

Investment Guarantees of the Federal Republic of Germany at a Glance

	2002 Amounts in million EUR	2003 Amounts in million EUR	2004 Amounts in million EUR	2005 Amounts in million EUR	2006 Amounts in million EUR
Guarantee applications					
Number	138	168	150	180	167
Volume (maximum amounts)	3,516.5	2,148.5	3,129.2	4,282.9	4,758.5
Guarantees					
Number	90	107	75	127	101
Volume (maximum amounts)	2,329.4	1,695.9	2,493.3	3,573.5	4,071.9
Government exposure from outstanding commitments (end of the year)					
Number	873	851	806	812	789
Maximum liability	14,697.9	15,047.5	15,723.1	16,483.6	16,803.5
Promoted projects					
Number	67	80	64	74	77
Countries	24	27	26	18	23

Investment Guarantees of the Federal Republic of Germany
Foreign Direct Investments

Annual Report 2006



Message from Michael Glos



Federal Minister for
Economics and Technology
Michael Glos

The German economy has traditionally laid a strong emphasis on foreign trade. In 2006, it once again successfully defended its title as world export champion. In many sectors, however, this success would not have been possible by doing business only from Germany. The German economy has taken up the challenge posed by the globalisation of business and set up numerous production facilities as well as marketing and service companies abroad. It is only in this way that it was and is possible to open up foreign markets and sourcing for the pre-produced goods necessary for German exporters in the long term.

It is a central aim of the Federal Government to safeguard and create jobs in Germany. The German foreign trade and investment promotion scheme takes its place here among a whole series of programmes and measures which are gradually contributing to the easing of the employment situation in our country. The investment guarantees are an important building block in the Federal Government's overall plan for this. They facilitate entry for German companies into markets which are characterised by difficult political conditions and a lack of clear legal certainty. The political risks involved in foreign projects, which the private market is unable to gauge and in the last resort cannot bear, are assumed here by the Federal Government. In this way investment guarantees offer German companies long-term flanking support for their investments in emerging and developing countries and they play their part in expanding employment opportunities in Germany.

In 2006 the Federal Government granted investment guarantees in respect of German direct investments abroad and their earnings to the tune of EUR 4.1 billion for a total of 77 projects in 23 developing and emerging countries. After I was already able to announce the second best result since the introduction of the guarantee scheme (1959) here a year ago, it is particularly gratifying to report that the preceding year's already very high volume of EUR 3.6 billion (74 projects/18 countries) has been exceeded by 14%. The most important countries by number of investment guarantees granted in 2006 were China and Russia. Major projects in the oil and gas sector in Egypt and Russia account for approximately 65% of the new cover. The investment guarantees thus made a substantial contribution in 2006 to supporting German companies in exploiting new mineral resources, helping in this way to secure Germany's energy supply.

In addition it is a matter of great importance to me to note that every third application approved in 2006 came from small and medium-sized enterprises. This share of cover granted for small and medium-sized enterprises puts the German promotion scheme at the top of the league of investment insurers worldwide. This shows that the promotion scheme has firmly established itself as an important component in the financing and risk management of foreign projects for small and medium-sized enterprises.

The success of the promotion scheme depends on its acceptance by the market. In order to be able to go on providing support tailored to the requirements of the individual project in hand, it is necessary to constantly develop the programme. This was also successfully achieved with the investment guarantees in 2006. Particularly deserving of mention here is the significant enhancement of the cover available for invest-

ments by German companies in the oil and gas sector. The companies had asked the Federal Government to support them in their efforts to diversify the sources of supply for mineral resources by simplifying the administration of the guarantees and increasing the cover volume for each individual project. This request, which was in line with goals of the Federal Government's energy policy, was met in 2006 by adapting the rules of the investment guarantees applying to the specific sector. This made it possible to cover considerable additional investments from the sector, thus providing the German companies involved with a much better standard of protection in their foreign business ventures.

In conclusion it should be said that the Federal Government provides effective political flanking support for the German economy in the long-term opening up of difficult foreign markets with its investment guarantees. This has a positive impact on jobs and on the energy supply of our country.

A handwritten signature in red ink, appearing to read 'Jürgen Trittgen', is positioned to the right of the text block.



