

ANNUAL REPORT 2010



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**

	2006	2007	2008	2009	2010
Guarantee applications					
Number	167	142	199	166	140
Volume (maximum amounts)	4,758.5	12,080.2	10,756.0	10,101.5	7,620.8
Guarantees					
Number	101	117	109	115	129
Volume (maximum amounts)	4,071.9	5,207.5	6,593.9	3,012.1	5,817.7
Promoted projects					
Number	77	74	72	76	83
Countries	23	21	16	24	24
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	789	789	779	778	788
Maximum liability	16,803.5	19,613.9	19,953.5	24,272.0	27,681.0

Investment Guarantees of the Federal Republic of Germany
Direct Investments Abroad

ANNUAL REPORT **2010**



Ladies and Gentlemen,

The German economy is a synonym for high-quality products and services all over the world. And in the meantime the demand for them is almost as strong again as it was before the financial and economic crisis. The markets for our goods in the developing and transition countries are playing an ever greater part here. Their share of global trade has been steadily growing for many years.

Direct investments abroad make a significant contribution to opening up the new markets. Many German companies have long since realised how important foreign investment is. They are continuing to expand their activities with determination in the developing and emerging countries of Eastern Europe, Asia, Africa and Latin America. Nevertheless a not insignificant number of companies have misgivings about unpredictable political decisions, corruption and protectionism as well as the low level of legal certainty which is still to be found in many countries.

Investment guarantees afford protection against these political risks. They help companies to finance and cover their projects abroad, and for this reason they are a firmly established element in the Federal Government's promotion scheme for foreign trade. In the year just ended a total of 129 investment guarantees were assumed to the tune of EUR 5.8 billion for 83 projects in 24 countries. This is the second best result in the more than 50 years the investment guarantee scheme has existed.

On top of that, 2010 was a jubilee year. The first ever meeting of the Interministerial Committee for Investment Guarantees took place on 14th/15th January 1960. In addition the first guarantee for a project by a German SME was assumed in India. 50 years further down the road, virtually all the members of the OECD as well as many non-OECD countries have such instruments for the promotion of foreign trade. Last May a festive meeting to commemorate this round anniversary took place at the Federal Ministry for Economics and Technology in Berlin. Together with a large number of representatives from the business community, industry associations, embassies and interested members of the public we discussed in depth the success story of the German investment guarantees and the challenges facing us in the future.

The most important countries in terms of the applications decided in the past year were once again Russia, China and the Ukraine. At the same time the large number of countries which have up to now only seldom been covered – among them Angola, Ethiopia, Rwanda, Georgia, Kazakhstan and Uzbekistan – clearly illustrates that German investors are increasingly becoming active in regions of the world which are economically interesting, but not always

politically simple. The lion's share of guarantees was assumed for companies in the chemical and construction sectors. In addition important oil and natural gas projects were covered in the interests of Germany's energy supply.

Small and medium-sized enterprises have also increasingly turned their attention towards the growth markets in the developing and transition countries. This development is reflected in the applications for the assumption of an investment guarantee. In fact, every fourth approved application came from a small or medium-sized business. This makes the German scheme for the promotion of investments abroad the absolute leader among investment insurers worldwide in giving support to SMEs.

The exposure of the Federal Republic of Germany under the investment guarantees went up as per the end of 2010 to an all-time high of EUR 27.7 billion. In particular the high volume of applications received, EUR 7.6 billion, clearly shows that the guarantees continue to be very much in demand. In order to provide German companies in the future with an adequate level of protection through investment guarantees, the Federal Government has decided to increase the corresponding statutory maximum exposure in the Federal budget from EUR 40 billion to EUR 50 billion as of 1st January of this year.

The development of bilateral investment treaties is closely bound up with the investment guarantees, since as a rule the former are the basis for assuming them. The responsibility for concluding such treaties has passed as of 1st December 2009 to the European Union. Some details of the transition process have not as yet, however, been finally regulated. It is a matter of particular importance for the Federal Ministry of Economics and Technology that the high standard of protection for foreign investments provided by the German bilateral investment treaties, which continue to be valid, is maintained in the future too.

The investment guarantees are, today more than ever, a firmly established element of German activities for the promotion of foreign trade. They help to safeguard growth and jobs in our country.

Yours,



Rainer Brüderle
Federal Minister of Economics and Technology



THE YEAR AT A GLANCE

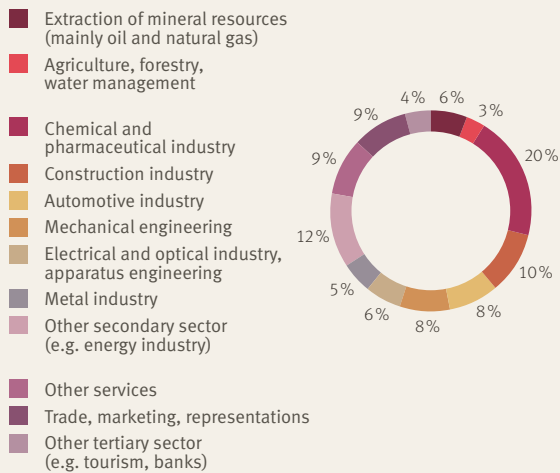
WITH EUR 5.8 BILLION, THE SECOND HIGHEST VOLUME OF GUARANTEE COVER EVER WAS ASSUMED IN 2010. THE LION'S SHARE WENT TO OIL AND NATURAL GAS PROJECTS IN NORTH AFRICA. A PARTICULARLY LARGE NUMBER OF GUARANTEES WERE ASSUMED FOR PROJECTS IN RUSSIA, CHINA AND

