN CURRENCY WERE ASSUMED. THE FEDERAL GOVERNMENT ALSO ACTED TO PREVENT LOSSES IN MANY PROJECTS. THIS IS ALSO, IN THE VIEW OF THE POLICYHOLDERS AT THE DIALOGUE CONFERENCE HELD BY THE FEDERAL MINISTRY OF ECONOMICS AND TECHNOLOGY

IN 2012, THE PRINCIPAL FUNCTION OF AN INVESTMENT GUARANTEE. THE GUARANTEE SCHEME ONCE AGAIN POSTED THE HIGHEST PORTFOLIO INTERNATIONALLY.

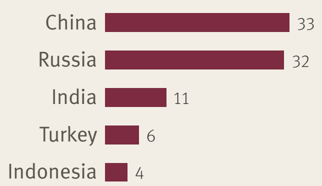
ENQUIRIES

	2010	2011	2012
Number	148	153	100
Countries	63	64	44
Share of small and medium-sized enterprises	51 %	71 %	61 %

NUMBER OF GUARANTEES BY SECTORS 2012 IN %

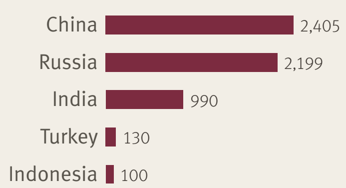


NUMBER OF GUARANTEES BY MOST IMPORTANT COUNTRIES 2012



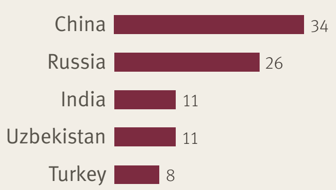
Worldwide: 123

VOLUME OF COVER (MAXIMUM AMOUNTS) BY MOST IMPORTANT COUNTRIES 2012 IN MILLION EUR



Worldwide: 6,075

NUMBER OF NEWLY REGISTERED APPLICATIONS BY MOST IMPORTANT COUNTRIES 2012



Worldwide: 138

RESULT OF THE BUSINESS YEAR

The development in 2012 is marked by high demand in terms of many countries and sectors of industry:

- The NUMBER OF ACCEPTED APPLICATIONS was 123, (2011: 131), and thus stood clearly higher than the mean of the last ten years. The volume of cover too, at 6.1 billion euros, came in about one billion higher than in the preceding year. This figure has only been exceeded once before, in 2008.

- The number of PROJECTS (92) has similarly gone up steeply (2011: 86), thus posting the highest figure of the past decade. The number of countries for which investment guarantees were assumed (22; 2011: 26) corresponds roughly to the 10-year mean. These included many countries which had hitherto only been insured seldom or not at all, such as Ecuador, Ghana, Lebanon and Panama.

- The REGIONAL FOCUS of the new VOLUME OF COVER with almost 60%, was Asia (in particular China, India) ahead of Europe with some 39% (Russia, Turkey) as well as Latin and South America and Africa, each accounting for about 1%. In terms of the NUMBER OF GUARANTEES ASSUMED, China once again led the field just ahead of Russia.

- In terms of the number of guarantees assumed, the automotive, construction as well as banking and insurance SECTORS were top of the league. The secondary sector, accounting for some 59.4% of new cover, led here overall. The share of the tertiary sector (mainly trading projects and financial services), at 35.8%, considerably exceeded the mean of the past ten years (33.1%). This reflects the trend of rising demand from market players in this sector observable for a number of years now.

- In 2012, only applications for the TYPES OF COVER “equity participations” and “investment loans” were accepted. Measured by number (72.4%) and volume (67.7%), the main emphasis was on equity participations.

- Some 40% of NEW POLICYHOLDERS received an investment guarantee for the first time in 2012.

- INVESTMENTS OF ANY SIZE can be covered. Guarantees were assumed in 2012 for sums ranging from 4,700 euros to 1.1 billion euros. Something like every seventh application accepted came from a SMALL OR MEDIUM-SIZED ENTERPRISE.

- In the year under review 100 new ENQUIRIES were received for projects in 44 countries. 61% of these enquiries came from small and medium-sized enterprises. Very many of these projects from Mittelstand companies were however not realised, primarily due to difficulties in financing, which led to the much lower proportion of Mittelstand companies in the applications accepted.

- The VOLUME OF APPLICATIONS RECEIVED (8.2 billion euros) posted some 1.6 billion euros more than one year before; this was the fourth highest figure in the history of the promotion scheme. This was due to raw materials projects, but also large-scale projects in the secondary sector (primarily the automotive and chemicals industries). Among the total of 138 newly registered applications, projects in China, before Russia, and India predominated.

- The size of the guarantee portfolio at the end of 2012 (808) was slightly down on the preceding year’s figure (820). The MAXIMUM LIABILITY rose from 31.0 billion euros to a record figure of 32.7 billion euros, new guarantees thus more than compensating for the disposals in 2012 as well.

- There were no CLAIMS PAYMENTS in the year under review, but nevertheless, the Federal Government intervened to prevent losses in projects in Turkey, Russia, the Ukraine and Uzbekistan. In addition to this, recovery negotiations took place with Bulgaria and the Philippines.

- INTERNATIONALLY the investment guarantees were the Number One among all insurers worldwide in the term of guarantee portfolio.

- The RESULT of the guarantee scheme shows that it paid for itself in 2012, thus discharging the Federal budgets accounts.

