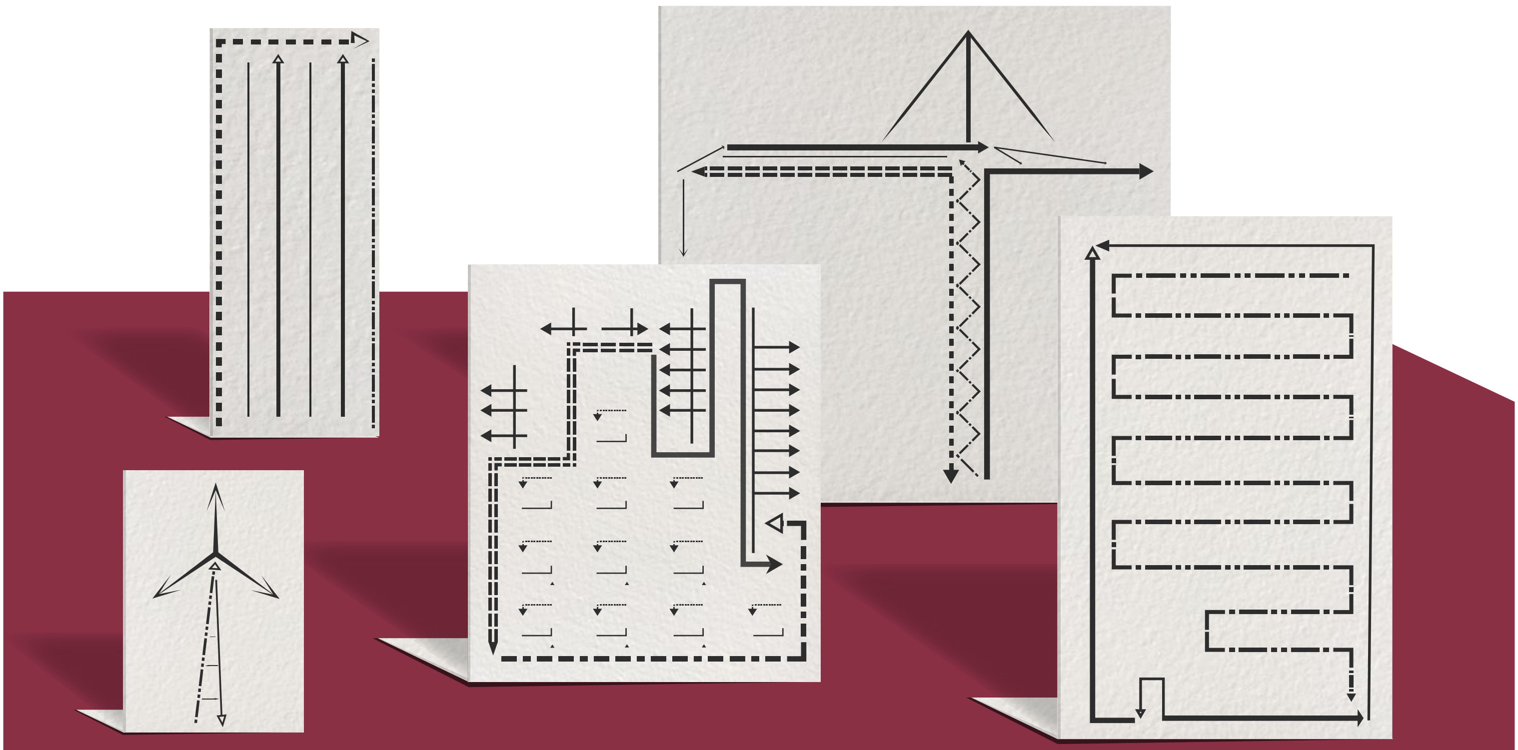
INVESTMENT GUARANTEES



ANNUAL REPORT **2018**

INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Direct Investments Abroad

Ladies and Gentlemen,

I am pleased that you are leafing through the Annual Report of the Federal Government Investment Guarantees for 2018 today! Investment guarantees have been a tried and tested instrument of German foreign trade promotion for decades.

They support German companies in opening up foreign markets with future potential. The guarantees have multiple roles in this: they cover German direct investments against political risks in the host country. In doing so, they contribute to growth and jobs in Germany. And they promote economic development in the host country, since only projects with positive environmental, social and human rights impacts in the target countries are eligible for cover.

The Federal Republic of Germany assumed 70 guarantees with a total volume of over 1.2 billion euros in 2018. This guarantee volume is slightly up year-on-year. Demand for investment guarantees has been steadily increasing: the total volume of new applications in 2018, at four billion euros, stood about a third higher than the previous year's value. Another trend continued, too: some 37 percent of guarantees assumed in 2018 were cover for small and medium-sized enterprises. That is the highest number for ten years. It shows just how important investment guarantees are for German Mittelstand companies. The total guarantee portfolio at the end of 2018, with 33.8 billion euros, remained at a high level.

The majority of guarantees in 2018 were, once again, for investments in Asia, mainly China and Iran. The runners-up were cover for investments in Eastern Europe, here primarily in Belarus and Russia. It is particularly gratifying that the guarantee volume for investments in Africa went up significantly in 2018, now reaching 11 percent. To consolidate this increase, the Federal Government has decided to introduce a number of changes to facilitate cover for investments in Africa. You can find details of these in the section on "Host country risk assessments".

Policyholders gave a very positive assessment of the wide range of information on offer, the advisory service and the processing of applications in a poll held in 2018. This good feedback is a further incentive for us to continue the ongoing development of the investment guarantee scheme.

You can find all the details and further information in this annual report. I thank you for your interest in the investment guarantees and I hope you will find the following pages fascinating reading!