THE UKRAINE. SMALL AND MEDIUM-SIZED ENTERPRISES ONCE AGAIN ACCOUNTED FOR ABOUT A QUARTER OF THIS. THE MAIN EMPHASIS IN TERMS OF SECTORS WAS ON CHEMICALS AND CONSTRUCTION PROJECTS. MENTION SHOULD BE MADE OF THE INTRODUCTION OF VARIABLE EARNINGS COVER FOR EQUITY PARTICIPATIONS AS A

FURTHER DEVELOPMENT. FIVE NEW BILATERAL INVESTMENT TREATIES CAME INTO EFFECT AND TWO MORE WERE SIGNED (E. G. ONE WITH IRAQ). CONSULTATIONS BETWEEN THE EU, REPRESENTATIVES OF THE BUSINESS COMMUNITY AND FROM POLITICS ON THE TRANSITION OF RESPONSIBILITY FOR INVESTMENT PROTECTION TO THE EU WERE CONTINUED. IT PROVED POSSIBLE TO PREVENT THE OCCURRENCE OF ANY EVENTS OF LOSS – IN PARTICULAR IN RESPECT OF A PROJECT IN THE UKRAINE.

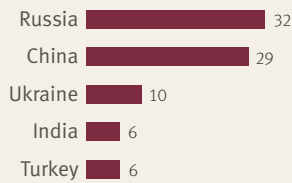


NUMBER OF GUARANTEES BY SECTORS 2010 IN %



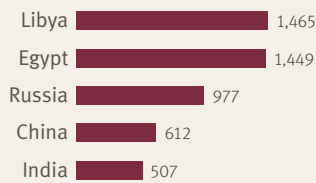
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NUMBER OF GUARANTEES BY MOST IMPORTANT COUNTRIES 2010



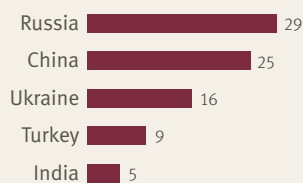
Worldwide: 129

VOLUME OF COVER (MAXIMUM AMOUNTS) BY MOST IMPORTANT COUNTRIES 2010 IN MILLION EUR



Worldwide: 5,818

NUMBER OF NEWLY REGISTERED APPLICATIONS BY MOST IMPORTANT COUNTRIES 2010



Worldwide: 140

RESULTS OF THE BUSINESS YEAR

The development of the investment guarantees in 2010 can be summarised as follows:

- ▶ The **NUMBER OF ACCEPTED APPLICATIONS** stood at 129, (2009: 115), thus reaching the highest point over the past ten years. The **VOLUME OF COVER** too, at EUR 5.8 billion, rose substantially, only being topped by the all-time record of 2008 (EUR 6.6 billion). The fall in cover volume in 2009 (EUR 3.0 billion) due to the financial and economic crisis has thus clearly been put behind us.
- ▶ The number of **PROJECTS** (83), also went up again (2009: 76), posting the highest figure of the past decade. Just as in the previous year, projects were covered in 24 **COUNTRIES** in the year under review. These included some countries in Central Asia and Africa which had hitherto only been covered seldom or not at all, among them Georgia, Kazakhstan, Uzbekistan as well as Ethiopia, Angola and Rwanda.
- ▶ Something like every fourth application came from a **SMALL OR MEDIUM-SIZED ENTERPRISE**.
- ▶ The **REGIONAL FOCUS** of the new **VOLUME OF COVER** was Africa with Libya and Egypt, ahead of Europe – here mainly Russia – and Asia (China and India). The background to this is a small number of large-scale oil and natural gas projects in the North African countries mentioned above. In terms of the **NUMBER OF GUARANTEES ASSUMED**, Russia once again came in first before China and the Ukraine. Overall, only very few guarantees were assumed for projects in Latin America in 2010.

- ▶ In terms of the number of guarantees assumed the chemical and construction **SECTORS** took pride of place. The secondary sector accounts for some 70% of new cover, putting it in the overall lead. The share of the tertiary sector (mainly other services, e. g. waste disposal and trading companies) is proportionally slightly down year-on-year, at approx. 21% (2009: 30%). This reflects a certain time lag in foreign investments, especially from trading companies, as a result of the financial and economic crisis.
- ▶ Applications were accepted for all four types of cover. Measured by the number (67%) of guarantees, the main emphasis as regards the **TYPE OF COVER** was quite clearly on equity participations. Due to the major projects covered in North Africa the new volume of cover was dominated by other rights qualifying as assets (50%).
- ▶ The **VOLUME OF APPLICATIONS RECEIVED** (EUR 7.6 billion) posted the fourth highest figure since the promotion scheme was introduced. This was due to large-scale oil and natural gas projects in North Africa. Projects in Russia, China, and the Ukraine predominated among the total of 140 newly registered applications. It is quite obvious that the financial and economic crisis has contributed to altering companies' risk awareness and has generated a further increase in demand for investment guarantees.
- ▶ The size of the guarantee portfolio at the end of 2010 (788) was slightly up on the preceding year (778). The **MAXIMUM LIABILITY** rose steeply from EUR 24.3 billion to a record figure of EUR 27.7 billion, which is almost entirely attributable to the new cover assumed in the year under review, thus in 2010 once again more than compensating for the disposals.
- ▶ **INTERNATIONALLY** the investment guarantees maintained their lead in terms of the guarantee portfolio over all other state and private investment insurers worldwide.
- ▶ No **CLAIMS PAYMENTS** were made in the year under review. In particular the Federal Government intervened to prevent losses in a project in the Ukraine.
- ▶ The **RESULT** of the guarantee scheme shows that it paid for itself in 2010, thus discharging the Federal budget accounts.