FURTHER DEVELOPMENTS AND HOST COUNTRY RISK ASSESSMENT

The expansion of COVER FOR LOANS IN LOCAL CURRENCY should be mentioned in particular among the further developments in the investment guarantees in 2012. In principle, it has already been possible for quite some time to claim for indemnification on the basis of the exchange rate at the time the event of loss occurred in the case of investment-like loans and other rights qualifying as assets in foreign currency (so-called lifting of exchange rate limitations). Up to now, however, this was generally only possible for selected currencies (US dollars, Swiss francs, etc.); guarantees for loans in Turkish liras and South African rands were only accepted on a case-by-case basis. Cover for loans in local currency was expanded in the year under review to include loans denominated in Chinese renminbi, Indonesian rupiahs and Russian roubles. Since financing in local currency enables the foreign companies to be financed in tune with the




currency (thus minimising exchange rate risks in the project company), the Federal Government is now prepared to consider assuming guarantees for loans in further local currencies.

As regards COUNTRY COVER PRACTICE, we can report that the Interministerial Committee for Investment Guarantees (IMC) assumed a guarantee for the first time for investments in LEBANON in the year just ended on the basis of the German-Lebanese Bilateral Investment Treaty (BIT) which came into force on 25th March 1999. The guarantee was assumed for both the equity participation and the loan, albeit with an increased self-retention of 30% in respect of the war risk. In addition, the payment period for an indemnification after the realisation of the conversion and transfer risk and/or payment embargo or moratorium risk was extended from six to nine months. The assumption of cover for earnings was postponed in view of the difficult economic and political situation of the country at the time the decision was taken.

On the basis of the German-Belarussian BIT which came into effect in 1996, it was possible to assume a guarantee for a project in BELARUS again. In view of the economic situation of the country, however, it was not possible to give comprehensive cover. For this reason, cover for earnings was not included in the guarantee and the payment period for an indemnification after a loss due to the conversion and transfer risk and/or payment embargo or moratorium risk was extended from six to nine months for the investment-like loan.

For the first time in quite a few years, the IMC also dealt with a German project in ECUADOR and assumed a guarantee for the capital to be contributed. The cover for earnings which was also applied for has not been assumed for the time being due to the current economic situation of the country. The basis for the positive decision was the German-Ecuadorian BIT which came into effect on 12th February 1999. Since, however, Ecuador had announced its intention to cancel the BIT with Germany in 2010 and on top of this called into question the option of foreign investors to clarify disputes concerning investment protection in arbitration proceedings, the IMC considered it necessary to obtain a verbal note from the Ecuadorian Foreign Office in which the government in Quito expressly welcomes the investment from the German applicant firm.

Under the new German-Indonesian BIT which came into effect on 2nd June 2007, an indirect equity participation in an operating company was assumed for the first time during the year under review via a holding company founded in INDONESIA solely for this purpose (a so-called SINGLE-COMPANY HOLDING STRUCTURE). The IMC proceeded here on the assumption that the assets of the operating company are also included under the protection of the BIT.

BILATERAL INVESTMENT TREATIES (BITS) – CURRENT DEVELOPMENTS

The Federal Government creates a stable framework for German investments abroad by concluding bilateral investment treaties (BITs). Such treaties guarantee comprehensive legal protection under international law for investments. They represent an important precondition for the assumption of Federal investment guarantees.

Central features of a BIT are, e.g. guarantees of equal treatment with the country's own companies and most-favoured nation status, the free flow of capital and earnings transfer as well as protection for the property rights of investors. The latter includes appropriate indemnity regulations commensurate with the value of assets and guaranteed access to legal remedies through the national courts in the event of expropriation by the host country. In addition, investors are given the option to assert their rights independently – and in particular independently of national legal proceedings – before neutral international arbitration tribunals.

If, in exceptional cases, no BIT exists with the host country, the legal protection requirement may still be confirmed if the host country's national legal system provides adequate security in this respect.

At the end of 2012, the Federal Government had signed 139 BITs worldwide, of which 131 were in force. With the Lisbon Reform Treaty, the responsibility for foreign direct investments in third countries was transferred by the member states to the EU as of 1st December 2009. The consequences of the transfer of responsibility for the BITs concluded by the member states are the subject of EU Directive No. 1219/2012 on the introduction of a transitional regulation for bilateral investment treaties between member states and third countries (the so-called "grandfathering directive"), which came into effect at the beginning of 2013. According to this, all treaties signed prior to the coming into effect of the Lisbon Reform Treaty remain valid. Agreements signed subsequently, however, are required to be notified to the Commission.

The "grandfathering directive" creates legal security in respect of the continuing validity of the BITs of the Federal Republic of Germany which are in force. The Federal Government has initiated the notification procedure for three BITs signed after the transference of responsibility.

The EU plans to replace the existing BITs of the member states over the medium term by treaties at the European level and is currently conducting negotiations with a number of countries to this end. In this context the Federal Government is using its influence to ensure that the high standard of protection provided by the existing BITs is maintained. Since the legal security guaranteed by the BITs represents a central prerequisite for the assumption of investment guarantees, a comparable level of protection in future EU treaties is also of the essence for the investment guarantee scheme.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

To provide long-term flanking support for German investments abroad against political risks is a central function of the investment guarantee scheme. As soon as a project is threatened with detrimental effects as a result of political measures of the host country, the Federal Government does its best at an early stage to prevent the occurrence of an event of loss. The toolbox of measures available for ACTIVE CRISIS MANAGEMENT principally consists of intervention by the German embassies abroad, verbal notes from the Federal ministries as well as bilateral talks at high government level to intervene on behalf of the project with the decision-makers in the host country. On top of this the Federal Government is prepared in principle to share in the investor's reasonable costs agreed with it for loss prevention or mitigation (e.g., prosecuting the entrepreneur's claims through litigation).

