ANNUAL REPORT 2013

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

	2009	2010	2011	2012	2013
Guarantee applications					
Number	166	140	155	138	108
Volume (maximum amounts)	10,101.5	7,620.8	6,553.5	8,238.0	3,676.8
Guarantees					
Number	115	129	131	123	116
Volume (maximum amounts)	3,012.1	5,817.7	5,158.7	6,074.5	2,982.5
Promoted projects					
Number	76	83	86	92	76
Countries	24	24	26	22	17
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	778	788	820	808	803
Maximum liability	24,272.0	27,681.0	31,021.3	32,734.2	33,423.2

Investment Guarantees of the Federal Republic of Germany
Direct Investments Abroad

ANNUAL REPORT 2013

Ladies and Gentlemen,

Direct investments by German industry abroad can look back on a long tradition. Last year too, German companies once again invested large sums in projects abroad, first and foremost in the high-growth emerging markets and developing countries. This sends a positive signal because such investments abroad help to safeguard and create jobs here in Germany. The projects concerned are often aimed at opening up the market further on the ground and improving sales opportunities. But concerns about an insufficient legal protection abroad as well as conversion and war risks threaten in some cases to make companies at least hesitate before taking the step of going abroad – although it makes eminent economic sense – or even to prevent them doing it. This is the reason why the Federal Government has made state-supported investment guarantees available for more than 50 years now. They provide protection against the unforeseeable political risks and thus help German companies to strengthen their international competitiveness. At the same time, the people in the countries concerned also benefit. In this context, a large number of German projects in the MENA region received cover in the last year. In this way we are also making a contribution to stabilisation in the Middle East and North Africa with these guarantees.

It is especially important to me to support small and medium-sized enterprises, the German Mittelstand, more intensively than in the past. That is why I was very happy to see that almost every fourth guarantee last year was assumed for SMEs, thus increasing their share year-on-year by a considerable margin. We want to continue in the same vein.

All in all, investment guarantees to the tune of three billion euros were assumed in 2013. Once again, the majority of new guarantees went to Asia. The strongest demand was for cover in connection with projects in Russia, China and Saudi Arabia. The main sector focus lay on the chemical industry. The high inventory of pending applications at the end of 2013 (7.5 billion euros) only goes to show once more the sustained high demand for the investment guarantees. This is underlined even more strongly by the fact that 34% of all new policy-holders have received cover for the first time.

Political risks leading to indemnification not only impact on the bilateral relations between the Federal Republic of Germany and the host countries. In most cases the company affected subsequently withdraws permanently from the market. For this reason, the Federal Government used its influence with determination in 2013 too to avert such events of loss.

The annual report presented here shows it once again: investment guarantees are a significant component in promoting German foreign trade. This is all the more true since German commitments abroad also contribute towards safeguarding and creating German jobs at home. That is why I wish the Federal Investment Guarantees a successful year in 2014 too!

Yours,

Sigmar Gabriel
Federal Minister of Economic Affairs and Energy

THE YEAR AT A GLANCE

NEW GUARANTEES WITH A VOLUME OF THREE BILLION EUROS WERE ASSUMED IN 2013. THE MAIN REGIONAL FOCUS WAS ONCE AGAIN ASIA. SAUDI ARABIA AND BRAZIL ARE AMONG THE COUNTRIES

WITH STRONG DEMAND FOR THE FIRST TIME. THE SECTOR EMPHASIS LAY ON THE CHEMICAL INDUSTRY. THE FEDERAL GOVERNMENT ALSO TOOK ACTION TO PREVENT LOSSES IN MANY PROJECTS. THE EU “GRANDFATHERING DIRECTIVE” ENSURES THAT THE EXISTING GERMAN BILATERAL INVESTMENT TREATIES (BITS) REMAIN IN FORCE UNTIL FURTHER NOTICE. ONCE AGAIN, THE FEDERAL GUARANTEE SCHEME POSTED THE HIGHEST PORTFOLIO INTERNATIONALLY.

RESULT OF THE BUSINESS YEAR

The development in 2013 can be summarised as follows:

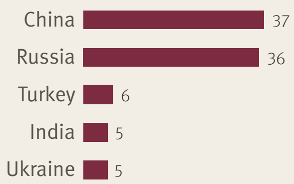
- The VOLUME OF COVER, at 3.0 billion euros, was down on the previous year's figure (6.1 billion euros). Despite this, applications for two large-scale projects with a total volume of 3.5 billion euros had already been exhaustively discussed in the Interministerial Committee (IMC) at the end of 2013. The guarantees for these projects will in all likelihood be assumed early in 2014. In the light of this, the result overall is once again at a very high level, confirming the trend towards increased demand over recent years. The NUMBER OF ACCEPTED APPLICATIONS was 116 (2012: 123), and thus stood at about the mean of the last ten years.

- The number of PROJECTS (76), although it went down (2012: 92), is similarly in line with the ten-year average. The projects covered in the year under review were distributed over 17 countries, among them, with Israel and Nicaragua, once again countries for which there had hitherto seldom been demand.

- The REGIONAL FOCUS of the new VOLUME OF COVER with 52% was again Asia (in particular China, Saudi Arabia, India) ahead of Europe with 41% (mostly Russia, Ukraine) as well as Central and South America with 6% (mainly Brazil) and Africa (principally Tunisia) with 1%. It is particularly remarkable that Brazil and Saudi Arabia were among the five countries for which there was the strongest demand in 2013.

- In terms of the number of guarantees assumed, the chemical SECTOR came in as clear winner. The secondary sector, with three quarters of the new guarantees, led here overall. The share of the tertiary sector (mainly services and financing companies), at 22%, took second place before the exclusively agricultural projects of the primary sector.