PRINCIPAL DECISIONS AND HOST COUNTRY RISK ASSESSMENT

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The year 2010 was marked by the recovery of the global economy. As an industrial nation with good global connections, the Federal Republic of Germany was able to give particularly important impulses to stabilise the situation. The responsible Interministerial Committee (IMC) gave intensive attention to the position of German companies during the financial and economic crisis and once again took a large number of **PRINCIPAL DECISIONS** which will have fundamental significance for the assumption of future guarantees.

The crisis not only led to a decline in interest rates, but at the same time substantially reduced the profit expectations of companies. The need to increase in general the flexibility of the annual earnings cover for covered investments became very apparent. But even during the good times for business, interest rates and the profit outlook rarely remain static; they regularly change during the lifetime of a project. After the option – which has already been available for several years – to adapt earnings cover for loans flexibly to changing, variable interest rates, a **PRINCIPAL DECISION TO INTRODUCE MORE FLEXIBLE RULES ON THE ANNUAL EARNINGS COVER FOR EQUITY PARTICIPATIONS** was passed in 2010. In contrast to previous practice in investment guarantees, an application for annual earnings cover in connection with an equity participation is now regarded as being variable in principle, so that only a

MAXIMUM RATE APPROPRIATE TO THE PROJECT needs to be fixed for annual earnings cover at the time of application. This is to be based on the maximum expected dividend from earnings after the 15 year guarantee period. Before the commencement of a guarantee year, an individual rate can be fixed within this framework by the investor as needed. This should reflect the earnings actually expected to be repatriated to Germany in the guarantee year in question¹, thus providing guarantee cover which is appropriate to the individual project and commensurate with the risk for all earnings falling due from projects abroad.

As regards **COUNTRY COVER PRACTICE** during the year just ended, the IMC has accepted the application by an investor for a guarantee for an investment in **ANGOLA**. The period for payment of indemnification following an event of loss in respect of the conversion and transfer risk and/or payment embargo or moratorium risk was extended from six to nine months, however.

¹ Example: in the case of an equity participation of EUR 1 million (capital cover) earnings of EUR 50,000 are expected in the first year (here: a dividend). These are expected to rise to a level of EUR 150,000 by the tenth year. This would mean that a maximum rate of up to 15% p. a. for annual earnings cover should be applied for in the application procedure (as a percentage of the capital cover), but the rate for the first year would first of all be fixed at only 5%. The annual premium for the guarantee is in fact not charged on the maximum rate, but only on the actual rate on the annual earnings cover (i. e. here first of all 5%).

A guarantee was further assumed for an investment in **ETHIOPIA** in the form of an investment-like loan, with deferral of cover for earnings.

Comprehensive guarantee cover – including earnings cover – was assumed for the first time for many years for a German project in **ISRAEL**. The basis for this positive decision by the IMC was the German-Israeli bilateral investment treaty (BIT) signed in 1976 but not effective until 2010, which was declared by Israel to be provisionally applicable.

A guarantee was assumed for a project in **KASAKHSTAN** under the German-Kazakh BIT which came into effect in 1995. Full guarantee cover was assumed in this for the capital invested. Due to the ongoing economic difficulties being experienced by the country, it was not possible, however, for the time being to assume the cover for earnings initially applied for.

The IMC could not see its way to assuming an investment guarantee in 2010 due to the national legal system in **MONTENEGRO**. It remains to be seen how matters develop in the host country (in particular its national legal system and perhaps the coming into force of a BIT).

For the first time in years, guarantees with comprehensive cover were assumed for investments in **MEXICO** and **SRI LANKA**, too. The same is true of **UZBEKISTAN**, although it was not possible to assume earnings cover under the circumstances pertaining at the time of the decision on the application.

Due to the changed conditions in **NIGERIA**, especially since the German-Nigerian BIT came into effect in 2007, the increased retention of 10% was no longer considered necessary and an investment was covered at the standard retention of 5%.

Since last year, German investors in **SERBIA** have been able to benefit from the extension of guarantee cover to include cover for earnings. The period for payment of indemnification following an event of loss in respect of the conversion and transfer risk and/or payment embargo or moratorium risk has been extended from six to nine months, however.

After an interruption of several years there have again been positive decisions on applications for investments in the **UNITED ARAB EMIRATES**. Guarantees for an equity participation and an investment-like loan by a German company were assumed here under the BIT which came into effect in 1999. These guarantees were assumed in full both for the capital and for future earnings.

BILATERAL INVESTMENT TREATIES (BIT) – CURRENT DEVELOPMENTS

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The conclusion of bilateral investment treaties (BITs), especially with developing and transition countries, creates a stable framework for German direct investments abroad.