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

	2014	2015	2016	2017	2018
Guarantee applications					
Number	151	136	135	109	99
Volume (maximum amounts)	4,712.0	7,897.0	3,353.9	3,042.2	3,962.1
Applications accepted					
Number	120	119	101	67	70
Volume (maximum amounts)	5,043.4	2,597.0	4,277.6	1,123.6	1,201.5
Promoted projects					
Number	90	77	72	48	51
in countries	21	16	22	17	17
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	831	858	877	872	882
Maximum liability	36,322.8	34,970.5	36,350.0	35,029.8	33,775.2

96% / 90%

Nearly all the survey respondents reported that jobs were safeguarded (96%) or created (90%) at their German locations through the covered projects.

17 countries

51 projects were covered in 17 countries. These include for the first time Mozambique, Kyrgyzstan and Armenia as well as, again after 35 years, Mali.

THE YEAR AT A GLANCE

The Federal Government assumed investment guarantees to the tune of 1.2 billion euros in 2018. The increase in the volume of applications by a third to 4.0 billion euros bears witness to the continued high demand for investment guarantees. Asia and (Eastern) Europe were the main focus of cover, and Africa has also become more attractive as a location for covered German investments. The Federal Government will resume the examination of applications to cover projects in Argentina and India. The policyholder survey carried out in 2018 reflects the positive feedback effects of such foreign projects on Germany.

10 billion

The volume of pending applications at the end of 2018 was 10 billion euros, thus coming in some 14% higher than one year earlier.

37%

37% of the approved applications were accounted for by small and medium enterprises. This is the highest number for the past ten years.

RESULT OF THE BUSINESS YEAR

- The volume of cover (capital and earnings), at 1.2 billion euros, came in slightly higher in 2018 compared with the previous year (1.1 billion euros). The same applies to the number of applications accepted (2018: 70; 2017: 67).

- In the regional distribution of cover volume, 61% went to Asia (here principally China, Armenia, Iran), followed by (Eastern) Europe (Belarus, Russia, Turkey) with 25%. Then came Africa (above all Algeria, Mozambique and Kenya) with 11% and South and Central America (Mexico, Colombia) with 3%. As in 2017, China took first place again among the host countries. Africa's share (0.2%) rose significantly year-on-year.

- 51 projects (2017: 48) were covered in 17 countries (2017: also 17). These include for the first time investments in Mozambique, Kyrgyzstan and Armenia as well as, after a pause of 35 years, once again in Mali.

- The chemical and pharmaceutical industry led the field in terms of sectors, ahead of the energy sector (mainly renewables) and the construction industry. 87% of all guarantees were accounted for by the industrial sector. The rest is distributed among services as well as projects in agriculture and forestry and the extraction of raw materials.

- Equity participations, equity-like loans and other rights qualifying as assets received cover. The main focus both as regards number (67%) and also volume (71%) lay on equity participations.

- 37% of applications were submitted by small and medium-sized enterprises. This exceeds the previous year's already high figure (31%) and represents the highest proportion in the past ten years.

- 26% of all policyholders in 2018 received a guarantee for the first time.

TOP 5 COUNTRIES
(VOLUME APPLICATIONS ACCEPTED) IN MILLION EUR

China		618.1
Belarus		171.0
Russia		70.8
Algeria		70.0
Turkey		59.1
Subtotal 2018:	(82.3%)	989.0
Total 2018:	(100%)	1,201.5

TOP 5 COUNTRIES
(NUMBER OF APPLICATIONS ACCEPTED)

China		16
Iran		9
Belarus		8
Russia		8
Turkey		8
Subtotal 2018:	(70.0%)	49
Total 2018:	(100%)	70

- **Investments of any size** can be covered. The guarantees assumed in 2018 ranged from c. 13,000 euros to 191 million euros.

- A significant increase could be observed both in the volume of **new applications** (4.0 billion euros; 2017: 3.0 billion euros), whereby the main focus was on China, Mexico and Russia, and also in the number of **pending applications** at the end of 2018 (10.0 billion euros; 2017: 8.8 billion euros).

- Similarly, the number of **enquiries** also showed a steep rise (2018: 193; 2017: 164). The most often requested among the 70 (2017: 73) countries asked about were Iran, Turkey and Ukraine. Small and medium-sized enterprises submitted 65% (2017: 51%) of these enquiries.

- The number of guarantees (882; 2017: 872) in the **guarantee portfolio** and the maximum liability (33.8 billion euros; 2017: 35.0 billion euros) remain at a high level.

- The Federal Government was also active in many cases in 2018 to **avert claims**. In the year under review, claims were indemnified. The cumulative result since the inception of the promotion scheme continues to post black figures for the Federal Government.

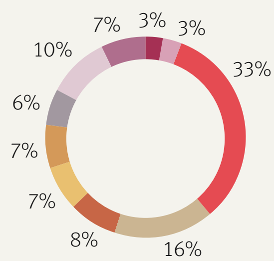
- **Internationally**, the investment guarantee scheme had the second highest guarantee portfolio among the other insurers in the Berne Union in mid-2018.

TOP 5 COUNTRIES
(NUMBER OF NEWLY REGISTERED APPLICATIONS)

China		17
Russia		12
Iran		7
Turkey		6
Belarus		4
Subtotal 2018:	(46.5%)	46
Total 2018:	**(100 %)**	**99**

NUMBER OF APPLICATIONS APPROVED BY SECTORS

Agriculture, forestry and water management	2
Raw materials extraction	2
Chemical a. pharmaceutical industry	23
Energy industry	11
Construction industry	6
Automotive industry	5
Mechanical engineering	5
Paper and wood industry	4
Other secondary sector (e.g. metal industry)	7
Other tertiary sector (e.g. trade, marketing, representations)	5
Total 2018:	**70**



HOST COUNTRY RISK ASSESSMENT

Due to an as yet unresolved claim, the Federal Government has been unable to assume guarantees for German investments in Argentina since 2003. A solution to this problem was worked out with Argentina in December 2018. Since then the Federal Government is once again prepared to review applications for investments by German companies in Argentina. The legal protection requirements needed for this are given under the German-Argentinian Bilateral Investment Treaty (BIT) which came into effect on 8 November 1993.