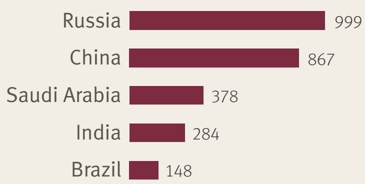
NUMBER OF GUARANTEES BY MOST IMPORTANT COUNTRIES 2013



Subtotal 2013: 89 (76.7%)

Total 2013: 116 (100%)

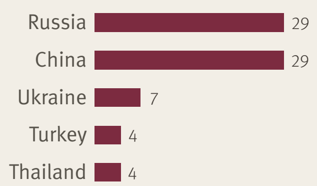
VOLUME OF COVER (MAXIMUM AMOUNTS) BY MOST IMPORTANT COUNTRIES 2013 IN MILLION EUR



Subtotal 2013: 2,676 (89.7%)

Total 2013: 2,983 (100%)

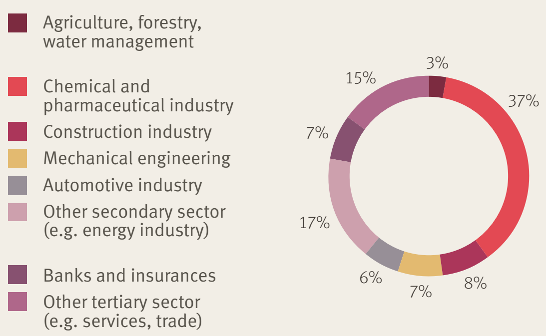
NUMBER OF NEWLY REGISTERED APPLICATIONS BY MOST IMPORTANT COUNTRIES 2013



Subtotal 2013: 73 (67.6%)

Total 2013: 108 (100%)

NUMBER OF GUARANTEES BY SECTORS 2013 IN %



- In 2013, guarantees were only assumed for EQUITY PARTICIPATIONS and INVESTMENT LOANS. The main emphasis here was on equity participations, both as regards number (67.2%) and volume (53.6%).

- Some 34% of all NEW POLICYHOLDERS received an investment guarantee for the first time in 2013.

- INVESTMENTS OF ANY SIZE can be covered. Guarantees were assumed in 2013 for sums ranging from some 47,000 euros up to 260 million euros.

- Just under every fourth application accepted came from a SMALL AND MEDIUM-SIZED ENTERPRISE. This represents an increase of almost 60% over the previous year. On top of this, two thirds of the 78 ENQUIRIES in the year under review were also received from small and medium-sized enterprises.

- The APPLICATIONS RECEIVED were down on the preceding years, both in terms of volume (3.7 billion euros) and number (108). Among the newly registered applications, projects in Russia and China predominated ahead of Ukraine.

- The size of the guarantee portfolio at the end of 2013 (803) was slightly down on the preceding year's figure (808). The MAXIMUM LIABILITY, in contrast, rose from 32.7 billion euros to a record figure of 33.4 billion euros.

- The Federal Government was active in 2013 too to PREVENT LOSSES in connection with many projects. Particularly noteworthy here are projects in Russia as well as in Uzbekistan and Ukraine. In addition to this, court and legal costs to the tune of 0.4 million euros were reimbursed in connection with a claim in Argentina which was recognised a long time ago.

- INTERNATIONALLY the investment guarantees were the number one among all insurers worldwide in terms of the guarantee portfolio.

- The RESULT of the guarantee scheme shows that it paid for itself again in 2013 out of the fees and premiums charged.

Ritter Sport goes further down the value chain and invests in Nicaragua

In 2012, the family-owned business bought 2,500 hectares of land in eastern Nicaragua and invested in the establishment of “El Cacao”, one of the worldwide largest cocoa plantations. What is being set up here is a plantation which aims to be an exemplary model and which will in future supply cocoa for Ritter Sport chocolate on an ecologically and socially sustainable basis. With this step, the maker of the familiar colourful chocolate squares is moving into a new dimension in its own value chain. The entry into proprietary cocoa farming in Nicaragua will give the company on the one hand a certain independence from the prices on the commodity exchanges and on the other allow them to maximise their influence on the social and environmental conditions on the ground. With some 1,500 hectares of area under cultivation, “El Cacao” is intended in the long term to supply something like 30% of the cocoa butter needed for Ritter Sport’s chocolate squares.

This rather unusual step for a relatively small Mittelstand chocolate maker is a continuation of a commitment in Nicaragua stretching back over almost 25 years. Ritter Sport has already been supporting small Nicaraguan farmers in the sustainable production of cocoa since 1990. Support with know-how and fair offtake prices provide a secure livelihood for many smallholders, agroforesting methods of raising the crop protect nature and the environment.

A Federal guarantee for direct investments covering the entire investment in the project running over a period of ten years was assumed. Cover from the Federal guarantee for the political risks involved in the project gives the SME planning security to fall back on, and this also makes a contribution towards safeguarding jobs in Germany.

The first 100 hectares of land had been taken under cultivation by December 2013 and planted with cocoa seedlings as well as tree species adapted to the location which provide value-added in themselves and shade. Setting up a mixed crop cultivation system according to agro-foresting principles ensures multilevel cover for the topsoil, thus preventing erosion, desiccation and leaching of nutrients. The cultivation of the area under crops is carried out according to the principles of integrated agriculture, which include, e.g. energy efficiency, avoidance of climate-impacting emissions, sustainable soil fertility and biodiversity. The main contribution here is made by preserving the existing forest areas and wetlands as well as retaining vegetation bridges for wildlife – all these together make up about a third of the area.