The international treaties concluded by the Federal Republic of Germany provide for a comprehensive protection for investors under the provisions of international law. The high level of protection afforded by BITs thus facilitates the opening up of foreign markets, especially for small and medium-sized enterprises.

The central provisions of BITs establish substantive legal positions for investors such as the right to fair and equitable treatment, the prohibition of arbitrary and discriminating measures, the provision of equal treatment with the country's own national companies and most-favoured nation status as well as the protection of property rights which involves indemnification commensurate with the value of the property and guaranteed access to legal remedies through the national courts in the case of expropriation. In addition they generally give investors the option to exercise these rights on their own initiative by referring disputes to neutral international arbitration courts, so avoiding the many procedural imponderables involved in pursuing matters through the national courts.

Even after the signing of the Lisbon Reform Treaty, the German BITs currently in force with more than 130 countries worldwide provide a solid basis for the assumption of investment guarantees.

In December 2010 the first BIT was signed with Iraq. When it comes into force, this BIT will create a better situation of legal security for investment projects and thus contribute to improving the climate for German investments in Iraq. A new BIT was also signed with the Republic of the Congo. This will replace the old treaty from 1967 when it comes into force.

In addition to this, the following already signed BITs have now come into force:

A new BIT with Jordan which has now come into force replaces an agreement which had existed since 1977. The German-Omani BIT which similarly came into force in 2010 replaces an earlier treaty with Oman. On top of this, BITs with Bahrain, Trinidad and Tobago as well as Libya have come into force for the first time.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

CURRENT DEVELOPMENTS

Under the investment guarantees the Federal Government provides **POLITICAL SUPPORT** to German foreign trade, helping to prevent situations developing into events of loss abroad. Through this, the full weight of the foreign policy influence of the Federal Republic of Germany can be brought to bear to intervene and mediate in a crisis and to **PREVENT LOSSES** when measures by the authorities of the host country threaten. The effectiveness of such political support depends, however, on the policyholder reporting the situation to the Federal Government at the earliest opportunity.

The measures available for such **ACTIVE CRISIS MANAGEMENT** may include in particular intervention with the responsible authorities in the host country by German representative offices abroad, the exchange of verbal notes between ministers and the initiation of bilateral discussions at the highest level. At the same time the Federal Government is prepared in principle to share in the costs for loss prevention or loss mitigation. In this way active support can be given to investors who may well be faced with substantial costs for measures to prevent or minimise losses (e.g. in prosecuting their entrepreneurial claims in court), when the value of the case in dispute is high. Thus the Federal Republic of Germany supported policyholders in 2010 in their efforts to assert their legal rights via the national and international courts and arbitration mecha-

nisms by means of substantial contributions to the costs entailed. In addition to this the Federal Government successfully intervened to prevent a loss in a project of a SME in the Ukraine.

By providing active support, it was possible to avert losses to the tune of some EUR 1.3 billion over recent years. Although the Federal Government stands ready to support investors with diplomatic and political loss prevention measures from the outset, it is not always possible to prevent the occurrence of a loss. In such cases the policyholders receive an **APPROPRIATE INDEMNIFICATION** for the final loss of their capital investment.

For reasons of budget law, investment projects in Argentina, Bulgaria and the Philippines are currently off cover pending the conclusion of the debt recovery action under earlier claims.

The positive balance resulting from indemnifications to investors and payments from recoveries which has accrued since the inception of the promotion scheme stood unchanged at some EUR 151 million in the calendar year just ended, in which it was not necessary to pay any indemnifications.

TRANSFER OF RESPONSIBILITY TO THE EU – A DIALOGUE WITH INDUSTRY

Maintaining investment protection standards

The investment guarantees of the Federal Government are as a rule predicated on the existence of a bilateral investment treaty (BIT). The Federal Republic of Germany has concluded some 140 treaties of this type. Both the BITs and the investment guarantees are an important prerequisite for investment activity abroad by German companies. For us at Wintershall, as an internationally active producer of oil and natural gas, these fundamental parameters are regularly factored into our investment decisions.

With the coming into force of the Lisbon Reform Treaty on 1st December 2009, responsibility for foreign direct investment now lies with the EU. The investment protection treaties as they were hitherto designed in Germany have proved their value in practice for German companies due to their high standards of protection and their relative ease of handling. That is why, from the standpoint of German investors, it is vital that these standards of protection should be maintained in the developing investment protection policy of the EU. The focus here should be in particular on retaining the core elements of the previous treaties and maintaining the principle of jurisdiction for arbitration in disputes between the host country and the investor. At all events, the establishment within a short time of a situation of legal security incorporating these basic parameters is the desirable outcome from the perspective of German companies. A crucial aspect here is that the bilateral investment treaties under international law hitherto in force should only be replaced when appropriate treaties at EU level which afford a comparable quality of protection become effective.

It would be greatly appreciated if policymakers at national and EU level could work on these lines towards securing the protection of investments by German and other European companies abroad.

*Dr. Mathias Wolkewitz,
Head of Legal, Tax and Insurance,
Wintershall Holding GmbH,
Kassel*



At the workshop on the transfer of responsibility to the EU for entrepreneurs held on 24th February 2011 in Berlin

The far-reaching consequences for investment protection stemming from the Lisbon Reform Treaty have raised a number of questions which need to be resolved as soon as possible, also in the interests of German foreign trade. In this connection the Federal Ministry of Economics and Technology (BMWi) organised a series of workshops in conjunction with PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) with the purpose of holding a dialogue with entrepreneurs, academic authorities and representatives of the legal profession to explore the ramifications of this decision, among other things its effects on the involvement of German companies in foreign countries, and to provide support for policymakers from the aspect of practical experience.