Thus the Federal Republic of Germany supported policyholders through preventive measures actively in 2012, too. The occurrence of an event of loss in a project on the Philippines was finally prevented. The Federal Government succeeded in diplomatic discussions in brokering a settlement between the project company and the local tax and administrative authorities. In addition, loss-prevention measures were initiated in projects in Russia, Turkey, the Ukraine and Uzbekistan.

In the last ten years alone, claims with a TOTAL LIABILITY VOLUME OF MORE THAN 1 BILLION EUROS have been prevented by providing active support. Although the Federal Government intervenes at an early stage with preventive measures to stand by the investors, it is not always possible to prevent the occurrence of a loss. In such cases, the policyholder receives an APPROPRIATE INDEMNIFCATION to compensate him for the irrevocable loss of his capital investment. Against this background, pending the conclusion of debt recovery action under earlier claims in ARGENTINA, BULGARIA and the PHILIPPINES these countries are off cover for reasons of budget law.

The balance of the amounts paid out to investors since the inception of the promotion scheme, netting indemnifications and payments from recoveries still stands after the current calendar year, in which no indemnification was paid, at a total of some 151 million euros. Comprehensive recovery activities took place in 2012 – especially against Bulgaria and the Philippines.

INTERNATIONAL COOPERATION

The investment guarantee scheme is represented through the 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 serve first and foremost the purpose of creating internationally recognised standards and promoting cooperation with regional and international financing institutions and development banks.

As well as the persistent euro crisis, the main focus of interest for the investment insurers in 2012 was further developments in North Africa. The mooted increased vulnerability of investments to state intervention due to the political upheavals in some of the countries of North Africa has not in fact been borne out by the experience of the Berne Union members, however. At the same time, expropriations in Argentina and a deteriorating climate for investment in some other Latin American countries have sharply focused the awareness of investors for possible political risks, leading to a continuing high level of demand for investment insurance for many members of the Berne Union.

A further emphasis in the work of the Berne Union in the area of investments in 2012 was the exchange of views on the globally growing importance of projects to use renewable energies as an object of investment cover. In the context of the internationally highly acclaimed plan announced by the Federal Government on the energy revolution and of the flanking support for German investments abroad through the investment guarantee scheme which has been available for decades now, PwC is a valued partner for governments and Berne Union members in discussions concerning the introduction and further development of their own underwriting tools. In the framework of this cooperation via bilateral discussions, contacts were intensified with the World Bank subsidiary MIGA – Multilateral Investment Guarantee Agency. These discussions aim, in particular, at expanding cooperation in respect of specific projects on the basis of the Cooperation Agreement which has existed since 2001, thus further extending the options for supporting German investments abroad.

Internationally, the investment guarantee scheme maintained its lead in terms of the guarantee portfolio over all other insurers worldwide at the end of 2012. In new cover, the investment guarantees assumed cover for the third highest volume after SINOSURE (China) and NEXI (Japan).

INTERNATIONAL COMPARISON BY VOLUME OF COVER

	December 2010	December 2011	December 2012
1.	D*	D	D
2.	NEXI**	NEXI	SINOSURE
3.	KSURE***	SINOSURE*****	NEXI
4.	Zurich****	COFACE******	Zurich

* Investment Guarantees of the Federal Republic of Germany.
** Nippon Export and Investment Insurance, Tokyo.
*** Korea Trade Insurance Corporation, Seoul.
**** Zurich Emerging Markets Solutions, Washington.
***** China Export & Credit Insurance Corporation, Beijing.
****** Compagnie Française d'Assurance de Commerce Extérieur, Paris.

VOLUME OF COVER BY MOST IMPORTANT COUNTRIES INTERNATIONAL

	per December 2012
1.	Russia
2.	China
3.	Kazakhstan
4.	Turkey
5.	India

A digression: worldwide reach – the state export credit guarantees

EXPORT CREDIT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

Hermes Cover

State export credit guarantees, known in Germany as “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 risks of non-payment, particularly when exporting to markets with an elevated risk, and enable economic relations to be maintained even in difficult times. More than 70% of all Hermes guarantees are assumed for business with developing countries and emerging markets. This benefits first and foremost small and medium-sized enterprises, which account for three quarters of all applications for cover.

VOLUME OF COVER BY COUNTRY GROUPS
IN BILLION EUR

NEW GUARANTEES IN 2012/2011
BY MOST IMPORTANT COUNTRIES
IN BILLION EUR

The responsibility for granting export credit guarantees lies with an Interministerial Committee (IMC) chaired by the Federal Ministry of Economics and Technology (BMWi) and with members from the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development. 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 Deutschland AG (Euler Hermes) and PwC. The staff of the consortium advise the exporters and banks and prepare applications for the decision on cover by the Federal Government.