Highlights 2006 - the Year at a Glance



Basic Principles of Investment Guarantees

Direct investments abroad are often the springboard for German companies which want to move long-term into attractive foreign markets. Especially in developing or transition countries, however, such business ventures are often beset by political risks which are beyond the power of the investor to influence and for which, in addition, it is difficult to find insurance cover on the private market. This is particularly true of projects from small and medium-sized enterprises, which have steadily become more and more internationalised over recent years.

The Federal Government therefore realised more than 40 years ago that something had to be done about this, and has supported German companies since that time in their investments in foreign countries by granting investment guarantees. These guarantees protect German investors from losses due to

- nationalisation, expropriation and other sovereign acts
- breach of contract by authorities
- war, revolution, civil commotion, acts of terrorism
- state-imposed payment embargoes and moratoriums as well as
- convertibility and transfer problems.

Every company domiciled in Germany as well as every entrepreneur resident in Germany can be considered as a German investor.

Besides equity participations in foreign companies, investment-like loans, long-term capital endowments to legally dependent branches (endowment capital) as well as other rights qualifying as assets (for instance rights under concessions, bonds or rights to receive mineral resources) can be covered.

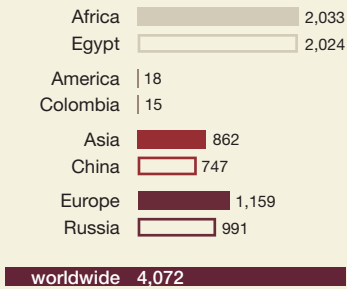
The basis requirement for the granting of a Federal investment guarantee is the eligibility for promotion of the investment project in the foreign country. In this context, the guaranteed investments must involve positive impacts or repercussions on the individual host country and on Germany. This is true both of the socio-economic and the environmental impacts. On top of this, there must be adequate legal protection, normally in the shape of an investment protection treaty (IPT) under international law between the Federal Republic of Germany and the host country.

Small and medium-sized enterprises - a focus of the investment guarantees

The Federal Government has continuously facilitated the access to the promotion scheme of the investment guarantees over the past few years, especially for small and medium-sized enterprises (SMEs). Besides abolishing the handling fee for guarantee applications with a volume of less than EUR 5 million, the setting up of a special hotline for SMEs should be mentioned. On top of this, information material is available to companies swiftly and without hassle today via the internet (www.agaportal.de). This has meant that every third application in 2006 was made by an SME. This share of cover put the German promotion scheme at the top of the league of investment insurers worldwide.



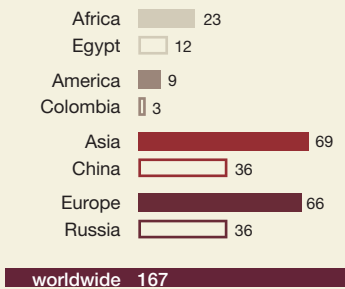
Volume of cover (maximum amounts) regarding continents and most important countries 2006 in million EUR



Number of guarantees regarding continents and most important countries 2006



Number of newly registered applications regarding continents and most important countries 2006



Results of the Business Year

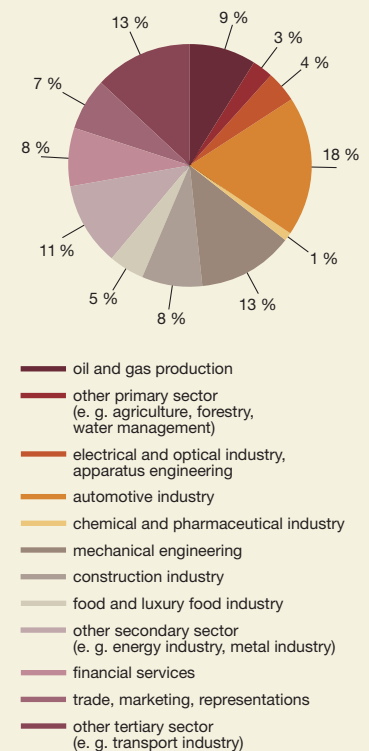
The development of the investment guarantees, which was very successful once again in the year under review, can be summarised as follows:

- The Federal Government granted the second highest **cover volume** in the history of the promotion scheme, EUR 4,1 billion. This was up 14% on the previous year's already excellent figure.
- **Internationally** the investment guarantees came in third among all insurers worldwide in newly issued policies as of mid-2006¹. In terms of portfolio volume, however, the investment guarantees successfully maintained their second place with a wide gap between them and number three.
- Although the **number of accepted applications** dropped in comparison to the preceding year (from 127 to 101), with 77 **projects** in 23 **countries** (2005: 74 projects in 18 countries) both the number of projects and their worldwide distribution increased.
- The **regional focus** in newly issued policies was Egypt, followed by Russia and China. This is due to a small number of large projects in the oil and gas sector. The most important countries by number of guarantees granted were quite clearly China and Russia.
- Every third approved application for cover in 2006, no change here, was submitted by an **SME**.