During the course of 2010, at a workshop for entrepreneurs in February and another workshop held as part of the BMWi's regular series "Dialogue with Industry – the Export Credit and Investment Guarantee Scheme of the Federal Republic of Germany" in June, participants had the opportunity to inform themselves about the current state of play in the transfer of responsibility to the EU and to hold an exchange of views concerning the issues thrown up by this and fears about the future of investment protection. A follow-up workshop with experts was held in January 2011. It was the goal of this meeting to continue the ongoing discussion about investment protection, especially with regard to the principle of jurisdiction for arbitration in disputes between the host country and the investor, to incorporate the views of the political bodies, academic authorities and business practitioners and to derive recommendations for action by policymakers.



DEVELOPMENT OF THE INVESTMENT GUARANTEES

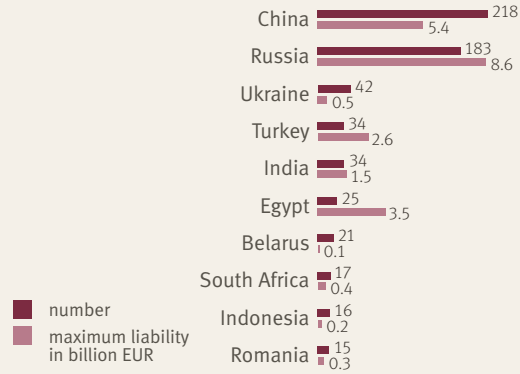
IN 2010 THE INVESTMENT GUARANTEES WORLDWIDE REMAINED STABLE AT THE PREVIOUS YEAR'S LEVEL, BUT ARE STILL 40% BELOW THE 2008 FIGURE. THERE IS A CLEAR TREND IN FAVOUR OF THE DEVELOPING AND TRANSITION COUNTRIES, WHICH ALREADY ATTRACTED HALF OF ALL DIRECT INVESTMENT STREAMS IN 2010. IN VIEW OF THE FREQUENTLY UNSTABLE POLITICAL FUNDAMENTALS IN THESE COUNTRIES, IT IS HARDLY SURPRISING THAT GERMAN COMPANIES ARE MORE FOCUSED THAN EVER TODAY ON THE ASPECT OF LEGAL SECURITY. THE REGIONAL EMPHASIS

LIES UNCHANGED IN EUROPE, WHEREBY ASIA ALSO MAINTAINS ITS HIGH LEVEL AND AFRICA IS INCREASINGLY THE OBJECT OF DEMAND. INVESTMENT GUARANTEES ARE MAINLY FOR THE COVER OF EQUITY PARTICIPATIONS. IN TERMS

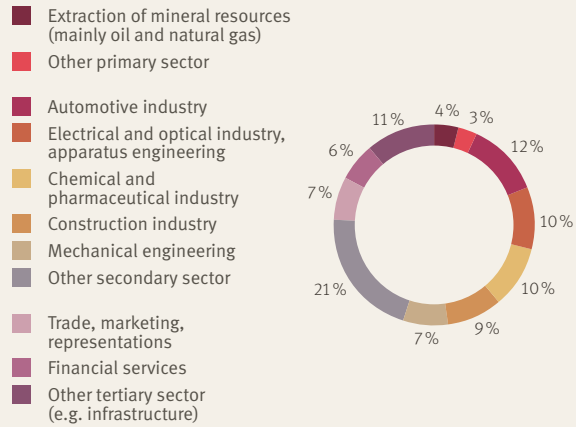


OF SECTORS, THE SECONDARY SECTOR CONTINUES TO LEAD THE FIELD. ONLY 6% OF ALL APPLICATIONS SUBMITTED TO DATE ARE STILL PENDING AT THE END OF 2010.

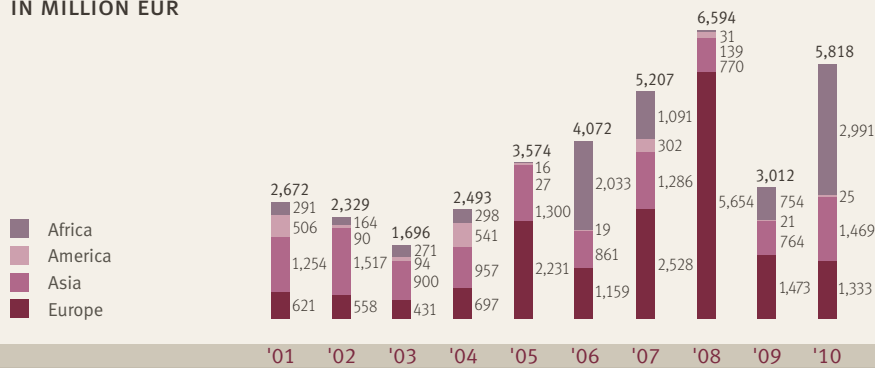
TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO (NUMBER OF GUARANTEES AS PER THE END OF 2010)



