

ANNUAL STATEMENT OF ACCOUNTS 2016

WORKING TOGETHER WORLDWIDE

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REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDER

MEETINGS

Three ordinary meetings of the Supervisory Board and one meeting of the Audit Committee were held in fiscal 2016.

APPOINTMENTS

There was one change in the composition of the Supervisory Board during the year under review. Johannes Schmalzl, Director General at the Federal Ministry of Finance, was appointed to the Supervisory Board as shareholder representative. He succeeds Dr Ludger Schuknecht, who stepped down in autumn 2016. The Supervisory Board elected Mr Schmalzl to act as Chair of the Audit Committee.

ADVISING AND SUPERVISING THE MANAGEMENT BOARD

The relationship between the Supervisory Board and the Management Board is based on trust. In the year under review, the Management Board kept the Supervisory Board informed about management policy, the state of operations, and the liquidity and profitability of the company. These reports and joint meetings gave the Supervisory Board a comprehensive view of the company's business development and therefore enabled it to perform its designated role of regularly supervising the activities of the Management Board. Thanks to increases in funding – especially from BMZ's 'special initiatives' budget – and a greater volume of cofinancing revenue, GIZ's business development was very positive. Developments at InS were also largely positive despite problematic operating conditions in some areas.

The Supervisory Board was actively involved in important company decisions. It advised the Management Board on key issues and approved Management Board proposals after detailed examination.

In the fiscal year 2016, one of the main areas on which the Supervisory Board focused was the restructuring of the company's pension schemes. The Management Board reported back regularly on its negotiations with the trade union authorised to represent employees in the collective bargaining process.

In addition, the Supervisory Board approved changes to the Collective Agreement on Remuneration (VTV) to complete the restructuring of taxation arrangements for field staff.

The Supervisory Board also took action to implement the findings of the review of its own efficiency conducted in 2015. One of these measures was to amend its rules of procedure on the role of the Audit Committee to bring these into line with current legislation.

The Supervisory Board adopted the financial, investment and human resources plans for 2017. These are based on projections of very substantial new commissions and a further rise in total business volume. Reflecting this anticipated revenue situation, total staff numbers will also increase, albeit less rapidly than revenue due to efficiency gains in staff work processes. Looking ahead, GIZ plans to give more responsibility to national personnel in partner countries.

Finally, the Supervisory Board examined the degree to which targets had been met by members of the Management Board and on this basis determined the variable remuneration payable.

MANAGEMENT BOARD REPORTS

Over the course of the year, the Management Board presented a number of reports to the Supervisory Board, including the Long-Term Corporate Plan 2017–2019, and explained the updated company-wide strategy process designed to address the key trends and developments affecting GIZ. The company has adopted a set of medium-term objectives in the four strategic areas of action: effectiveness; business development; expertise and alliances; cost-efficiency.

The Supervisory Board requested information about the current state and development of GIZ's gender equality policy. Over half of all senior managers at the level immediately below the Management Board are women. Furthermore, there was a modest increase in the proportion of women in managerial positions outside Germany.

The Management Board reported on the expansion and structure of GIZ's compliance management system (CMS). Following the bauhaus15 internal restructuring process, GIZ set up a dedicated corporate unit with a robust mandate to coordinate and oversee the CMS.

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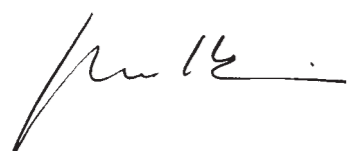
The auditors KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the annual statement of accounts and management report to establish that they comply with the law, the supplementary provisions of the Articles of Association concerning the annual statement of accounts and management report, and with generally accepted accounting principles. They confirm that the bookkeeping system and the annual statement of accounts comply with the law, that the annual statement of accounts gives a true and fair view of the company's net assets, financial position and results of operations, and that the management report is consistent with the annual statement of accounts and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

At its meeting on 7 July 2017, the Supervisory Board approved the findings of the audit of the annual statement of accounts for 2016 carried out by the auditors and the Supervisory Board Audit Committee.

The Supervisory Board recommends that the shareholder adopt the annual statement of accounts 2016 and formally ratify the actions of the Management Board.

The term of office of the Supervisory Board ends with the decision on ratification for the fiscal year 2016. The Supervisory Board wishes to thank the Management Board for its cooperation and trust. We are also grateful to GIZ staff for their work under sometimes very difficult conditions and for their valuable contribution to sustainable development.