After India had cancelled the German-Indian BIT with effect from 3 June 2017, the Federal Government was unable to assume cover for India. In view of the importance of the Indian market for German investments, the Federal Government is however prepared, after intensive analysis of the risks involved, to consider applications for the assumption of investment guarantees on the basis of the domestic legal system in India. To take account of the elevated risk which is in principle involved here in comparison to a BIT, a premium rate of 0.6% p.a. as well as a self-retention of 10% in the event of expropriation will be charged.

The Federal Government is constantly expanding its measures to promote sustainable investments by the private sector in Africa. In this context, it was decided at the end of 2018 to strengthen German investments in the twelve countries of the Compact with Africa (CwA) initiative by means of the following regulations concerning the investment guarantees:

- The self-retention in the event of a claim (5%) can be reduced to 2.5% for suitable projects.
- The application fee for the first three applications in CwA countries will be waived for companies which have not applied for investment guarantees in CwA countries over the last ten years.
- Cover restrictions still in force will be removed for certain CwA countries, contingent on progress with reforms, so that suitable projects can be covered against further risks compared with before.
- The local effect on jobs will be taken even more into account when reviewing the eligibility for cover of a project in future.

In 2018, cover was assumed for a guarantee for the capital invested in a project in Mozambique for the first time. The basis for this was the German-Mozambican BIT which came into effect on 15 September 2007.

After a hiatus of 35 years, and after examining the risks in depth, the Federal Government has for the first time granted cover for investment capital in Mali. The self-retention in the event of a political violence claim was increased from 5% to 30%. The basis for assuming cover is the German-Malian BIT which came into effect on 16 May 1980. The applicability of this

treaty presupposes that the capital investments have been approved in writing by the Malian government in accordance with the currently valid Malian legal and administrative provisions applying to foreign capital investments.

Full guarantee cover for capital was also assumed by the Federal Government for a project in **Ethiopia**. Due to the economic situation of the country, however, it was not possible to include earnings in the cover. The legal protection requirements are given under the German-Ethiopian BIT which came into effect on 4 May 2006.

In another first, the Federal Republic has assumed guarantees for the capital invested in a project in **Kyrgyzstan**. The basis for this positive decision was the German-Kyrgyz BIT which came into effect on 16 April 2006.

A positive decision was also made for the first time in the case of an investment in **Armenia**, giving unrestricted cover both for the capital invested and for earnings. The basis for this was the German-Armenian BIT which came into effect on 4 August 2000.

The Federal Government assumed a guarantee for the capital invested in a project in **Oman** for the first time on the basis of the German-Omani BIT which came into effect on 4 April 2010.

Cover for capital invested in **Turkey** was once again assumed by the Federal Government in 2018. The basis for this was the German-Turkish BIT which came into effect on 16 December 1965.

The Federal Government confirmed the country cover policy adopted for **Iran** in 2016 after a comprehensive risk analysis. The legal protection requirements are given under the German-Iranian BIT which came into effect on 23 June 2005. The applicability of this treaty has as a condition that the capital investment must have been approved by the Iranian government or an authority designated by them. Such approvals are normally issued by the Organization for Investment, Economic & Technical Assistance of Iran (OIETAI). A higher premium of 0.6% p.a. continues to be charged for projects in Iran. In cases in which restrictions on the transfer of funds arising from the OIETAI approvals apply, the Federal Government still considers that underwriting restrictions excluding the conversion and transfer risk from cover are necessary.

KAMAX expands, setting up a production facility in Mexico

KAMAX is the worldwide leader in the technology of high-strength fasteners as well as complex cold-formed parts for the automotive industry. With production facilities in the three main automotive regions Europe, America and Asia, KAMAX is a major supplier for all the principal manufacturers and subcontracting firms for the passenger and commercial vehicle industry. The company's primary objectives are superior quality, innovation leadership and customer as well as worker satisfaction. To achieve this, KAMAX is committed to state-of-the-art processes and technology, the efficient and sustainable use of resources and permanent further development of the company and its products. After starting with just 3 workers in Osterode am Harz in 1935, it has grown to employ 3,500 people worldwide in the global corporate group today. Turnover in 2018 reached 800 million euros for the first time.

Since many KAMAX customers are already present in Mexico, the new location is a crucial element in the company's mid- and long-term growth strategy for the American market. The maxim here is: inside the markets, for the markets! The initial investment volume of the KAMAX Group in Mexico is 15 million euros and will be successively increased over the next few years. The Federal Government guarantee covers this project against political risks.

KAMAX Holding GmbH & Co. KG,
Homberg (Ohm)

INTERNATIONAL COOPERATION

PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft (PwC) represents the Investment Guarantee scheme of the Federal Republic of Germany on the Investment Committee of the "International Union of Credit & Investment Insurers" (Berne Union or BU), founded in 1934. The BU is the worldwide leading organisation of state-supported and private credit and investment insurers.

The members of the BU posted a maximum liability from outstanding commitments of some 300 billion US dollars in the field of direct investments in the first half-year of 2018. This represents a slight increase over the portfolio at the end of 2017. In the assessment of the BU members, the increasing tensions in world trade pose a growing challenge to the global economy. The rising uncertainty among companies is fuelling a steady demand for instruments to cover their investments against political risks.

In the year under review, the main thrust in the work of the Investment Committee was the deployment of innovative technologies. The increasing digitisation of insurance business holds out the prospect of substantial efficiency gains in the application process. In addition to this, it is planned to use new options for data evaluation to help in predicting the realisation of political risks even more effectively than up to now.

The members of the BU also discuss current regulatory requirements, how to deal with sanctions and the changing expectations of investors and banks with regard to political risk cover.