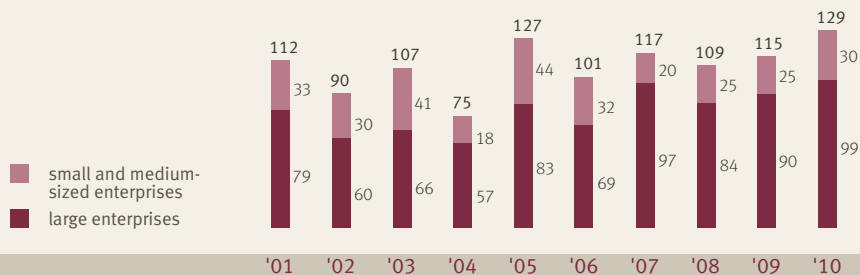
NUMBER OF GUARANTEES IN THE GUARANTEE PORTFOLIO AS PER THE END OF 2010 IN %



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



NUMBER OF ASSUMED GUARANTEES BY SIZE OF ENTERPRISE



FOREIGN DIRECT INVESTMENTS WORLDWIDE AND GUARANTEE PORTFOLIO – BREAKDOWN & TRENDS

The global financial and economic crisis caused a hiatus in a five-year growth period in worldwide direct investment, which will in all likelihood reach USD 1.1 trillion in 2010, equalling the previous year and coming in again at some 40% below the figure for 2008.¹ This represents a moderate recovery of global investment streams compared with the drastic decline in growth of the previous year – principally attributable to a decrease in cross-border M & A activity. Developing and transition countries attracted half of all new direct investments in 2010 and will increasingly be the recipient countries in future as well. Once again, the **BRIC COUNTRIES**² account for a considerable part of this, and represent three of the four leading destinations for investment, additionally also exerting an enormous positive influence on their neighbouring regions.³ The total volume of German direct investments from January till October 2010 stood at EUR 73.6 billion, almost half again (43.2%) more compared with the same period in 2009 (EUR 51.4 billion).⁴ This development correlates with the volume of new investment cover in the full year 2010, coming in at EUR 5.8 billion (2009: EUR 3.0 billion).

The shock-waves in the aftermath of the financial and economic crisis and the changed fundamentals in the financial and capital markets continue to be felt. Nevertheless, forecasts by UNCTAD point to a return of the global economy to former growth levels in the near future. That said, a comparable pre-crisis level is only likely to be reached again in 2012.⁵ According to a poll held by the DIHK in summer of 2010, the crisis has had a lasting influence on the **ATTITUDE OF GERMAN COMPANIES**, and for this reason much greater value is being placed on a secure political environment, stable exchange rates and legal security than previously. In

line with this, covering their foreign business was a crucial success factor for 51% of the respondents to the poll, even more important than the business environment in the host country.⁶

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

- ▶ The volume of applications and guarantees as well as the numbers were once again broadly distributed over the year. It is apparent that German companies are investing in increasingly distant markets which offer good economic opportunities but have elevated political risks, and the guarantees are accompanying them there. Be that as it may, Europe is still clearly the **REGIONAL FOCUS** of the investment guarantees. Besides cover for German projects in Russia and the Ukraine, which have been very much in demand for many years now, guarantees were also assumed for Belarus. Asia is the second most important continent for the promotion scheme. The constantly high level of demand for cover, above all for projects in China and India, continued in 2010,

¹ United Nations Conference on Trade and Development (UNCTAD): Global Investments Trends Monitor No. 5, 17th January 2011.

² Brazil, Russia, India, China.

³ A.T. Kearney: Investing in a Rebound; The 2010 A.T. Kearney FDI Confidence Index, Vienna, USA.

⁴ Deutsche Bundesbank: Zahlungsbilanzstatistik, Statistisches Bundesamt Beiheft zum Monatsbericht 3, Dezember 2010, Frankfurt am Main.

⁵ United Nations Conference on Trade and Development (UNCTAD): World Investment Prospects Survey 2010-2012.

⁶ Deutscher Industrie- und Handelskammertag: Going international; Erfahrungen und Perspektiven der Deutschen Wirtschaft im Auslandsgeschäft; Ergebnisse der IHK-Unternehmensumfrage 2010, Oktober 2010, Berlin/Brüssel.

although more and more guarantees are being assumed for projects in Central Asia. This trend is set to continue. The demand for guarantees in Africa has increased over the last decade and posted the highest new cover volume of all continents in the year under review: most guarantees were assumed in 2010 for North African countries. This is in line with the breakdown of previous years and it is on the cards that the emphasis will also lie here in the years to come. Nonetheless a broader regional differentiation has been recognisable in favour of Sub-Saharan Africa in recent years. As in preceding years, hardly any guarantees were assumed for the Americas in the year under review. This has to be seen, among other reasons, in connection with the fact that some countries are off cover (unregulated old claims in Argentina).