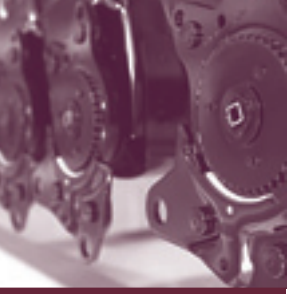
¹ Final figures for the end of 2006 were not available from all the members of the Berne Union for this report at the time of going to press.

- The main emphasis in the **type of cover** in 2006 measured by the number of guarantees was on equity participations, which accounted for 74%. It should be noted, however, that six applications approved for cover (oil and gas projects) for other rights qualifying as assets were responsible for some 50% of the newly issued policies.
- As regards the **sectors**, oil and gas clearly led the field by approved volume in 2006. If we consider the number of granted guarantees, however, it becomes apparent that the automobile sector and the mechanical engineering take the lead in relative terms. In addition, it is noticeable that the financial services and the trading sectors accounted for an above-average share of newly issued policies compared with previous years.
- The volume of **applications received** rose again in 2006 by 11% to EUR 4.8 billion. The reason for this is once again the major projects in the oil and gas sector in Egypt and Russia already mentioned above. Nevertheless, 36 new applications each were submitted for projects in China and Russia. This represents 43% of all applications registered in 2006.
- The number of guarantees fell at the end of 2006 from 812 to 789. Despite this, the **maximum liability** of the Federal Government rose to EUR 16.8 billion. This means that newly issued policies in 2006 were once again more than able to compensate for disposals.
- There were no **claims** paid out in 2006. The Federal Government did, however, intervene successfully on behalf of German investors in the case of several investments, including some in Russia, Venezuela and Bulgaria, thus ensuring the continuation of the projects.

Number of guarantees regarding branches and sectors 2006 in %



- The **result** of the guarantee scheme after taking into consideration all the revenues and the expenses which have accrued since its introduction shows that it has paid for itself, thus discharging the Federal budget accounts.



Principal Decisions and Host Country Risk Assessment

Besides the decisions on individual projects, the Federal Government passed a number of resolutions dealing with cover policy in the year ended, which will have **fundamental significance** for the future cover decisions.

The companies active in the **oil and gas sector** had asked the Federal Government to expand the cover available for their investments in order to support their efforts to diversify their sources of supply for mineral resources. This request, which chimes well with the goals of the Federal Government's energy policy, induced the Federal Government to make the underwriting tools more flexible and expand the scope of cover available for projects in this sector. Thus investments for oil and gas projects on the basis of production sharing agreements or comparable concession agreements can now be grouped together as **other rights qualifying as assets**. The basic right to prospect for and to lift hydrocarbons is covered in principle by the cover for capital; to the extent that a sufficiently stable legal basis for the investor can be identified, this can even be the case during the exploration phase. On top of this, earnings (offtake rights to the production) can now be included in cover for the first time.

Besides this expansion of the scope of cover, a number of restrictions on cover which had previously applied were removed in respect of such investments, which often have a very large volume, e.g. the ruling that an event of loss can only occur after twelve months or the Federal Government's option to indemnify any claim which might

be made in instalments. The Federal Government applied this new cover design for the first time at the beginning of 2006 in a project involving a concession to explore and lift hydrocarbons in North Africa.

In the year under review, the Federal Government also granted guarantees for **credit facilities** for the first time since this cover option was introduced. The Federal Government is responding here again to the wishes of the investors to grant cover tailored to the actual liquidity needs of the project, thus reacting flexibly to the demands of a constantly changing market.