International
Framework
Investment Guarantees

TOP 5 COUNTRIES INTERNATIONALLY BY GUARANTEE VOLUME

	per June 2018
1.	China
2.	Russia
3.	Indonesia
4.	India
5.	Saudi Arabia

INTERNATIONAL COMPARISON BY VOLUME OF GUARANTEE PORTFOLIO

	December 2016	December 2017	June 2018
1.	SINOSURE*	SINOSURE	SINOSURE
2.	DIA**	DIA	DIA
3.	NEXI***	NEXI	NEXI
4.	MIGA****	MIGA	MIGA

* SINOSURE = China Export & Credit Insurance Corporation, Beijing.
** DIA = Investment guarantees of the Federal Republic of Germany.
*** NEXI = Nippon Export and Investment Insurance, Tokyo.
**** MIGA = Multilateral Investment Guarantee Agency, Washington.

A digression: trading across the world – state export credit guarantees

State export credit guarantees (so-called Hermes guarantees) enable German exporters and banks to cover the commercial and political risks arising out of their export business. They protect companies e.g. from the risk of non-payment when exporting to markets with an elevated risk and are a tried and trusted risk management tool in export business.

In 2018, the Federal Government covered supplies of goods and services by German exporters to 153 countries to the tune of 19.8 billion euros (2017: 16.9 billion euros). The highest cover volumes were assumed for Russia, Turkey, the USA and the UK.

Some 75% of all Hermes guarantees went to cover export business with developing countries and emerging markets. It is especially small and medium-sized enterprises, which regularly submit some 80% of all applications for cover, who benefit from the export credit guarantees.

Digitisation is also making great strides in the field of export credit guarantees. As of 2018, it has been possible to make applications for all commonly used specific policies online. On top of this, new digital product lines are being offered with Hermes Cover “click&cover”. With these, standardised export transactions can be quickly and efficiently covered online. Free webinars are available to supplement the comprehensive advisory and information service of the Export Credit Guarantee scheme, and these promote the ongoing dialogue with exporters and banks.

Applications for export credit guarantees are decided by an Interministerial Committee (IMC) on which representatives of the Federal Ministry for Economic Affairs and Energy as lead ministry, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development sit, assisted in an advisory capacity by experts from business, the banks and other institutions important for exporting industry. Export transactions which are judged to be eligible for cover and which pose a justifiable risk can receive cover. The management of the export credit guarantee scheme has been entrusted under a mandate from the Federal Government to Euler Hermes AG on their behalf.

For further details, please contact:
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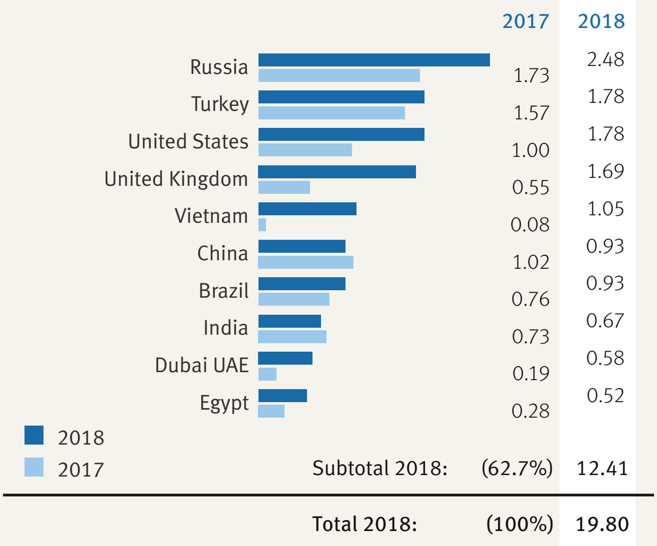
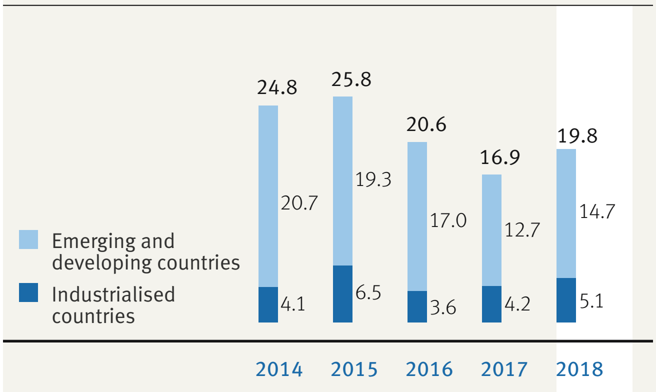
TOP 10 COUNTRIES –
RELATING TO NEWLY REGISTERED COVER IN BILLION EUR



VOLUME OF COVER BY COUNTRY GROUPS IN BILLION EUR



CRISIS MANAGEMENT AND CLAIMS PAYMENTS

Investment guarantees cover German investments in the long term against political risks. If a project gets into difficulties as a result of actions by the sovereign authorities of a host country (e.g. unlawful tax assessments with expropriation-like effects, unlawful interference in existing contractual arrangements, arbitrary changes to the project framework) so that it is consequently threatened with failure, the Federal Republic intervenes with the responsible state authorities and government agencies in the host country.

The aim of such political support by the Federal Government is to prevent an event of loss occurring, thus securing the long-term continuation of the project. In order to achieve this goal, the Federal Government deploys a number of measures such as

- involving diplomatic representatives (embassies, consulates general), in order to support the policyholder in negotiations with the public authorities of the host country,
- sending trial observers in legal proceedings or
- written statements from the Federal Government to the government of the host country.

The supporting diplomatic action to be taken is decided by the Federal Government from case to case, taking into consideration the specifics of the situation and in consultation with the policyholder. In addition, under certain circumstances the Federal Government may participate on a case-by-case basis in reasonable costs incurred to prevent or mitigate losses (e.g. lawyers' fees or court costs).

As a result of such active crisis management, it has been possible to prevent the occurrence of events of loss in investments with a total volume of well in excess of a billion euros over recent years. In 2018, too, the Federal Government successfully supported policyholders in this way. Thus it was possible to prevent an event of loss in a project in Ukraine via diplomatic intervention. On top of this, the Federal Government is currently assisting policyholders with problems with public administrations in, among other countries, Russia, Belarus, Montenegro and China.