Alfred Ritter GmbH & Co. KG,
Waldenbuch

BILATERAL INVESTMENT TREATIES (BITS) – CURRENT DEVELOPMENTS

The existence of an adequate framework of legal protection for an investment is regularly assumed by the IMC if Germany has concluded a BIT with the host country. BITs give investors comprehensive legal protection under international law for investments abroad. They guarantee investors from the signatory states a specific significant level of protection and give them access to legal remedies through the national courts to pursue their rights. Thus, the treaties guarantee in particular a level of compensation commensurate with the value of their investment in the event of direct or indirect expropriation, just and equitable treatment of investors, equal treatment with the country's own enterprises and most-favoured nation status, as well as the free flow of capital and earnings transfer. In addition, investors are given the option to assert their rights independently – and in particular independently of the possible uncertainties of national legal proceedings – before neutral international arbitration tribunals.

The existence of a BIT between the Federal Republic of Germany and the host country of the project is an important prerequisite for the assumption of investment guarantees. If, in exceptional cases, no BIT exists, an investment guarantee can still in principle be assumed if the host country's national legal system provides adequate legal protection for inward investments.

At the end of 2013, 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 1 December 2009. 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. The negotiations of the EU Commission on a free trade agreement incorporating investment protection with Canada and Singapore were in their final stages at the time of going to print.

As long as no treaties involving investment protection have been concluded by the EU with third countries, the various BITs of the member states signed prior to the coming into effect of the Lisbon Reform Treaty remain valid. The consequences of the transfer of responsibility for the BITs concluded by the member states are regulated in 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 after the transfer of responsibility, however, are required to be notified to the Commission before they can come into force. This is the case, as regards the Federal Republic of Germany, for the BITs with Pakistan, Iraq and the Republic of Congo. The appropriate notification process has already been initiated by the Federal Government.

HOST COUNTRY RISK ASSESSMENT

Up to now, the legal protection requirements in SOUTH AFRICA were basically assured under the German-South African BIT which came into force on 10 April 1998. On 23 October 2013 South Africa cancelled the treaty giving notice of twelve months. This means that the BIT with South Africa will expire as of the end of 22 October 2014. For capital investments made up to the point at which the BIT ceases to be in force, its provisions continue to apply for a further 20 years. Whether and, if so, to what extent cover for investments made after the annulment of the treaty can be assumed on the basis of the national legal system will be discussed by the IMC in due course if and when an application is made.

BRAZIL too was on the IMC's agenda again. Since the BIT continues to be out of force, the assumption of guarantees for Brazil was once again based on the national legal system of the country. In line with long-standing cover practice, a slightly elevated premium of 0.55% p.a. was charged.

For an investment in NICARAGUA, the IMC approved for the first time last year an extension of guarantee cover to include state intervention in each individual place of business (so-called cover for legally dependent branches). This was done on the basis of the German-Nicaraguan BIT of 2001.

Full-spectrum cover was assumed for a project in TUNISIA with which the IMC was already familiar.

On the basis of the German-Ukrainian BIT which came into effect in 1996, it was possible once again to assume guarantees for projects in UKRAINE. In view of the economic situation in the country, however, the IMC was not in a position to give comprehensive cover. Existing country cover policy with an extension of the payment period for indemnification from six to nine months following the occurrence of an event of loss under the conversion and transfer risk and/or payment embargoes or moratoriums continues to apply.

The IMC assumed several guarantees for investments in ECUADOR during the year under review. The basis for this was the German-Ecuadorian BIT which came into effect on 12 February 1999. While the government of Ecuador had already announced its intention to cancel the BIT with Germany in 2010, this has not been done to date, so that the legal protection requirements for the assumption of guarantees continued to be regarded as given. Due to the current economic situation of Ecuador, it was not possible to assume cover for earnings. In addition, the payment period for indemnification following the occurrence of an event of loss under the conversion and transfer risk and/or payment embargoes or moratoriums was extended in line with country cover policy from six to nine months.

German investors can continue to apply for cover for their investments in UZBEKISTAN. Most recently, however, only guarantees for follow-on investments have been assumed. The IMC will take account in its decisions – as it usually has done up to now – of the ongoing situation in Uzbekistan as well as the security environment in the region and decide on a case-by-case basis.

VOLUME OF COVER BY MOST IMPORTANT COUNTRIES INTERNATIONAL

	per December 2013
1.	Russia
2.	China
3.	Kazakhstan
4.	India
5.	Egypt

INTERNATIONAL COMPARISON BY VOLUME OF COVER

	December 2011	December 2012	December 2013
1.	D*	D	D
2.	NEXI**	SINOSURE	SINOSURE
3.	SINOSURE***	NEXI	NEXI
4.	COFACE****	Zurich *****	Zurich

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

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. Dr Andreas Klasen, the responsible partner at PwC for the export credit guarantees and investment guarantees as well as for the untied loan guarantees, was elected Vice-President of the Berne Union for one term in October 2013.

In 2013, the investment insurers held intensive discussions on current developments in international arbitral jurisdiction. Against the background of a steep rise in the number of cases since the year 2000, the changing attitudes taken to international arbitration by those countries in South America, Eastern Europe and Central Asia which have most often been defendants in such cases were discussed in particular. These countries are increasingly questioning the impartiality of the arbitration courts and see themselves as being discriminated against in the proceedings. On top of this, the governments of these countries are faced with problems when attempting to implement unpopular decisions of the international arbitration courts with a negative domestic political impact on their own populations.