A differentiated palette of cover instruments is available for the most diverse export transactions. Thus both pre-shipment and post-shipment risks can be covered, as can deals with various credit horizons. In addition there are forms of cover for export finance, such as buyer credit guarantees, Federal Government counter-guarantees or cover for confirmation of letter of credit risks. 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 call/visit:
Phone: + 49 (0)40/88 34 - 90 00
info@exportkreditgarantien.de
www.agaportal.de

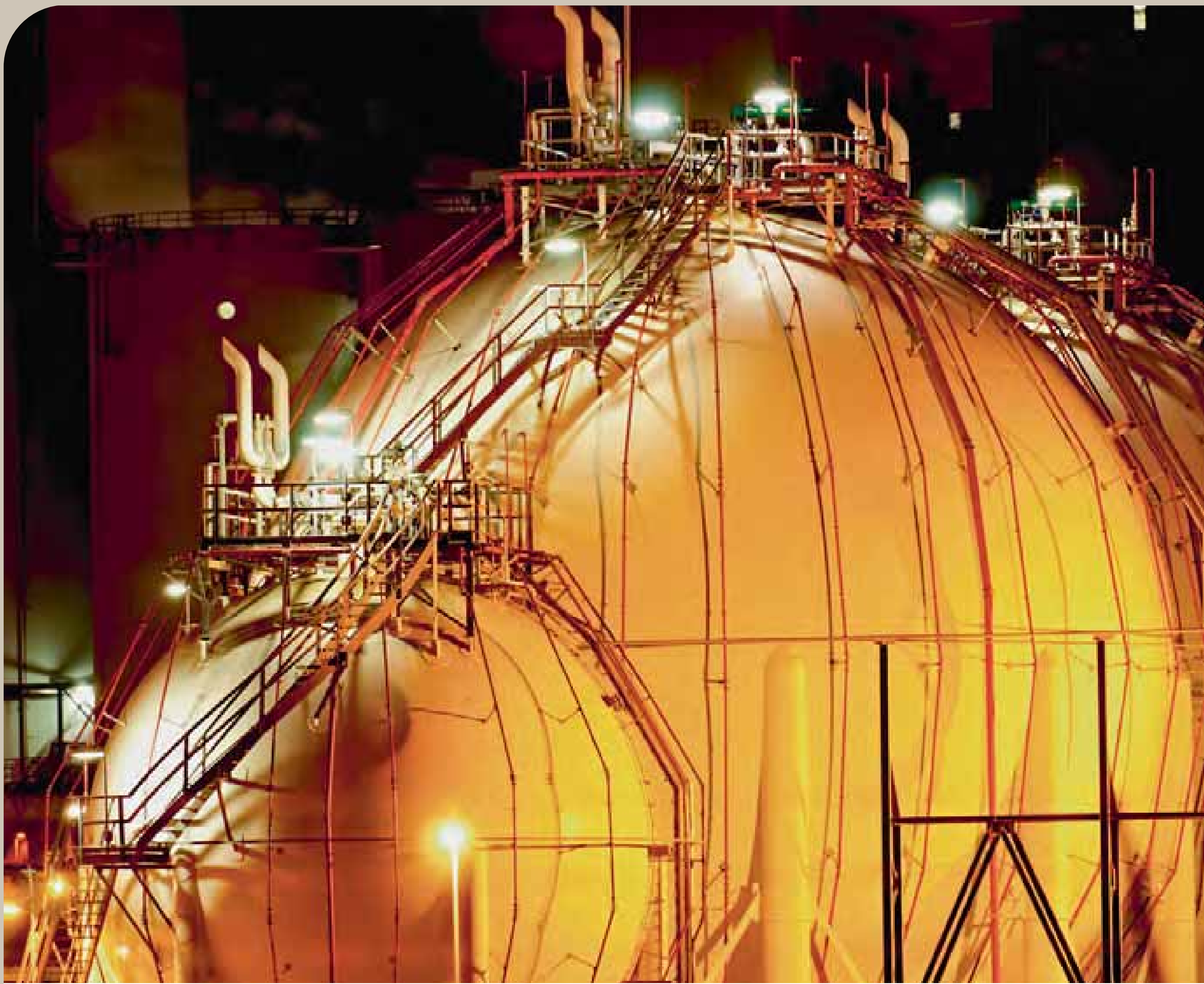
"In dialogue with iundustry" – summary to date

This conference, held by the BMWi every two years, has become firmly established as a meeting point for German foreign trade. It therefore came as no surprise that once again almost 300 interested participants were present on 12th June 2012, and that they took advantage of the opportunity to deal in detail with the export credit and investment guarantees of the Federal Republic of Germany at the six workshops on offer.

The workshop "FUTURE MARKETS FOR GERMAN INVESTORS – OPPORTUNITIES AND RISKS" dealt with the importance of the investment guarantees in opening up new markets. It became apparent that the time is long since past when developing countries and emerging markets could be regarded as an "extended factory shop floor". It is much more a question of consistently pursuing the aim of OPENING UP THESE MARKETS with the help of local investments in order to secure competitiveness in the long term. Particular interest was expressed in MYANMAR and MONGOLIA. Investment guarantees can already be assumed for Mongolia today. For Myanmar, the possibility of cover can be examined at short notice based on concrete project details.

Another insight was that CORPORATE GUIDELINES often stipulate insurance of investments, and thus can support the use of investment guarantees as a risk management tool in a targeted way. The expansion of cover in 2012 for LOANS IN LOCAL CURRENCY was greeted very positively.

The inadequate LEGAL FRAMEWORK in some countries (legal security, legal protection, corruption, etc.) was regarded as the crucial political risk connected with investments abroad, particularly by Mittelstand companies. There was unanimous agreement that the investment guarantees provide effective protection here. The PRINCIPAL FUNCTION OF THE GUARANTEES is seen rather to be the prevention of losses than paying claims. Germany – also in comparison to other supranational organisations (e.g. MIGA) – is seen as a strong contractual partner.