- ▶ Among the **TOP TEN COUNTRIES** in the guarantee portfolio, China defended its lead before Russia and the Ukraine in terms of the number of guarantees assumed. Europe is the central focus overall, with five out of ten countries.
- ▶ Every fourth application approved in 2010 was for a **SMALL OR MEDIUM-SIZED ENTERPRISE**. This figure is also reflected in the guarantee portfolio at the end of 2010. With this quota the investment guarantee scheme remains the international leader in the promotion of SMEs.
- ▶ As regards the **TYPE OF COVER**, equity participations accounted for the lion's share of cover in 2010 in terms of the number of guarantees assumed – 67%, before investment-like loans (30%). They continue to be the main focus of cover. As a result of large-scale crude oil and natural gas projects in North Africa, first place in terms of the guarantee volume belongs this time to other rights qualifying as assets. In the overall portfolio, however, equity participations clearly still predominate in numbers (77%) and volume (59%). Equity participations look set to lead in the number of guarantees in future as well. Loans and other rights qualifying as assets are becoming ever more important in volume terms, however.
- ▶ In the **SECTORAL BREAKDOWN** – apart from large-scale mineral resource projects – a steady demand has been apparent over many years from the automotive industry and the electrical and optical industry and apparatus engineering as well as mechanical engineering. Alongside these, a particularly high number of guarantees were assumed in 2010 for projects from the chemical and construction sectors, which had already been well represented previously. This means that some 70% of guarantees can be allocated to the secondary sector. After the tertiary sector (24%) – first and foremost trade and financial services – had made up considerable ground over recent years, putting these two sectors in eighth and ninth place among all sectors, both of them posted rather disproportionately low growth in 2010 compared with previous years. This trend looks likely to be reversed, however, as soon as the reluctance to invest as a result of the crisis is overcome in subsequent years.
- ▶ With a quota of 60%, the IMC has **APPROVED** more than half the applications made since 1959. Only 6% still remain pending as per the end of 2010. These refer mainly to projects in Russia and China.

ASSUMED GUARANTEES AND APPLICATION VOLUME UP TO NOW AMOUNTS IN MILLION EUR

Between 1959 and 2010 guarantees were assumed or applications were registered for capital investments (and their earnings) for the following countries and regions:

	Guarantees assumed				Application volume			
	Number	in%	Volume	in%	Number	in%	Volume	in%
Africa	970	20.1	11,293.4	18.4	1,595	19.5	21,707.7	20.8
e. g.	Egypt	75	5,327.4		116		7,455.6	
	Libya	35	2,729.8		71		8,891.3	
	Algeria	10	1,080.5		60		1,567.3	
	South Africa	27	1,011.7		61		1,388.8	
	Morocco	49	351.1		85		523.5	
South and Central America	1,021	21.1	6,591.6	10.8	1,581	19.3	11,518.7	11.0
e. g.	Brazil	525	3,583.4		689		5,628.0	
	Argentina	96	903.2		174		2,022.4	
	Mexico	47	765.6		102		1,203.5	
	Venezuela	21	573.1		40		642.0	
	Trinidad and Tobago	6	268.0		9		382.1	
Asia	1,327	27.5	16,642.4	27.2	2,225	27.2	26,174.7	25.1
e. g.	China	462	8,013.1		722		11,578.4	
	Indonesia	93	2,046.7		144		2,570.8	
	India	131	1,883.8		196		2,429.6	
	Philippines	43	1,563.0		84		2,349.8	
	Kazakhstan	22	537.7		42		781.0	
Europe	1,510	31.3	26,704.9	43.6	2,783	34.0	45,055.0	43.1
e. g.	Russia	341	12,864.6		614		22,955.7	
	Turkey	170	5,433.6		243		6,900.1	
	Croatia	24	2,517.8		41		3,512.6	
	Czech Republic	140	1,549.5		225		2,060.2	
	Hungary	98	99.3		187		2,366.8	
Worldwide	4,828	100.0	61,232.3	100.0	8,184	100.0	104,456.1	100.0

8,184 applications, thereof:
-4,828 approved
-2,818 withdrawn
-54 rejected

applications pending as per the end of 2010: 484



GUARANTEE PORTFOLIO

THE MAXIMUM LIABILITY OF THE FEDERAL REPUBLIC OF GERMANY AS OF THE END OF 2010 STOOD AT AN ALL-TIME HIGH OF EUR 27.7 BILLION. THE INCREASE YEAR-ON-YEAR IS DUE TO THE GUARANTEES ASSUMED IN THE YEAR UNDER REVIEW. AS IN PREVIOUS YEARS, TERMINATIONS OF GUARANTEES PLAYED VIRTUALLY NO PART. DUE TO THE HIGH DEMAND FOR INVESTMENT GUARANTEES THE STATUTORY MAXIMUM EXPOSURE MADE AVAILABLE FOR THEM IN THE BUDGET LAW WAS SUBSTANTIALLY INCREASED TO EUR 50 BILLION. EUROPE LIES AHEAD OF ASIA

IN THE GUARANTEE PORTFOLIO, BUT AFRICA IS INCREASINGLY GAINING GROUND. THERE ARE CURRENTLY GUARANTEES FOR PROJECTS IN 58 COUNTRIES. BESIDES RUSSIA AND CHINA, PROJECTS IN EGYPT ARE FIRST AND FOREMOST REPRESENTED HERE WITH A HIGH GUARANTEE



VOLUME. THE INVESTMENT GUARANTEE SCHEME PAYS FOR ITSELF AND HAS SUCCESSFULLY DISCHARGED THE FEDERAL BUDGET ACCOUNTS SINCE ITS INCEPTION.