Besides the general global economic situation, further developments in North Africa were the subject of exhaustive discussion in 2013. Apart from isolated cases of negative experience with politically motivated violence, no increased vulnerability of investments to state intervention has transpired in the region. The divergent speeds with which the North African countries are returning to stability after the social upheavals of the "Arab Spring" have sharply focussed awareness on the relevance of political risks again. In contrast to this the countries of the Gulf region, especially due to their economic potential, engage the particular interest of many investors. All in all, demand for investment guarantees continued to be high for many members of the Berne Union.

Internationally, the investment guarantee scheme of the Federal Government maintained its lead in terms of the guarantee portfolio over all other insurers worldwide at the end of 2013.

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", are a tried and tested tool of risk management in export business. As part of the scheme for the promotion of foreign trade, they safeguard German exporters and banks from the risks of non-payment when exporting to markets with an elevated risk and provide cover against the commercial and political risks of export business.

Something like 80% of all Hermes guarantees go to cover 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.

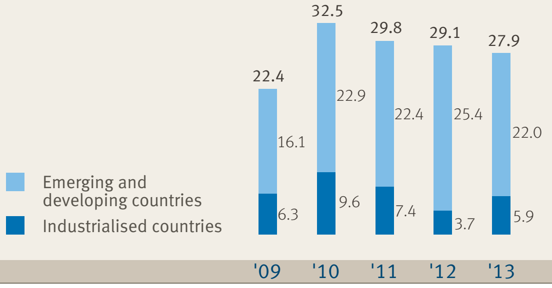
The responsibility for granting export credit guarantees lies with an Interministerial Committee (IMC) consisting of the Federal Ministry for Economic Affairs and Energy (BMWi, as lead ministry), the Federal Ministry of Finance (BMF), the Federal Foreign Office (AA) and the Federal Ministry for Economic 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 differentiated 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.

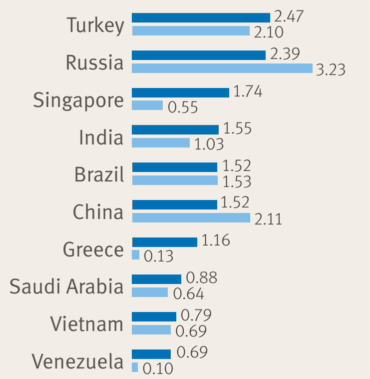
Hermes guarantees have been a tried and trusted tool for the promotion of foreign trade since 1949. Through their anticyclic function they offer reliable cover for German exporters, especially in crisis situations, thus helping to safeguard jobs.

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 IN 2013/2012
BY MOST IMPORTANT COUNTRIES
IN BILLION EUR



Subtotal 2013: 14.71 (52.7%)

Total 2013: 27.89 (100%)

CRISIS MANAGEMENT AND CLAIMS PAYMENT

The value of the investment guarantees lies, besides paying a claim after a possible event of loss, in particular in the support which the Federal Government provides to prevent it occurring in the first place. The primary goal of the Federal Government with this scheme is to secure the continuation of the covered projects. As soon as a project is threatened with detrimental effects as a result of political measures of the host country, the Federal Government intervenes on the diplomatic level, especially via the German embassies and general consulates abroad. This POLITICAL SUPPORT can be deployed effectively if the policyholders inform the Federal Government at an early stage about any difficulties they may be experiencing in the host country. Over and above this, the Federal Government is prepared in principle to share in the investor's costs for loss prevention measures (in particular litigation).

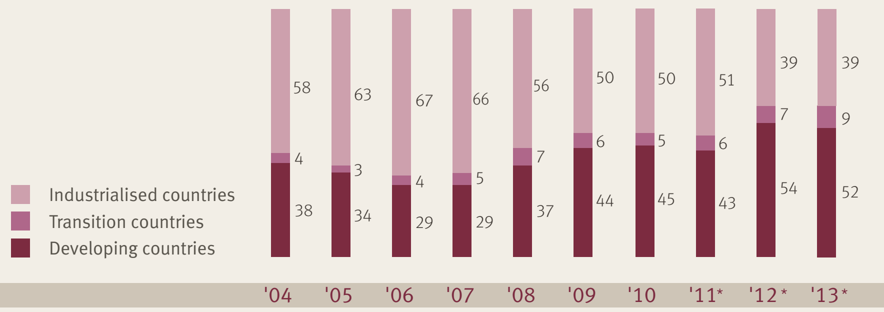
The Federal Government carried on ACTIVE CRISIS MANAGEMENT in 2013, too, and thus saw itself forced to intervene diplomatically in two infrastructure projects in Russia. While the business activity of the project company in one case is threatened by countless individual actions by the local administration, in the case of another covered investment, the local authorities constantly fail to fulfil their contractual liabilities towards the project company. Support for the projects will continue to be given in 2014. On top of this, the Federal Government was active in preventing losses in Uzbekistan and Ukraine as well. In a longstanding claim in Argentina, it additionally took over part of the court and legal costs of some 400,000 euros for international arbitration proceedings as part of the recovery activities for an already indemnified claim.

In the last ten years, claims with a total liability volume of more than a billion euros have been prevented through crisis management by the Federal Government. Overall, the balance of the amounts paid out to investors since the inception of the promotion scheme, netting indemnifications and payments from recoveries, stands at a total of some 152 million euros (including participation by the Federal Government in costs). Pending the conclusion of debt recovery action under earlier claims in Argentina, Bulgaria and the Philippines, it is not currently possible to assume investment guarantees for projects in these countries for reasons of budget law.