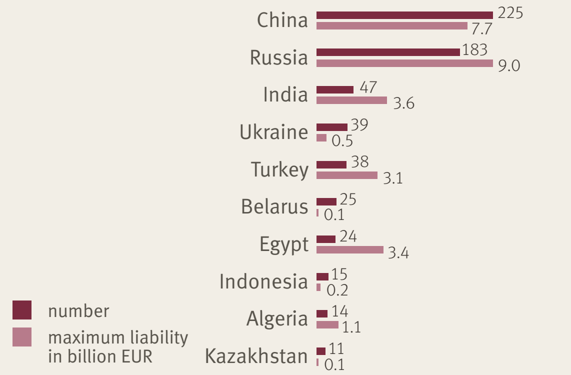


DEVELOPMENT OF THE INVESTMENT GUARANTEES

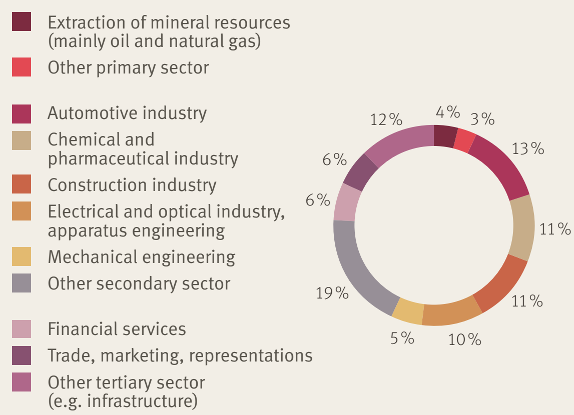
DIRECT INVESTMENTS WORLDWIDE POSTED A STEEP DECLINE IN 2012, WHEREBY THE EMERGING MARKETS AND DEVELOPING COUNTRIES ATTRACTED WELL OVER HALF OF ALL INWARD INVESTMENT FLOWS. GERMAN COMPANIES ARE ALSO INCREASING THEIR INVESTMENT ACTIVITY IN THESE COUNTRIES.

ACCORDING TO A POLL BY THE GERMAN CHAMBERS OF INDUSTRY AND COMMERCE, THEY ARE NOT DOING THIS TO CUT COSTS, BUT TO OPEN UP MARKETS AND CREATE OR SAFEGUARD JOBS IN GERMANY. THE REGIONAL EMPHASIS HAS SHIFTED TOWARDS ASIA, WHILE EUROPE INCLUDING RUSSIA AND TURKEY REMAIN AT A CONSISTENTLY HIGH LEVEL AND OTHER CONTINENTS ARE INCREASINGLY IN DEMAND TOO. INVESTMENT GUARANTEES ARE MAINLY USED TO INSURE EQUITY PARTICIPATIONS. THE SECONDARY SECTOR CONTINUES TO LEAD THE FIELD. ONLY 5% OF ALL APPLICATIONS SUBMITTED TO DATE ARE STILL UNDECIDED AT THE END OF 2012.

TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO (NUMBER OF GUARANTEES AS PER THE END OF 2012)



NUMBER OF GUARANTEES IN THE GUARANTEE PORTFOLIO AS PER THE END OF 2012 IN %



FOREIGN DIRECT INVESTMENTS WORLDWIDE AND GUARANTEE PORTFOLIO – BREAKDOWN AND TRENDS

In 2012, it was above all worries about the euro debt crisis, but also the national debt of the USA which significantly affected global markets, and many companies put direct investments on the back burner for the time being. Worldwide direct investments in 2012, according to the data available at present, were down by some 18% on the year before, and stood, with 1.3 billion US dollars, at about the same level as in 2009. It did not prove possible to follow up on the upturn of last year (+16%).

The main reason for this development in 2012 was the decline in investment in the industrialised countries (-32.1%). Alongside the USA, it is primarily the EU countries (both -34.8%) which must be mentioned here. In contrast to this, however, direct investments in the developing countries and emerging markets went down by a mere 4.3%. Despite this slight decrease, direct investment streams in Asia are still at the highest level ever seen to date, and Africa and South America were even able to post small increases. The trend observable for many years now towards an increasing focus on direct investments in the emerging markets and developing countries was thus maintained in this year too. Thus some 58.1% of world-wide investment, 761.8 billion US dollars, was accounted for by these countries[1].

Rising direct investments are on the cards for 2013 and 2014, provided that the economic fundamentals, especially in the EU and the USA, permit it. The total volume of German direct investments from January till October 2012 came in at 50 billion euros, 18.6% up year-on-year.[2]

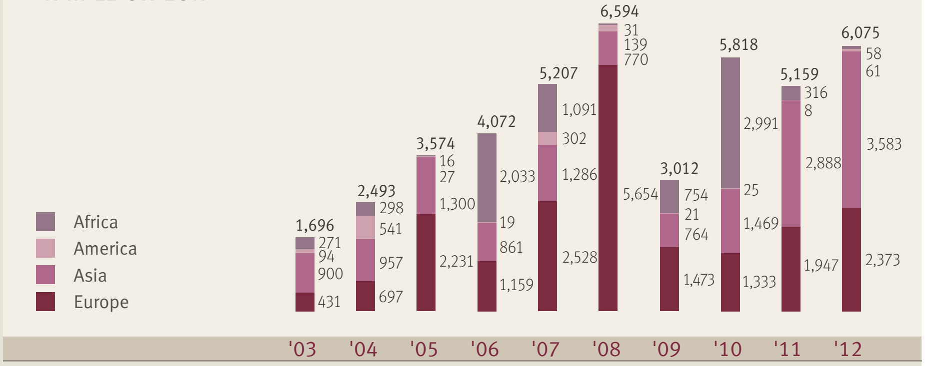
A poll carried out in early 2012 by the German Chambers of Industry and Commerce (DIHK) found that something like half (2012: 49%, 2011: 43%) of industrial enterprises follow the primary aim of establishing and expanding sales organisations and customer service in their direct investments abroad. Only 30% of companies, in contrast, plan investments in production facilities on site (2011: 35%). Cost cutting is given ever more rarely by companies as the reason for their foreign investments. "Only somewhat less than each fifth company plans relocation of production for cost reasons (2011: 22%) – fewer than ever since 1999." The foreign commitment of companies has become a mainstay of the domestic job market. "It is above all the improved perspectives in the medium and long term of companies with foreign investments which drive their plans in Germany. Consequently, foreign investments do not replace investments and jobs at home. In many cases they are even the prerequisite for them."[3]