Losses and Indemnification Investment Guarantees

Despite this, however, it is not always possible to prevent an event of loss occurring. This means that the Federal Government paid out claims in an amount of three-figure millions to policyholders in 2018. In addition, applications for indemnification are currently in process for various projects.

The Federal Government is often successful, after indemnifying the policyholder, in taking recourse action against the host country and thus securing recoveries for itself and the policyholder. This was the case once again in 2018; it must be admitted, however, that this is not possible for every claim, in particular as a rule not in the event of war damage. Such recovery actions also often extend over a long period of time. The amounts indemnified by the Federal Government since the inception of the promotion scheme exceed the recoveries secured up to now by some 390 million euros.

RESULTS OF THE POLICYHOLDER POLL IN 2018

PwC, as mandatary of the Federal Government for the Investment Guarantee scheme, once again carried out a poll of policyholders in autumn 2018. PwC carries out such polls every two or three years, the last dating from 2015. 149 policyholders were contacted in writing for the poll in 2018, of whom 49 (33%) took part. This corresponds roughly to the participation rate in the 2015 poll (36%).

As in the previous polls, policyholders were asked to provide information on the target regions for their investments and their motives for investing. In addition, they could also rate their satisfaction with the processing of their applications, the information policy regarding the guarantee scheme and express their wishes for the future digitisation of the guarantee processes.

With a share of 55%, the majority of respondents to the 2018 poll were for the first time small and medium-sized enterprises. They came from very diverse sectors; mechanical engineering, the energy sector and the chemical and pharmaceutical industry made up the highest percentage. The majority of respondents focus their activities abroad on production (57%), as in the last two polls.

The leading **target regions** for policyholders' investment projects are – as in the last poll – developing countries and emerging markets in Central and Eastern Europe as well as in Asia. In answer to the question as to the three **principal motives** for investing abroad, 74% of policyholders gave entry into new foreign markets as the reason. The second most frequent answer was expanding or consolidating their position in already existing markets by means of activities abroad. Possible cost benefits and securing supplies of raw materials have also become less important compared with the last poll.

As regards the effects of the investment guarantee scheme on jobs, 96% of the policyholders stated that they were safeguarding **jobs in Germany** by means of their investments abroad. 90% of the policyholders are even planning to create new jobs in the medium to long term. In comparison to 2015, however, the overall effect on employment has dropped slightly.

The participants in the poll reported a range of different **political and commercial obstacles** to the implementation of their investment projects in the host countries. Their answers identified the insufficient level of legal protection (46%) as the greatest political barrier[1], while in 2015 it had been the threat of conversion and transfer risk which loomed largest. Threatening conversion and transfer risks as well as the risk of war and/or civil commotion and expropriation/expropriation-like measures were still mentioned as relevant hindrances to investment in 2018. On the commercial side, the respondents saw the greatest investment constraints in administrative hurdles (67%). To this extent, it had still been the vagaries of volatile markets (61%) which were at the forefront of people's minds in 2015. These are still very much present (44%) in 2018.

The question as to their **satisfaction with the product** "Investment Guarantees" of the Federal Republic of Germany and the advisory service given by the mandatary PwC, 96% of policyholders in each case said

[1] More than one answer was possible.

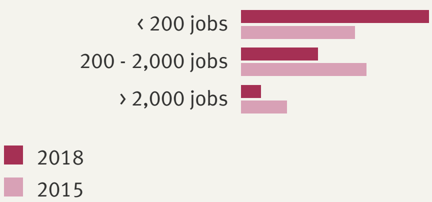
that they were satisfied. The policyholders polled also expressed their satisfaction with the application procedure (86%), the work they had to put in themselves in administrating the guarantees (90%), the clarity of the correspondence (90%) and the length of time it took to process things (84%). Great use was made of the option to write free texts, mostly concerning the possibility of developing an "online portal".

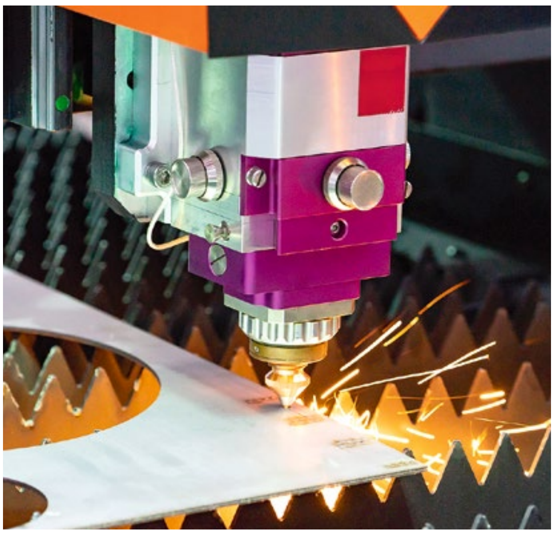
92% of the policyholders polled believe that such an instrument could be "helpful" and facilitate the application for and administration of the guarantees in future.

Where the policyholders had attended information events during the past twelve months, it transpired that they predominantly used the webinars which have been available since 2018 for this. PwC will consequently continue to offer such webinars in future and take account in them of the topics mentioned by the policyholders in the poll.

SAFEGUARDING JOBS IN GERMANY ACCORDING TO THE POLICYHOLDER POLL IN %

	2015	2018
‹ 200 jobs	40	66
200 - 2,000 jobs	44	27
› 2,000 jobs	16	7
Total	100	100





51 projects

The investment guarantees assumed in 2018 cover a total of 51 projects worldwide.

3.3 billion

A total investment volume of 3.3 billion euros is involved in the covered projects.