DEVELOPMENT OF THE INVESTMENT GUARANTEES

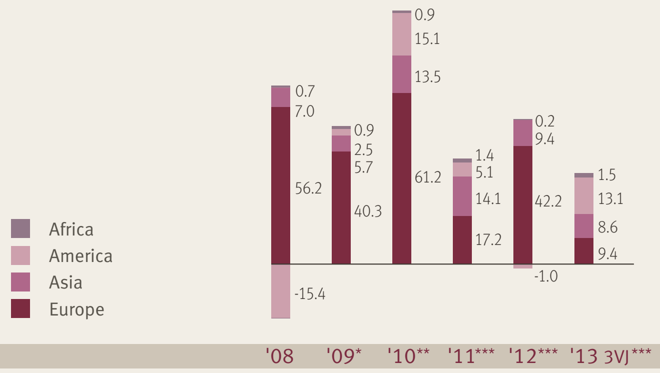
DIRECT INVESTMENTS WORLDWIDE POSTED A SLIGHT INCREASE IN 2013. ONCE AGAIN, THE EMERGING MARKETS AND DEVELOPING COUNTRIES ATTRACTED WELL OVER HALF OF ALL INWARD INVESTMENTS. THE REGIONAL FOCUS OF GLOBAL INVESTMENT FLOWS AND OF THE INVESTMENT GUARANTEES CONTINUES TO BE ASIA. THE CENTRAL MOTIVE OF GERMAN COMPANIES IN INVESTING ABROAD IS NOT CUT COSTS, BUT THEY ARE DOING IT TO OPEN UP MARKETS AND THAT SAFEGUARDS JOBS IN GERMANY. THE POLICY-HOLDER POLL HELD IN 2013 PROVIDED IMPRESSIVE CONFIRMATION OF THIS. SMALL AND MEDIUM-SIZED ENTERPRISES TOO ARE INCREASINGLY DOING BUSINESS ABROAD.

DIRECT INVESTMENTS WORLDWIDE BY COUNTRY GROUPS IN %



* Provisional estimates by UNCTAD: Global Investments Trends Monitor No 15, January 2014.
Sources: UNCTADSTAT: Inward and outward foreign direct investment flows, annual, 1970-2012 (as per 31.01.2014).

GERMAN NET DIRECT INVESTMENTS ABROAD IN BILLION EUR



* Deutsche Bundesbank: Direktinvestitionen lt. Zahlungsbilanzstatistik, April 2012.
** Deutsche Bundesbank: Direktinvestitionen lt. Zahlungsbilanzstatistik, April 2013.
*** Deutsche Bundesbank: Zahlungsbilanzstatistik, Statistisches Beiheft 3 zum Monatsbericht, January 2014.

DIRECT INVESTMENTS WORLDWIDE

2013 was marked by moderate growth in the global economy and a tentative recovery in the Eurozone, which caused global investment activity to rise by 11% to 1.46 billion US dollars over the same period year-on-year. All in all, global direct investments in the emerging markets and developing countries went up disproportionately in 2013 by 6.2%. This can be attributed mainly to the steep increase in investments in Central and South America (+17.5%). Despite a drop in investments of 1%, Asia remains the centre of foreign direct investments in 2013 too, followed by the Central and South American countries and the EU. The USA, China and Russia are worldwide the countries with the highest capital inflows from direct foreign investments. Altogether, direct investments in the industrialised countries rose by 12% in 2013, whereby the developing countries and emerging markets continue to be the main focus of foreign direct investments with a record figure of 759 billion US dollars. Thus, this year's report too confirms the trend of recent years.[1]

The total volume of GERMAN NET DIRECT INVESTMENTS (the balance of inward and outward direct investment flows) in the first three quarters of 2013 was some 33 billion euros, a decline of 32% over the same period of the previous year. The volume of German net investments is highest in America, at some 13.1 billion euros, followed by Europe (9.4 billion euros) and Asia (8.6 billion euros). With 1.5 billion euros, the volume of German net investments in Africa already stood at the highest level since 2008 after only the first three quarters of 2013.[2] According to a projection made by the IfM in Bonn, 6% of all small and 23% of all medium-sized enterprises were active with direct foreign investments during the period 2009 to 2011. In the future, more and more Mittelstand companies can envisage moving abroad with their business in the shape of direct investments, so that a rise in this share is on the cards.[3]

The central MOTIVE FOR GERMAN DIRECT INVESTMENTS abroad remains to open up new sales opportunities. According to a poll carried out by the DIHK, Berlin, in spring of 2013, 45% of German manufacturing companies want to use foreign direct investments to build up and expand their sales organisation and customer service. 35% of the companies polled give as their main motive the construction of production facilities abroad with the aim of opening up the market (in 2012, this was 30%). Comparative cost advantages play a relatively minor role in investment planning, as in previous years. Only every fifth company invests outside Germany for this reason. It is precisely the investments made by German companies abroad to open up markets which secure their international competitiveness and pay dividends for the investment and employment potential at home.[4]

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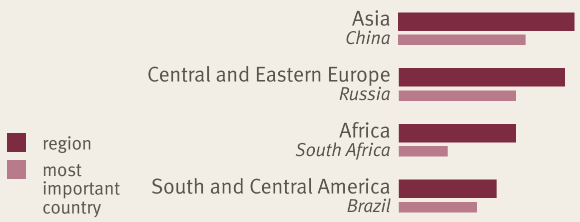
1 The data are provisional estimates of the United Nations Conference on Trade and Development (UNCTAD): Global Investment Trends Monitor No 15, January 2014.

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

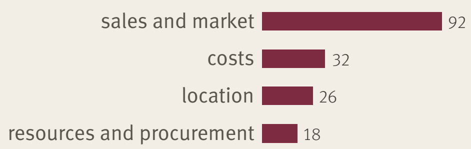
3 Institut für Mittelstandsforschung, Bonn: Internationalisierungsgrad von KMU. Ergebnisse einer Unternehmensbefragung, October 2013.