STATUTORY MAXIMUM EXPOSURE AND MAXIMUM LIABILITY (EXPOSURE)

24 ■

A statutory maximum exposure for the cover of foreign direct investments and other guarantees in connection with untied loans (UfK-guarantees), loans by the European Investment Bank and the participation of the KfW in the subscribed capital of the European Investment Fund is laid down annually in the **FEDERAL BUDGET LAW** (§ 3 Paragraph 1 sentence 1 number 2 letters a-d). This has been set since the fiscal year 2002 at EUR 40 billion and was substantially raised as of 1st January 2011 to EUR 50 billion. This was partly in response to the steep rise in demand for investment guarantees. If a guarantee exceeds an amount of EUR 1 billion, the **BUDGET COMMITTEE OF THE LOWER HOUSE OF THE GERMAN PARLIAMENT** must be informed of it.

The maximum liability of all guarantees finally issued by the Federal Republic of Germany in 2010 amounted to EUR 5.5 billion. It was mainly accounted for by Libya, Egypt, Russia, China and India. In the year under review the maximum liability was reduced by a total of EUR 2.1 billion. The number of guarantees in the portfolio (788) is slightly up on the previous year (778). Net exposure as per the end of 2010 increased steeply once again from EUR 24.3 billion to EUR 27.7 billion, thus posting the highest value since the establishment of the promotion scheme. The liability of the Federal Republic of Germany under outstanding commitments referred to 58 countries, the lion's share of this (45%) was accounted for by Europe (Russia, Turkey, etc.), 29% by Asia (China, India, among other countries), 23% by Africa (Egypt, Libya, etc.) and 3% by Latin America (Brazil, Peru, among other countries). Russia (EUR 8.6 billion) followed by China (EUR 5.4 billion) and Egypt (EUR 3.5 billion) had the highest exposure.

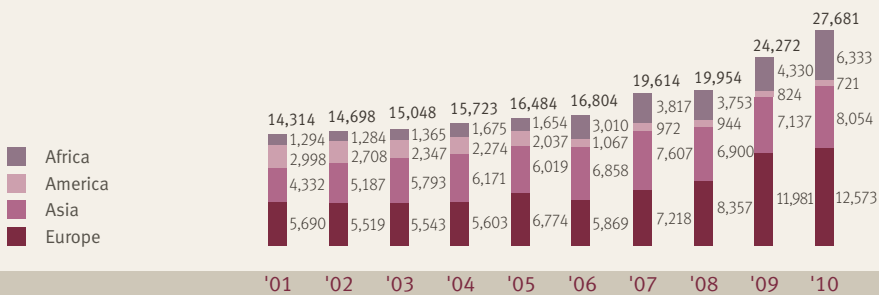
DEVELOPMENT OF THE MAXIMUM EXPOSURE IN BILLION EUR

	2010
Total at the beginning of the year	24.3
New exposure	5.5
of which approved applications in the year under review	5.5
approved applications in the previous year and alterations respectively	0.0
Reductions	-2.1
after scheduled expiry of guarantees or repayment of loans	-0.9
due to projects not realised	-0.7
after premature terminations of guarantees	-0.4
due to reductions of guarantees for projects in the oil and gas sector	-0.1
Total at the end of the year	27.7

BUDGETARY RESULTS

The investment guarantees pay for themselves. So far, the Federal Republic of Germany has been able 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 2010, seen in isolation. Thus the guarantees for foreign direct investments have **DISCHARGED** the German budget since their introduction.

**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 2010:

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



DEFINITIONS AND EXPLANATIONS

AGA:

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

Breach of contract cover:

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

BRIC-countries:

Brazil, Russia, India, China

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 capitalised 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 the action of authorities in each individual branch of the company, provided that separate annual financial statements are drawn up for each and every branch

Developing and transition countries:

All countries according to DAC Development Assistance Committee of the OECD and the Central as well as East and South East European countries

Direct investments:

Capital investments related with entrepreneurial influence and control of business activity

Exchange rate limitations, lifting of:

The maximum amount of a guarantee for investment-like loans or other rights qualifying as assets will be stipulated on the basis of the exchange rate at the point of contribution. On special application it is in principle also 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)

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:

In 1976 the governments of the states united in the Organization for Economic Cooperation and Development (OECD) agreed on common recommendations for the responsible and legally correct conduct of enterprises in their activities abroad. These recommendations were revised in 2000. Compliance with these recommendations is voluntary, and they are not legally binding.

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/gas, bonds)

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 EUR 500 million and not being a member of a larger group of companies

NOTE

Rounding differences:

For reasons 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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- 6 David Woods, Dreamstime
- 7 Ian Wilson, Dreamstime
- 15 Bundesverband der Deutschen Industrie e.V., Berlin
- 16 Ekaterinas, Dreamstime
- 16 Patrick Doering, Dreamstime
- 16 Maroš Markovič, Dreamstime
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- 22 Imagecom, Dreamstime

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

Sub-Saharan Africa:

Part of the African continent located south of the Sahara

U FK-guarantees:

Guarantees for untied loans abroad (= loans not tied to German exports and services)

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**:

Bundesministerium für Wirtschaft und Technologie
Referat VC 3
Scharnhorststraße 34-37
10115 Berlin
www.bmwi.bund.de

The Federal Republic of Germany has appointed a consortium formed by **PRICEWATERHOUSECOOPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT**, Hamburg, as a 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 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 2011

Date of publication: May 2011

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 the political risks of untied loans relating to projects which are in the overriding national interests of Germany.

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



Federal Ministry
of Economics
and Technology

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