INVESTMENT GUARANTEES AND FOREIGN TRADE PROMOTION

German investments which are eligible for cover and present a justifiable risk can be provided with long-term cover against political risks. At the conference „In Dialogue with Industry“ held by the Federal Ministry for Economic Affairs and Energy (BMWi) the participants discussed in depth the benefits accruing from the guarantees in terms of opening up new markets. In addition, this year’s annual report presents for the first time the contribution made by the covered projects to the United Nations‘ 17 Sustainable Development Goals (SDGs).

11,500 jobs

The covered projects either create or safeguard about 11,500 jobs in the host countries.

SDGs

The projects are an effective contribution to fostering environmental responsibility and also take social and human rights aspects into account.

BASICS OF INVESTMENT GUARANTEES

Investments in developing countries and emerging markets are often confronted with unquantifiable political risks. This is where the Federal Investment Guarantee scheme comes in: guarantees are a highly effective instrument which has been honed over decades to protect investments by German companies abroad against just such political risks. The risks include nationalisation or expropriation, acts equivalent to expropriation, civil commotion, war, convertibility and transfer problems as well as payment embargoes and moratoriums in the host country. On top of these, the Federal Government can also cover breach of contract by state authorities and isolated political acts of terrorism.

Investment guarantees offer long-term security in countries with a difficult investment environment in the following ways:

- the Federal Government can prevent the occurrence of an event of loss through active crisis management;
- the Federal Government can participate in loss prevention costs under certain circumstances;
- the Federal Government indemnifies the losses incurred if an event of loss does occur and
- the guarantees are valuable collateral for lenders.

The Federal Government can cover various forms of new and follow-up investments by German companies. Companies mostly apply for cover for equity participations and investment-like loans; in individual cases cover for endowment capital and other rights qualifying as assets is also involved. Besides the invested capital itself, earnings due (often dividends and interest) can also be covered. There are no upper and lower limits to the amount of cover which can be applied for.

Basics of the Investment Guarantees

The precondition for assuming an investment guarantee is first of all that the Federal Government considers the investment project abroad to be eligible for cover. For this, the investment project must have positive effects on the host country. In particular, an in-depth audit of the environmental, social and human rights aspects is carried out. In addition, the projects must have positive feedback effects in Germany, in particular safeguarding jobs or creating new ones. A further prerequisite for the assumption of a guarantee is a sufficient level of legal protection for the project. This is in principle given if a BIT between the Federal Republic of Germany and the host country in question or a comparable treaty with investment protection provisions between the EU and the host country exists. Alternatively, the Federal Government can, in appropriate cases, assume a guarantee on the basis of the national legal framework in the country concerned provided that this – where necessary in conjunction with the universal norms and legal principles of international law or EU law – gives adequate protection to German investors.

The costs for assuming a guarantee comprise a one-off application fee and an annual guarantee premium. The application fee is waived in the event of applications for amounts under five million euros. For higher amounts, a fee of 0.05% of the maximum guarantee amount is payable, subject to a maximum amount of 10,000 euros. Following assumption of the guarantee, an annual premium of, under normal circumstances, 0.5% p.a. on the covered capital and, where appropriate, covered earnings is charged. The standard period of validity for a guarantee is 15 years. This can be prolonged. The self-retention to be borne by the policyholder in the event of a claim is normally 5% of the covered amount.

THE INTERMINISTERIAL COMMITTEE – MAIN TASKS

Application
Investment Guarantees

Decisions on whether to assume investment guarantees are taken by an Interministerial Committee (IMC) consisting of representatives of the Federal Ministry for Economic Affairs and Energy (BMWi), the Federal Ministry of Finance (BMF) the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ). Alongside the four Federal Ministries, experts from industry and the banks as well as the country associations and representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as the Federal Government's mandatary agent for the investment guarantees also sit on the Committee. In the IMC the Federal Ministry for Economic Affairs and Energy (BMWi) as lead ministry decides with the consent of the Federal Ministry of Finance (BMF) and in agreement with the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ). The decisions of the IMC are taken in accordance with budget law and take account of the specifics of each individual investment project. Besides assuming cover for specific projects, the IMC at the same time adapts the underwriting tools of the guarantee scheme in general to fit the needs arising. As a rule, the IMC meets six times a year. Chairman of the IMC is Ministerialrat Tobias Pierlings, Head of the BMWi Department VC 3: "Foreign investments, Paris Club, development banks".

The management of the Investment Guarantee Scheme is handled by PwC as mandatary agent on behalf of the Federal Government.

THE INTERMINISTERIAL COMMITTEE – IMC

Ministries

BMWi
Federal Ministry for Economic Affairs and Energy
– lead function –

BMF
Federal Ministry of Finance

AA
Federal Foreign Office

BMZ
Federal Ministry for Economic Cooperation and Development

Management

- PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft

Experts

- Business
- Banks
- Country associations

ELIGIBILITY OF DIRECT INVESTMENTS FOR COVER

In order to assume an investment guarantee, the IMC must recognize the eligibility of the project submitted for cover. The prerequisite for this is a positive effect in the host country as well as positive feedback effects for Germany. The positive effects on Germany include, as already mentioned, in particular the creation or safeguarding of jobs in Germany. Investments by German companies abroad support this, since they strengthen the international competitiveness of German companies. For this reason, the principal motive of policyholders for taking out investment guarantee cover in 2018 was opening up new markets. The project receiving cover must also contribute to the economic development of the host country, however. This includes the creation of highly-qualified jobs, the generation of hard currency revenues or know-how transfer. In addition, the appropriate management of the environmental, social and human rights aspects of the project must be ensured. The present annual report therefore for the first time presents the contribution made by the covered projects to the 17 United Nations Sustainable Development Goals: SDGs. The member states of the United Nations agreed in 2015 to realise these goals by the year 2030. In order to achieve this, significant investments from the private sector, especially in risky markets, are necessary.