4 Deutscher Industrie- und Handelskammertag: Auslandsinvestitionen in der Industrie – Ergebnisse der DIHK-Umfrage bei den Industrie- und Handelskammern, spring 2013.

DISTRIBUTION BY LOCATION OF INVESTMENT ACCORDING TO NUMBER OF ENTERPRISES



MOTIVES FOR DIRECT INVESTMENTS ABROAD IN %



POLICYHOLDER POLL IN 2013

In September 2013, companies which had received investment guarantees were polled anonymously in a policyholder poll for the second time since 2004. The GOAL OF THE POLL was to reveal what effects direct investments by German companies in developing countries and emerging markets had on the German business locations, as well as to show the motivation for and the barriers against investing. A further aim was to find out how satisfied policyholders were with the promotion scheme and the support they received from the lead mandatary partner PwC. Of the 174 companies polled, 59 (34%) responded. Multiple answers were possible for all questions. The results of the poll have been condensed into a very concentrated form for this digression.

The vast majority of the 59 companies (72%) are in the SECONDARY SECTOR. Most of the enterprises are active in the mechanical engineering, energy industry and metal industry, and their commitments abroad are in the area of production (62.5%).

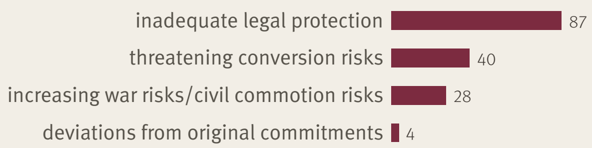
The majority of the participants are large companies (61%). SMALL AND MEDIUM-SIZED ENTERPRISES only make up 39% of the companies polled; this means that these companies participated in the poll by a greater proportion than their share of the guarantee portfolio (about a fifth).

The greater part of the investments fall – as in the findings of the 2004 poll – on ASIA as well as on the CENTRAL AND EASTERN EUROPEAN COUNTRIES. The most important countries for investments here are China and Russia. Overall, there are less direct investments going to South and Central America as well as Africa, but their significance as locations for investment has increased in comparison to 2004. Major target regions which do not belong to the BRICS countries are, besides Mexico and Egypt, Turkey and Ukraine. The central criterion when choosing where to invest abroad was, with 51%, support for customers and market management activities abroad. Further important factors were the level of production costs (35%) and the level of wage costs (29%).

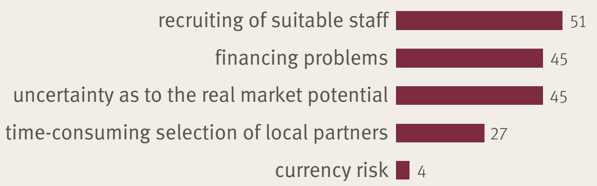
The MOTIVES FOR FOREIGN INVESTMENTS which were also polled in the study were broken down into sales and market motives, cost motives, location motives as well as motives connected with resources and procurement. As in the 2004 poll, sales and marketing motives took first place by a large margin, showing that they are the crucial factor in the investment decision. Cost motives, which came second, have declined further in significance since the 2004 poll.

Motives connected with location, resources and procurement are only of minor significance. Companies primarily pursue the aim of entering new markets or expanding their existing foreign markets and thus

POLITICAL OBSTACLES FOR INVESTMENTS ABROAD IN %



ECONOMIC OBSTACLES FOR INVESTMENTS ABROAD IN %



JOB EFFECTS OF INVESTMENTS ABROAD BY NUMBER OF ENTERPRISES

staying close to their customers. Cost and location advantages do, of course, help companies to sell their products on the global market at competitive prices.

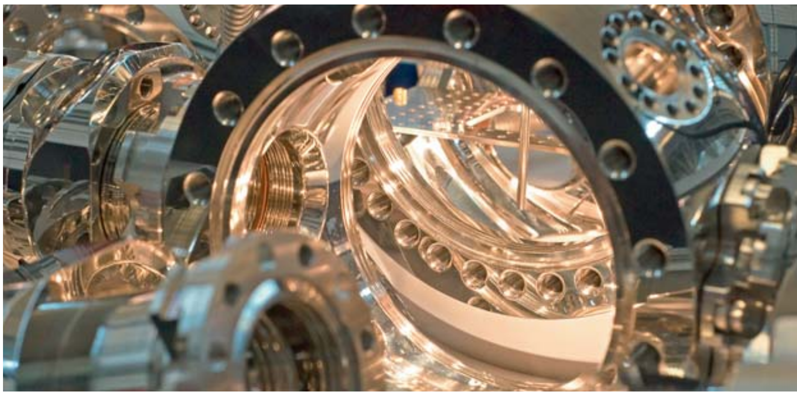
Both commercial and political obstacles to carrying out their investments were experienced by about 80% of the companies polled. The major POLITICAL BARRIERS here were inadequate legal protection and threatening conversion risks.

The most frequently occurring COMMERCIAL BARRIERS were problems in recruiting suitable staff and problems with project finance, as well as uncertainty as to the real potential of the market.

The policyholders were also asked about the EMPLOYMENT IMPACTS of their direct investments for the German location. The majority of the respondents reported that their investments had led to the creation of additional jobs (56%) as well as helping to safeguard existing jobs in Germany (80%). These findings confirm the 2004 results: Then, 78% of respondents said that investments abroad lead to securing jobs in Germany. 87% of respondents in 2013 denied that jobs were cut through their direct investments. On the contrary, three quarters of the companies believe that without their foreign investments German jobs would be jeopardised in the medium to long term. For the majority of the respondents a direct investment abroad led to the creation and safeguarding of up to 200 jobs at their German location.