The Federal Government took another step in 2006 towards offering tailor-made cover. On the one hand it abolished the annual ceiling applying to cover for earnings. Whereas a standard percentage of up to 10% p.a. (for equity participations and loans) was previously stipulated, there is now no annual limit imposed for the cover for earnings. On the other hand, the cover options for earnings from various forms of investment have been unified by raising the maximum amount of the guarantee for the cover for earnings in the case of equity participations and other rights qualifying as assets to the rate of 100% of the cover for capital normally applied in the case of investment-like loans.

Taking into consideration the current economic and political situation, the Federal Government also reviewed its **cover policy** in respect of the various host countries in the case of individual projects. The Federal Government regularly draws on information from German embassies in foreign countries when deliberating its decisions.

The following changes in the cover policy with reference to individual countries were decided in 2006:

For the first time since the German-Mauritanian investment protection treaty (IPT) came into force on 26th April 1986, an application was made and approved by the Federal Government for an investment guarantee in **Mauritania**. The invested capital was covered in full. It did not prove possible, however, to include the earnings under the guarantee since the hard currency reserves of the country do not at present justify granting cover for dividend payments and interest; a review of the economic situation of Mauritania is coming up in mid-2007, however.

The Federal Government also made a positive decision on the first application for investments in a joint venture in **Mongolia**. The invested capital here is protected in full. The expected earnings cannot be insured up to now, however, in view of the difficult hard currency situation of the country.

A German equity participation in a joint venture in Baku in **Azerbaijan** was accompanied with a Federal guarantee for the first time since the German-Azerbaijani IPT came into force on 29th July 1998. The Federal Government granted cover in full in this case, but the inclusion of earnings in cover can only be decided on a case-by-case basis.





Investment Guarantees in Host Countries

From 1959 to 2006 guarantees for capital investments (and their earnings) were granted in the following countries and regions:

Afghanistan	Ghana	Mexico	St. Vincent a. t. Grenadines
Albania	Greece	Moldova (Republic)	Sudan
Algeria	Guatemala	Mongolia	Swaziland
Argentina	Guinea	Morocco	Syria
Azerbaijan	Haiti	Namibia	Taiwan
Bangladesh	Honduras	Nicaragua	Tanzania
Barbados	Hong Kong	Niger	Thailand
Belarus	Hungary	Nigeria	Togo
Benin	India	Oman	Trinidad and Tobago
Bolivia	Indonesia	Pakistan	Tunisia
Bosnia and Herzegovina	Iraq	Panama	Turkey
Brazil	Iran	Papua New Guinea	Uganda
Bulgaria	Israel	Paraguay	Ukraine
Cameroon	Ivory Coast	Peru	United Arab Emirates
Cape Verde	Jamaica	Philippines	Uruguay
Chile	Jordan	Poland	Uzbekistan
China	Kazakhstan	Portugal	Venezuela
Colombia	Kenya	Romania	Vietnam
Congo (People's Republic)	Korea (Republic)	Russia	Yemen (Arab. Republic)
Costa Rica	Latvia	Samoa	Yugoslavia (SFRJ) ¹
Croatia	Lebanon	Saudi-Arabia	Zambia
Czech Republic	Liberia	Senegal	Zimbabwe ²
Dem. Rep. of the Congo	Libya	Serbia and Montenegro	
Dominican Republic	Lithuania	Sierra Leone	
Ecuador	Macedonia	Singapore	
Egypt	Madagascar	Slovak Republic	
El Salvador	Malawi	Slovenia	
Estonia	Malaysia	Somalia	
Ethiopia	Mali	South Africa	
Finland	Malta	Spain	
Gabon	Mauritania	Sri Lanka	
Gambia	Mauritius	St. Lucia	

¹ in former Yugoslavia (SFRJ) as well as in the Federal Republic of Yugoslavia

² in former Rhodesia



The lead function for underwriting decisions for investment guarantees by the Federal Republic of Germany is exercised by the **Federal Ministry for Economics and Technology**:

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The Government has appointed a consortium formed by **PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft**, Hamburg, as lead partner, and **Euler Hermes Kreditversicherungs-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 through worldwide web including the Rules and Regulations, the application form, the General Information, the General Terms and Conditions, information on fees and premiums, several leaflets on holding constructions, BOT-models, breach of contract cover and environmental aspects and other information as well as a flyer and the annual reports.

For SMEs we have created a special hotline. You can find the data on our website.



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This report on the investment guarantee scheme of the Federal Republic of Germany is available in German and English.

Press deadline: March 2007
Date of publication: May 2007