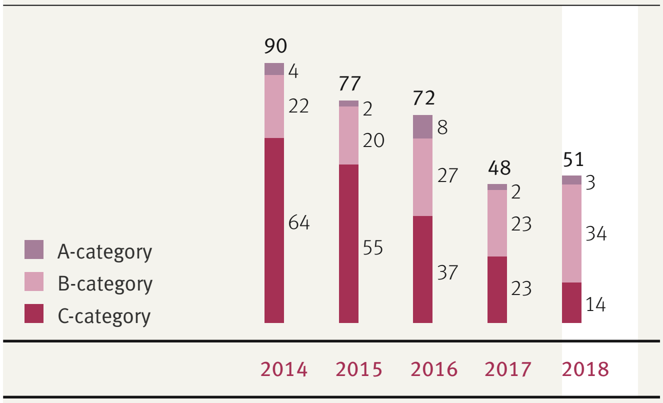
In 2018 the Federal Government supported investments in 17 countries by means of investment guarantees. Three of them belong to the lowest income category according to the definition of the World Bank. The newly covered investment volume for 2018 was 1.2 billion euros. The total investment volume mobilised by companies in connection with this stood at about 3.3 billion euros. These investments and the contribution they make to economic development in the host country help to reduce the global imbalances between nations (SDG 10). A crucial role is played in the economic development of these countries by the industrial sector. 87% of the projects supported by investment guarantees in 2018 were in the industrial sector (SDG 9). At the same time investment guarantees also mobilise financing flows to less developed countries (SDG 17).

Support for investments in developing countries and emerging markets also encourages long-term economic growth in the host countries: the guarantees assumed in 2018 alone helped to directly create or secure 11,500 jobs in the 51 projects which received cover (SDG 8). It is safe to assume that the indirect employment effects have led to a far greater number of jobs being created.

On top of this, companies contribute to the SDGs by complying, whatever sector they are active in, with human rights, social and environmental standards and mitigating potential negative effects as far as possible[1]. For many years now, the eligibility of projects for cover has largely depended on an appropriate approach to how they deal with these aspects. In order to ensure this, all applications first go through a screening process to identify potential project risks in the environmental, social and human rights fields. The projects are categorized according to their risk level (Category A for high risks, B for medium and

[1] UNCTAD: World Investment Report 2014: Investing in the SDGs: an Action Plan, 2014

DISTRIBUTION OF RISK CATEGORIES (REGARDING ENVIRONMENTAL, SOCIAL AND HUMAN RIGHTS ASPECTS) YEAR-ON-YEAR



Environmental, Social and Human Rights Due Diligence Investment Guarantees

C for low risks) and audited. In addition to fulfilling the national criteria in central risk areas, the projects must also comply with the Performance Standards of the International Finance Corporation (IFC). Through such management of environmental aspects, health and safety at work and energy efficiency, many of the projects covered in 2018 also make an active contribution to the ongoing improvement of environmental performance (SDG 3), the reduction of accidents at work (SDG 8) and the ongoing improvement of resource efficiency (SDG 9). At the same time, the requirements placed on the eligibility of projects for cover are an incentive for companies to change their manufacturing processes to make them more sustainable, which in turn leads to sustainable production and sustainable consumption (SDG 12).

3 GOOD HEALTH AND WELL-BEING

Good health and well-being for the population are ensured by reducing environmental impacts. Certifying the environmental management system verifies that companies are working towards improving their environmental performance on an ongoing basis.

30% of the project companies in Categories A and B have already certified their environmental management according to **ISO 14001** or are planning to do so.

8 DECENT WORK AND ECONOMIC GROWTH

Companies should provide a safe working environment for their employees. Certifying the safety management system verifies that a company is constantly improving its workplace health and safety and accident prevention measures.

35% of the project companies in Categories A and B have already certified their safety management according to the **OHSAS 18001** Standard or an equivalent safety management certification system.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Companies should invest in clean technologies by 2030 in order to make their use of resources more efficient and environmentally friendly. A certified energy management system verifies that companies are working on constantly increasing their energy efficiency.

5% of the project companies already have or are planning to introduce an **ISO 50001** certified energy management system.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Sustainable production patterns should have been implemented by companies by 2030.

The way to make the entire **production process sustainable** is through companies implementing **responsible management** of environmental, social and human rights aspects.

This is examined in the case of all projects which receive support during the process of **assessing eligibility for cover** under an investment guarantee.

AGENDA 2030

8 DECENT WORK AND ECONOMIC GROWTH

Full employment is to be reached in all parts of the world by 2030. The covered projects create jobs in risky markets while at the same time safeguarding qualified jobs in Germany.

11,500 jobs were directly created in the project companies.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

The share of the manufacturing sector in employment is to be substantially increased and/or the share in the least developed countries should double by 2030. A large proportion of the covered projects is active in the manufacturing sector

7,400 jobs in the **manufacturing sector** were created.

10 REDUCED INEQUALITIES

Investments in less developed countries should increase, thus reducing global imbalances.

3.3 billion euros total investment volume went to less developed countries through the projects supported

17 PARTNERSHIPS FOR THE GOALS

Additional funding from various sources should be mobilised for developing countries, and systems for the promotion of investment in the least developed countries should be implemented. This is also the main thrust of the Federal Government's Compact with Africa (CwA) initiative. Seven of the twelve CwA countries belong to the lowest income category of the World Bank.

Six of the 17 host countries are **medium or low income countries**.

Two CwA countries were among the host countries in 2018.

IN DIALOGUE WITH INDUSTRY – THE EXPORT CREDIT GUARANTEES AND INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

The dialogue conference of the Federal Ministry for Economic Affairs and Energy (BMWi) on promoting foreign trade is held every two years. On 7 June 2018 some 300 representatives of companies and banks were able to inform themselves about the export credit and investment guarantee schemes and discuss current developments at a series of workshops.

How the investment guarantees work was the theme of the workshop "**Setting up local production facilities abroad – opportunities and risks**". An intensive exchange of views on the situation in China, Russia and Iran took place with experts from industry and industry associations. The first two countries have for many years been the countries with the lion's share of covered investments. There was strong demand for assumption of guarantees for Iran in 2017 and 2018, especially from small and medium-sized enterprises.