The policyholders were asked for the first time to rate their SATISFACTION with the PROMOTION SCHEME and the support they received from PwC. 98% of respondents are satisfied with the support they get from PwC. The recommendation rate was positive: 79% of answering investors said that they would probably recommend the promotion scheme to their colleagues and business associates. To the question how likely they would be to use the investment guarantees again in future, given equal circumstances, eight out of ten companies replied that they would probably use the promotion scheme again.

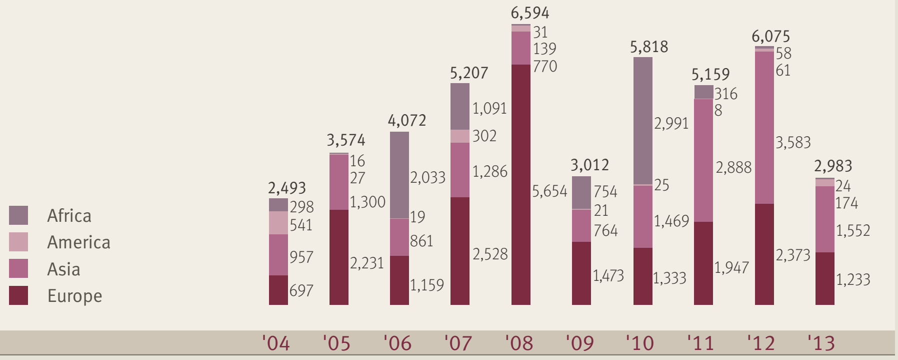
INVESTMENT GUARANTEES – TRENDS



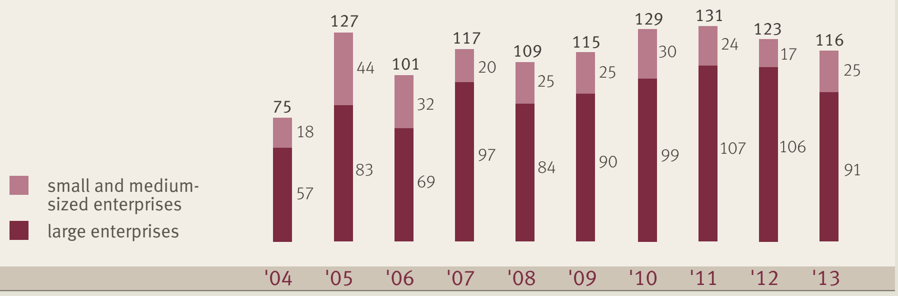
Developments in the investment guarantees can be summarised as follows:

- Since 2011, ASIA – and no longer Europe – has been the REGIONAL FOCUS of the investment guarantees. In 2013, too, more than half of all guarantees were assumed for projects in Asia. While demand for cover for China and India is unabatedly high, it can be observed that, alongside the interest shown over recent years in Central Asia, the Arabian peninsula is now gaining ever greater significance. This has to do with the increased efforts of the countries located there to attract foreign investors for an industrial structure which is more diversified than the present focus on oil and gas projects. But there is a high demand for investment guarantees for projects in EASTERN EUROPE, too, whereby, due to the main target of the instrument, investments in Russia, Ukraine and Belarus are the focus of interest. Only a few

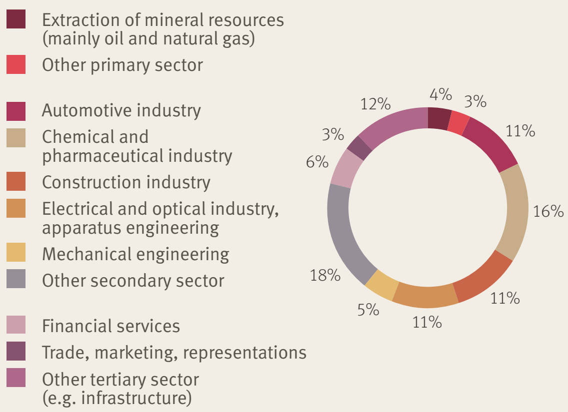
VOLUME OF COVER (MAXIMUM AMOUNTS) BY CONTINENTS IN MILLION EUR



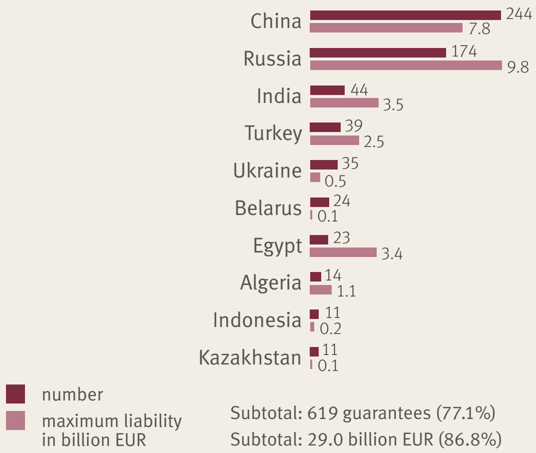
NUMBER OF ASSUMED GUARANTEES BY SIZE OF ENTERPRISE



NUMBER OF GUARANTEES IN THE GUARANTEE PORTFOLIO AS PER THE END OF 2013 IN %



TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO BY NUMBER OF GUARANTEES AS PER THE END OF 2013



Subtotal: 619 guarantees (77.1%)
Subtotal: 29.0 billion EUR (86.8%)

Total: 803 guarantees (100%) 33.4 billion EUR (100%)

guarantees were assumed in the year just ended for projects in AFRICA. The main emphasis of cover here still lies on the large-scale oil and gas projects in North Africa as well as on manufacturing industry in South Africa. Nevertheless, there is increasing interest, particularly as regards Africa, in projects in the area of renewable energies. This involves both wind power and photovoltaic projects. On top of this, there is an increasing number of enquiries concerning agricultural and forestry projects in Sub-Saharan Africa. After many years in which only very few applications were made for projects in CENTRAL AND SOUTH AMERICA, the trend seems to be gradually reversing. Besides Mexico, interest centres here above all on Brazil. But projects in Chile and Uruguay, too, seem to be interesting in terms of cover again. All in all, the investment guarantees are following the trend of the investment flows and, in doing so, successfully fulfilling their purpose of accompanying investors in opening up new markets for German industry.