1 The data are provisional estimates of the United Nations Conference on Trade and Development (UNCTAD): Global Investment Trends Monitor No. 11, January 2013.

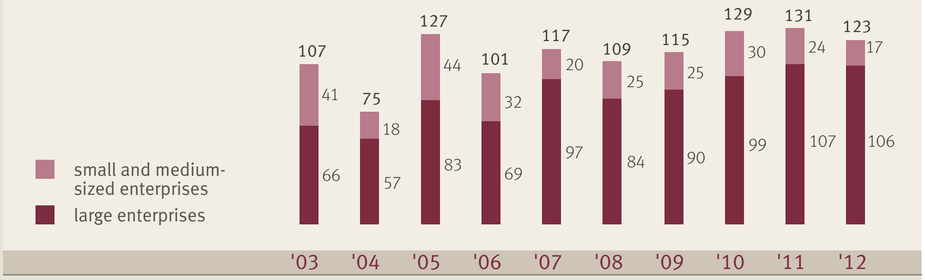
2 Deutsche Bundesbank: Zahlungsbilanzstatistik, Statistisches Bundesamt Beiheft zum Monatsbericht 3, January 2013.

3 Deutsche Industrie und Handelskammer: Auslandsinvestitionen in der Industrie – Ergebnisse einer Umfrage bei den deutschen Industrie- und Handelskammern, spring 2012.

VOLUME OF COVER (MAXIMUM AMOUNTS) BY CONTINENTS IN MILLION EUR



NUMBER OF ASSUMED GUARANTEES BY SIZE OF ENTERPRISE



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

- In 2011, ASIA replaced Europe as REGIONAL FOCUS of the investment guarantees. This trend considerably picked up speed during the year under review, since almost 60% of all new cover was assumed for Asia. The strongest demand is still for China, with India following ever closer on its heels. On top of this, it can be observed that guarantees are increasingly being assumed for projects in Central Asia, with Uzbekistan and Kazakhstan, as well as in South-East Asia, first and foremost Indonesia. South-East Asia, in particular, is likely to play an even greater part in future, since German companies have up to now not invested very much there, and the region promises great sales potential due to the growing population and rising affluence. EUROPE is, however, still characterised by consistently high demand. Besides Russia, the Ukraine, Belarus and Turkey, numerous applications were received in the preceding year for southern European countries – primarily for Greece. If the euro debt crisis does not ease in the near future, increasing demand can be expected for countries in the EU too over the short term. In AFRICA, a steady flow of guarantees has been assumed for many years now, mainly for projects in the North of the continent. World population growth, the breathtaking increase in the demand for alternatives to the classical energy raw materials and technological progress, however, are slowly revealing a reversal in this trend. Thus in the last year, various enquiries and applications were registered for large-volume agricultural projects – some of them including local processing of the produce. German industry seems to be gradually increasing its focus on Africa and looking for opportunities there. Over recent years, applications for projects in LATIN AND SOUTH AMERICA were only seldom received. There was a slight reversal in this trend too in 2012, so that it is to be expected that more projects can be actively accompanied by investment guarantees in this region in future.

- Among the TOP TEN COUNTRIES in the guarantee portfolio, China leads the field again in front of Russia. India and the Ukraine exchanged positions in third and fourth place. Romania has dropped out of the Top Ten and been replaced by Kazakhstan. In addition Belarus has moved up one place.

- Every fifth guarantee in the portfolio is for a SMALL OR MEDIUM-SIZED ENTERPRISE, although the quota among new applications in this year dropped to a seventh. This is on the one hand almost certainly a result of the fact that many large companies have

ASSUMED GUARANTEES AND APPLICATIONS UP TO NOW
AMOUNTS IN MILLION EUR

Between 1959 and 2012 guarantees were assumed or applications were registered for capital investments (and their earnings) for the following countries and regions:

		Assumed Guarantees				Application volume			
		Number	in %	Volume	in %	Number	in %	Volume	in %
Africa		990	19.6	11,677.4	16.1	1,631	19.2	22,293.8	18.7
e. g.	Egypt	83		5,652.4		122		7,741.5	
	Libya	35		2,729.8		72		8,901.3	
	Algeria	14		1,138.2		64		1,671.6	
	South Africa	27		1,012.2		62		1,389.4	
	Morocco	49		351.1		86		537.0	
South and Central America		1,030	20.4	6,660.0	9.2	1,606	19.0	14,059.8	11.8
e. g.	Brazil	525		3,583.4		694		5,715.8	
	Argentina	96		903.2		175		2,236.4	
	Mexico	47		765.7		103		3,303.5	
	Venezuela	21		573.1		40		642.0	
	Trinidad and Tobago	6		268.0		10		400.9	
Asia		1,430	28.3	23,088.4	31.9	2,355	27.8	33,134.1	27.8
e. g.	China	517		11,443.8		788		15,002.9	
	India	148		4,149.9		214		4,777.8	
	Indonesia	100		2,224.1		152		2,759.3	
	Philippines	43		1,563.0		84		2,349.8	
	Kazakhstan	26		620.7		46		939.7	
Europe		1,597	31.7	31,049.3	42.8	2,886	34.0	49,822.2	41.7
e. g.	Russia	387		15,799.9		663		25,611.6	
	Turkey	181		6,577.4		260		8,249.0	
	Croatia	24		2,517.8		43		3,512.8	
	Czech Republic	140		1,549.5		225		2,060.2	
	Ukraine	85		998.8		170		1,490.9	
Worldwide		5,047	100.0	72,475.1	100.0	8,478	100.0	119,309.9	100.0

8,478 **applications,** thereof:
5,047 approved
2,934 withdrawn
54 rejected

applications pending as per the end of 2012: 443

integrated the investment guarantees firmly into their risk management system and automatically place applications which can be processed more swiftly, since the companies are experienced in the application process so that they need less consultation. On the other hand, the proportion of Mittelstand companies in the enquiries is particularly high. Enquiries from these companies are frequently coupled with the question as to suitable financing partners. Many of these projects fall at the hurdle of finance. It should also not go unmentioned that the vast majority of investment activity from small and medium-sized enterprises is still within the EU. Only then do the BRIC countries and the rest of the world follow.

- In line with the currently valid guidelines for the assumption of investment guarantees, cover should mainly be given for the TYPE OF COVER "equity participations". This is also in fact the case, both in terms of number (77.7%) and volume (64.1%), since equity participations have a clear lead in cover exposure. This trend is also set to continue. Investment-like loans come second (20% and 18.8% in number and volume) before "other rights qualifying as assets", which however – as a result of high-volume crude oil and natural gas projects – only posted a high score in volume (17.1%). "Endowment capital" is only rarely applied for.

- Companies from A LARGE NUMBER OF SECTORS figure in the demand for investment guarantees. There has been steady demand here over many years from the automotive, chemicals, construction as well as electrical, optical and apparatus engineering sectors. This means that 69% of guarantees can still be allocated to the secondary sector of the economy. The tertiary sector (24%) – first and foremost trading and financial services – has steadily gained ground over recent years, putting these two sectors in fifth and sixth place among all sectors. Oil and gas projects have already been the object of demand for many years. A new development is the increasing interest in agricultural projects. This leads to an expectation that the primary sector will play a larger role in the sectoral breakdown in future.

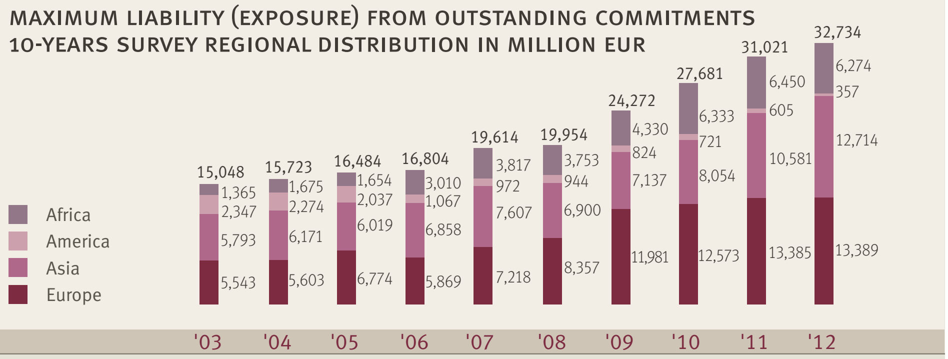
- With a quota of 59%, the IMC has APPROVED more than half the applications made since 1959. Only 5% with a volume of 10.6 billion euros in total still remain undecided as per the end of 2012. These refer mainly to projects in Mexico (2.1 billion euros), Russia (1.5 billion euros) and China (1 billion euros).

GUARANTEE PORTFOLIO

THE MAXIMUM LIABILITY OF THE FEDERAL GOVERNMENT OF GERMANY AT THE END OF 2012 STOOD AT AN ALL-TIME HIGH OF 32.7 BILLION EUROS.

THIS RESULTS FROM THE GUARANTEES ASSUMED IN THE YEAR UNDER REVIEW. DUE TO THE CONTINUING HIGH DEMAND THE STATUTORY COVER LIMIT IN THE BUDGET LAW WAS ONCE AGAIN INCREASED AND NOW STANDS AT 60 BILLION EUROS AS OF 1ST JANUARY 2013. THE LIABILITY OF THE FEDERAL REPUBLIC OF GERMANY WAS DISTRIBUTED OVER 65 COUNTRIES. IN THE GUARANTEE PORTFOLIO EUROPE WAS STILL JUST AHEAD OF ASIA, WHICH IS INCREASINGLY GAINING GROUND HOWEVER. PROJECTS IN THE FIVE COUNTRIES RUSSIA, CHINA, INDIA, EGYPT AND TURKEY TOGETHER ACCOUNT FOR 82% OF TOTAL EXPOSURE. THE INVESTMENT GUARANTEE SCHEME PAYS FOR ITSELF AND HAS SUCCESSFULLY DISCHARGED THE FEDERAL BUDGET ACCOUNTS SINCE ITS INCEPTION.