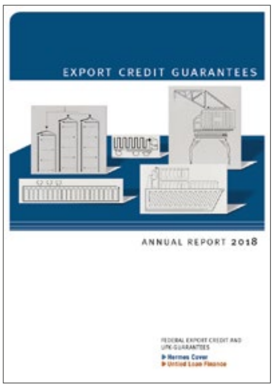
It became clear during the discussions that the classical motives for the decision to set up company operations abroad, now as in previous years, remain the same. The main motives are, for instance, to avoid import tariffs, to shorten supply lines or compliance with country-specific rules such as separate admission requirements for public tenders in Russia.

Political developments such as US sanctions pose, as the participants see it, increasingly difficult challenges for German companies and their business. It was unanimously emphasized that foreign engagement by German companies must receive political support, especially in such times as these. Company representatives explained that they used investment guarantees as a systematic supplement to their own risk management. A particularly attractive feature here was the backup from the Federal Government with all its options to intervene and mediate in order to prevent claims.

The joint workshop by the export credit guarantee and investment guarantee schemes entitled: **Speed-dating@Dialogveranstaltung** met with keen interest from the participants; many companies took advantage of the opportunity here to learn more about the investment guarantee scheme's updated procedure for auditing the compliance of projects with environmental, social and human rights standards.

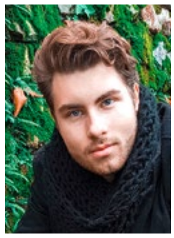
DESIGN OF THE COVER PAGE

The cover pages of the Annual Reports of the Investment Guarantee Scheme of the Federal Republic for 2018 are the result of a tender procedure carried out by the Federal Government mandataries at FSG Freie Schule für Gestaltung in Hamburg. The FSG has been training communication designers since 2009.



Within the framework of the projects, students of the FSG submitted ideas for the graphic design of the cover pages for the two annual reports 2018. The design by Leon Luca Körösi was the one chosen. Mr Körösi convinced the jury with his interpretation that the message of an annual report should be that all the cards are on the table and that dynamic movement and development – represented by the arrows pointing in various directions – in many different ways and in many different directions is possible.

Leon Luca Körösi: “The stand-up images on the cover pages show in each case a scene with a theme fitting the subject, represented in line optics. Each individual line ends in an arrow. These point in differing directions, thus symbolising the various possible developments and also the physical momentum of export and investment flows. In addition, the cards folded to stand up vertically suggest the metaphor of “putting your cards on the table” mentioned above, which stands for the quality and reliability of the contents of the report. This is further reinforced by the central view with its open perspective on the front pages.”



Leon Luca Körösi, 21 years old and born in Hamburg, is a student of design in his fifth semester at the FSG.

Leon Luca Körösi works with many different art and design techniques and will use the experience he has gathered in recent years to complete his degree in autumn 2019.

DEFINITIONS AND EXPLANATIONS

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

Conversion and transfer risk/payment embargo and moratorium risk:
Risks due to the impossibility of converting or transferring amounts deposited with a sound bank for transfer to the Federal Republic of Germany as well as payment embargoes or moratoriums

Cover for capital (capital cover):
Includes the contributions made to the capital investment (e.g. nominal capital investments); the value of the capital investment capitalized in accordance with accounting principles generally accepted in Germany can be covered in principle

Cover for earnings (earnings cover):
Includes distributed profits or profits payable (e.g. dividends, interest) on covered capital investments

Direct investments:
Capital investments related to 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

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 have been issued

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

Other rights qualifying as assets:
Rights made long-term in cash or other in-kind contributions and the objective of entrepreneurial activity (e.g. rights under production agreements for oil)

Maximum amount:
Total sum of cover for capital and earnings

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

Outstanding commitments:
Portfolio of policies under which claims may still be made 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 the form of issued guarantees may be accepted by the German Government

Sustainable Development Goals (SDGs):
The Agenda 2030 was resolved at a United Nations summit in September 2015 by all member states unanimously. The centrepiece of the Agenda is a catalogue of 17 sustainable development goals, which for the first time give equal weight to all three dimensions of sustainability – social, environmental and economic aspects.

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.

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10	KAMAX Holding GmbH & Co. KG, Homberg (Ohm)
11	Michael Huber-Saffer, Pinneberg
15	Getty Images, Monty Rakusen
15	Getty Images, Kiyoshi Hijiki
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21	Getty Images, Klaus Vedfelt
23	Bundesministerium für Wirtschaft und Energie/ Susanne Eriksson, Berlin

NOTES

Rounding differences:
For reasons of calculation, tables and figures may show rounding differences of +/- 1 unit (EUR, % etc.)

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

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

Bundesministerium für Wirtschaft und Energie
Referat V C 3
Scharnhorststraße 34-37
10115 Berlin
www.bmwi.de

The investment guarantee scheme is managed on behalf of the Federal Government by **PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft**, Hamburg, (PwC) as mandatary of the Federal Government. Further information as well as detailed consultation concerning the cover available may be obtained from PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. the latest information in the DIA-Report, an informational video, the General Terms and Conditions, leaflets, a flyer as well as the annual and semi-annual report..

We have created a special hotline for small and medium-sized enterprises. For details of this, please see our website (**www.investitionsgarantien.de/en**).

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www.investitionsgarantien.de

Investment Guarantees of the Federal Republic of Germany

Investment Guarantees have been an established and effective foreign trade promotion instrument of the Federal Government for decades. Investment Guarantees protect eligible German direct investments in developing countries and emerging economies against political risks. This promotion instrument plays an important role in fostering economic growth as well as in protecting and creating jobs both in the host country and in Germany.

The investment guarantee scheme is managed on behalf of the Federal Republic of Germany by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the search term “Promotion of foreign trade and investment”.

Federal Ministry
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and Energy

OUR PARTNER

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