- The distribution of the TOP TEN COUNTRIES in the guarantee portfolio – classified according to number of guarantees – is unchanged. China still leads the field ahead of Russia. Ukraine and Turkey have swapped fourth and fifth place, and Algeria and Indonesia have exchanged positions in eighth and ninth place.

- Every fifth guarantee in the portfolio is for projects of SMALL AND MEDIUM SIZED ENTERPRISES. Their share among new applications in the year under review, at just under a quarter, is slightly above this level, and thus corresponds by and large to the quota for the internationalisation of German Mittelstand companies which was found recently by the IfM. It remains to be seen whether this trend in new applications will be confirmed over the years ahead so that levels of over 30% on average are achieved again, rivalling those prior to the financial and economic crisis. In the last resort, many SMEs continue to have great problems in finding suitable financing options for their foreign investments in the more distant countries.

- Cover is mainly given for EQUITY PARTICIPATIONS. Both in terms of number (77.6%) and volume (62.2%) of outstanding commitments in the portfolio, the “equity participations” once again have a clear lead.

ASSUMED GUARANTEES AND APPLICATIONS UP TO NOW
AMOUNTS IN MILLION EUR

Between 1959 and 2013 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		993	19.3	11,674.2	15.5	1,639	19.1	22,397.6	18.2
e. g.	Egypt	83		5,652.4		124		7,750.9	
	Libya	35		2,729.8		72		8,901.3	
	Algeria	14		1,138.2		64		1,675.6	
	South Africa	29		1,018.5		64		1,420.7	
	Morocco	49		351.1		86		537.0	
South and Central America		1,039	20.2	6,834.0	9.1	1,617	18.8	14,235.0	11.6
e. g.	Brazil	529		3,731.9		696		5,836.0	
	Argentina	96		903.2		177		2,242.1	
	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		1,473	28.7	24,675.0	32.7	2,404	28.0	34,280.9	27.9
e. g.	China	549		12,320.3		817		15,675.1	
	India	151		4,433.6		216		4,961.5	
	Indonesia	100		2,224.1		154		2,767.5	
	Philippines	43		1,563.0		84		2,349.8	
	Kazakhstan	27		627.6		47		953.6	
Europe		1,636	31.8	32,219.8	42.7	2,926	34.1	52,073.3	42.3
e. g.	Russia	416		16,761.9		692		26,555.2	
	Turkey	186		6,673.2		264		9,439.2	
	Croatia	24		2,517.8		43		3,512.8	
	Czech Republic	140		1,549.5		225		2,060.2	
	Hungary	98		992.9		187		2,366.8	
Worldwide		5,141	100.0	75,403.0	100.0	8,586	100.0	122,986.8	100.0

8,586	**applications,** thereof:
5,141	approved
2,989	withdrawn
54	rejected

applications pending as per the end of 2013: 402

No change was observable in this trend in 2013. "Investment-like loans" come second (20.4% and 21.1% 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 (16.7%). "Endowment capital" provided over the long term to a legally dependent branch is only rarely applied for.

- Investment guarantees are available to companies from all sectors of the German economy, and demand from 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 (75%) and in the existing portfolio (72.1%). Various trading companies are in a phase of restructuring their business, and in the last two years they have not been able to realise investment plans abroad as they originally intended. This is reflected in a decrease in current demand for investment guarantees in this sector. Since, however, many companies have made intensive use of the promotion instrument in their foreign investments in the recent past, this trend can be expected to be short-lived. Although service and financing projects continue to be in demand, the marked decline in trade has led to a steadily declining share in the guarantee portfolio for the tertiary sector over recent years, until it stands most recently at only 21.1%. For the future, demand for cover for renewable energy projects is first and foremost on the cards. On top of this, a continuing high level of interest from the German oil and gas industry is to be expected.

- To date, the IMC has approved something like 60% of all applications received since 1959; a further 35% of applications were subsequently withdrawn or postponed. Apart from very few applications which were rejected, this leaves about 5% of PENDING APPLICATIONS with a volume of 7.5 billion euros as per the end of 2013. These refer mainly to projects in Libya (1.5 billion euros), Russia (1.3 billion euros) and China (0.7 billion euros).

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

BRICS-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

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 branch individually.

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)

German Sustainability Code (GSC):
Recommendations of the German Council for Sustainable Development, enabling enterprises to provide evidence of how far they comply with the criteria of the GSC for sustainable development
(www.nachhaltigkeitsrat.de)

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)

Maximum amount:
Total sum of cover for capital and earnings

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

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

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 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 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.

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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 FOR ECONOMIC AFFAIRS AND ENERGY:

Bundesministerium für Wirtschaft und Energie
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Scharnhorststraße 34 - 37
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The Federal Republic of Germany 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 2014
Date of publication: May 2014

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 Aktiengesellschaft to manage these promotion schemes.

Federal Ministry
for Economic Affairs
and Energy

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