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



INVESTMENT GUARANTEES IN HOST COUNTRIES

Investment guarantees for capital (and their earnings) were assumed in the following countries per the end of 2012:

Afghanistan	El Salvador	Mexico	Serbia
Albania	Ethiopia	Moldova (Republic)	Sierra Leone
Algeria	Georgia	Mongolia	South Africa
Angola	Ghana	Montenegro	Sri Lanka
Argentina	Hong Kong	Morocco	Taiwan
Azerbaijan	Hungary	Namibia	Tajikistan
Bangladesh	India	Nicaragua	Thailand
Belarus	Indonesia	Nigeria	Tunisia
Bosnia and Herzegovina	Iran	Oman	Turkey
Brazil	Israel	Pakistan	Ukraine
Bulgaria	Jordan	Panama	United Arab Emirates
China	Kazakhstan	Peru	Uzbekistan
Colombia	Kenya	Philippines	Venezuela
Croatia	Latvia	Romania	Vietnam
Czech Republic	Libanon	Russia	
Ecuador	Libya	Rwanda	
Egypt	Malaysia	Saudi-Arabia	

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) as well as loans by the European Investment Bank is laid down annually in the FEDERAL BUDGET LAW (§ 3 Par. 1 sentence 1 number 2 letters a-c). This was increased again after only two years as of 1st January 2013 by 10 billion euros to currently 60 billion euros. If a guarantee exceeds an amount of one billion euros, the BUDGET COMMITTEE OF THE LOWER HOUSE OF THE GERMAN PARLIAMENT must be informed.

The maximum liability of all guarantees finally issued by the Federal Republic of Germany in 2012 amounted to 4.7 billion euros. It was mainly accounted for by China, Russia and India. A guarantee applied for and positively decided in the year under review with a maximum liability of some one billion euros was only able to be allocated to the exposure, so increasing it, after the Budget Committee was informed in 2013. The maximum liability was reduced – mainly by the expiry of guarantees, repayment of loan principal and sales of participations as well as by terminations – by a total of 3 billion euros. Net exposure from the guarantee portfolio has thus increased at the end of 2012 to a balance of 32.7 billion euros, the highest figure in the history of the promotion scheme. The number of guarantees in the portfolio (808) is slightly down year-on-year (820). The liability of the Federal Republic of Germany under outstanding commitments referred to 65 countries, the lion's share of this (41%) was accounted for by Europe, 39% by Asia, 19% by Africa and 1% by Latin America. The countries with the highest amounts of covered investments were Russia (9 billion euros) followed by China (7.7 billion euros), India (3.6 billion euros), Egypt (3.4 billion euros) and Turkey (3.1 billion euros), which make up together 82% of total exposure.

BUDGETARY RESULTS

The investment guarantee scheme pays for itself. Overall, the Federal Republic of Germany has been able up to now to meet all its payment obligations under the investment guarantees from fees and premiums as well as from recoveries under recourse against host countries. This also applies in respect of the year 2012 seen in isolation. Thus the guarantees for foreign direct investments have DISCHARGED the German budget since their introduction.

DEVELOPMENT OF THE MAXIMUM EXPOSURE IN BILLION EUR

	2012
Total at the beginning of the year	31.0
New exposure	4.7
of which approved applications in the year under review	4.7
Reductions	-3.0
after scheduled expiry of guarantees, repayment of loans or repatriation of equity participations	- 1.3
due to non-realisation of projects in whole or in part	- 0.6
after premature terminations of guarantees	- 1.1
Total at the end of the year	32.7

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DEFINITIONS AND EXPLANATIONS

AGA:
Auslands-Geschäftsabsicherung 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

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

Cover for legally dependent branches:
For projects involving a large number of legally dependent branches, guarantee cover can be extended to each individual branch of the company, provided that separate annual financial statements are drawn up for each and every branch

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 at a legally dependent branch

Exchange rate limitations, lifting of:
For foreign currency loans it is possible to be indemnified on the basis of the exchange rate at the time of occurrence of the event of loss. To this end, the guarantee premium will be increased to 0.55% p.a.

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

Holding guarantee:
Includes both the proportional equity participation of the German investor in the holding company as well as the equity participation of the holding company in the operating company; sufficient legal protection in the host country is a precondition for assuming cover

Issued policies:
Approved guarantee applications insofar as guarantee declarations were issued

IXPOS:
Internet portal of the Federal Ministry of Economics and Technology 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:
Total sum of cover for capital and earnings minus retention

OECD-Guidelines for Multinational Enterprises:
Common recommendations for the responsible and legally correct conduct of enterprises in their activities abroad; adopted in 1976 and fully revised in 2011 by the governments of the states united in the OECD and other participating countries

Other rights qualifying as assets:
Rights made long-term in cash or other in-kind contributions and with 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 work force up to 2,000 or a turnover of up to 500 million euros and not being a member of 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 this 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

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The lead function for underwriting decisions for investment guarantees of the Federal Republic of Germany is exercised by the FEDERAL MINISTRY OF ECONOMICS AND TECHNOLOGY:

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The Federal Republic of Germany has appointed a consortium formed by PRICEWATERHOUSECOOPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Hamburg, as a lead partner, and EULER HERMES DEUTSCHLAND AG, Hamburg, 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 2013
Date of publication: May 2013

www.agaportal.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 Deutschland AG to manage these promotion schemes.

Federal Ministry of Economics and Technology

OUR PARTNERS

pwc

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