Bonn, 7 July 2017



Dr Friedrich Kitschelt
Chairman of the GIZ Supervisory Board
State Secretary in the German Federal Ministry for Economic Cooperation and Development

MANAGEMENT REPORT FOR THE FISCAL YEAR 2016



I. BACKGROUND, OPERATING FRAMEWORK AND OVERALL PERFORMANCE

A. THE COMPANY

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a federal public-benefit enterprise with registered offices in Bonn and Eschborn. It helps the German Government achieve its objectives in the fields of international cooperation for sustainable development and international education and training. Quality, efficiency and innovation are at the heart of GIZ's activities as a modern, commercially run enterprise.

GIZ operates in more than 130 countries worldwide. Thanks to its long-standing local presence and global networks encompassing politics, business and civil society, GIZ is well placed to cooperate successfully with a large number of stakeholders.

We have around 18,000 employees across the globe. Over 80% are based outside Germany (including those employed locally as national personnel). A further 643 experts are currently on assignments for GIZ in the role of development workers. In addition, the Centre for International Migration and Development (CIM)¹ places experts with local employers in partner countries. At the end of 2016, 413 integrated experts were employed directly by organisations and private businesses in partner countries. GIZ also provides financial, advisory and other support to returning experts who choose to move back to their country of origin in order to put their knowledge to good use there.

GIZ's activities focus on effective cross-border cooperation, the transfer of knowledge and the development of expertise. Compared with similar organisations around the world, the sheer range of its activities is unique: economic development and employment; governance and democracy; peacebuilding, security, reconstruction and civil conflict transformation; food security, health and basic education; energy policy, environmental protection, resource conservation and climate change mitigation.

GIZ combines its services in the form of tailored solutions for specific needs, regions and contexts. These range from technical advice, individual training and measures to strengthen organisations and institutions through to networking, dialogue, mediation, project management and procurement/logistics services.

The German Federal Ministry for Economic Cooperation and Development (BMZ) is our most important source of commissions. GIZ also works on behalf of other German federal ministries, including the Federal Foreign Office (AA); the Federal Ministry of Education and Research (BMBF); the Federal Ministry of Food and Agriculture (BMEL); the Federal Ministry of Finance (BMF); the Federal Ministry of the Interior (BMI); the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB); the Federal Ministry of Defence (BMVg); and the Federal Ministry for Economic Affairs and Energy (BMWi), the Bundesländer (federal states) and both public sector and private sector clients in Germany and abroad. Governments of other countries, the European Commission, the United Nations, various regional and multilateral development banks and private foundations, such as the Bill & Melinda Gates Foundation, also commission GIZ to implement their own projects or support projects initiated by the federal ministries. GIZ works closely with the private sector through commissions and cofinancing arrangements and helps its clients to successfully combine development and foreign trade activities.

Alongside its activities in the public-benefit business area, GIZ is authorised by the Federal Government to receive commissions directly from international clients in its taxable business area, International Services (InS). These clients include the European Union (EU), national governments, bilateral donors, UN organisations and agencies and international financial institutions. Commissions from private-sector clients generally involve corporate social responsibility (CSR) measures.

B. STRATEGY

In 2016, GIZ's strategic focus was determined by its Long-Term Corporate Plan 2016–2018, which specifies four main objectives in the form of areas of action: (1) to create tangible added value for our shareholder; (2) to implement new organisational structures and procedures; (3) to consolidate existing markets and open up new ones by offering excellent products and effective services; (4) to ensure that HR policies remain focused on the goal of achieving global sustainable development.

In all four strategic areas of action, GIZ has implemented numerous measures and achieved lasting and effective results. These are briefly summarised below:

1. Create tangible added value for our shareholder

In 2016, GIZ made a considerable contribution towards raising the profile of Germany and German development cooperation by establishing new forms of cooperation with German and international stakeholders, partly within the broader framework of multi-stakeholder partnerships, but also as a result of the swift implementation of projects financed out of BMZ's special initiatives (SI) budget and large-volume EU funds. Under the SI 'Tackling the root causes of displacement, reintegrating refugees', GIZ supported refugees in Syria's neighbouring countries through a large-scale cash for work programme that benefits up to 150,000 people. Another example is the large-scale EU programme 'Better Migration Management', which addresses eleven countries along the East African migration routes, including countries of origin, transit countries and destination countries. Demonstrable added value was also generated by multi-stakeholder partnership arrangements to implement the 2030 Agenda, including the German Initiative on Sustainable Cocoa, which brings together the German Government, the cocoa trade, the confectionery industry and civil society, and which was designated a beacon project for Germany's National Sustainability Strategy in 2016. In connection with Germany's G20 Presidency in 2017, GIZ has been supporting the German Government in selected areas such as financial inclusion, the Africa Strategy, and

identifying and combating public health emergencies in response to the Ebola epidemic in West Africa. A group of experts who can be deployed at short notice will in future be able to provide a swift assessment of the situation on the ground and help to coordinate international assistance.

2. Implement new organisational structures and procedures

Changes to GIZ's organisational structure and procedures as identified by the bauhaus15 reorganisation project are being implemented as planned. This reorganisation is making us more responsive to our clients, improving cost-efficiency and our capacity to deliver services, and making processes and responsibilities more clear-cut. In 2016, our focus was on the implementation of bauhaus15 in GIZ's country offices. In terms of efficiency, we made some initial gains through the removal of one layer of management at Head Office and by optimising manager-to-staff ratios. The standardisation of company-wide processes and the implementation of service level agreements between in-house service providers and the operational departments offer further scope for efficiency improvements.

3. Consolidate existing markets and open up new ones by offering excellent products and effective services

The high quality of the products and services provided by GIZ are helping to make us more competitive and ensuring that we can deal with increased funding to the satisfaction of our clients. In fiscal 2016, GIZ boosted its total business volume by a substantial margin (for details see section I. C. 'Operating framework'). This rise was mainly attributable to a high level of revenue from BMZ budgets (e.g. special initiatives and transitional development assistance) and funds received under cofinancing agreements with third parties. Having conducted an assessment of the Federal Government budget for 2017, GIZ anticipates a further increase in revenue compared with the previous year. However, implementing these commissions also challenges our ability to deliver. One crucial factor here involves cooperating more extensively with other organisations. Establishing new alliances with

¹ The Centre for International Migration and Development (CIM) is run jointly by GIZ and the Federal Employment Agency's International Placement Services. It operates a number of personnel placement programmes with the aim of recruiting highly qualified experts and managers for local employers in partner countries. In the Integrated Experts programme, German and European experts are recruited for assignments of up to six years. The purpose of the Returning Experts programme is to support foreign experts who wish to take up important development posts in their country of origin after studies, training or employment in Germany.

(German) specialist and research institutions also plays an important part in this. To ensure that we are able to operate in fragile contexts, a Corporate Security Unit was established in 2016. The task of this unit is to define, advise on and implement the required security policies and standards. In this context, one of the key measures will be to establish a standardised worldwide security tracking system.

4. Ensure that HR policies remain focused on the goal of achieving global sustainable development

In 2016, an important milestone in the reorganisation of the company pension scheme was reached through the continued outsourcing of pension commitments to our subsidiary GIZ Unterstützungskasse GmbH, a process that commenced in 2015. The goal here is to ensure that the system in place is economically viable in the long term. A provisional agreement was achieved in negotiations with the trade union ver.di on a new collective agreement covering pensions. Further negotiations were requested by the Supervisory Board, and these were concluded in the first half of 2017. To ensure that the company maintains its ability to deliver in the long term, in 2016 GIZ set out the basis for a human resources strategy to meet the increasing challenge of finding suitable staff to take up assignments outside Germany. Key elements of the human resources policy include developing flexible personnel assignment models, which are already being piloted, supporting national personnel and ensuring a higher level of internationalisation in human resources work.

DEVELOPMENTS AND TRENDS AFFECTING GIZ

To ensure that we are well equipped to meet the challenges of the years ahead, GIZ has restructured its strategy process and devised a new corporate strategy for 2017–2019.

The main factors that influence GIZ's activities are the current national and international political situation on the one hand and social and economic changes on the other. As a starting point for our strategy, we identified ten current developments and trends that are of central importance to GIZ now and over the next three to five years and that create both opportunities and challenges.

Trend 1: Fragile statehood and violent conflicts are becoming increasingly prevalent and hence more relevant

State fragility, failing states, violent conflicts and terrorism are becoming increasingly relevant for Germany's development policy; more than half of all partner countries are directly affected. A growing number of GIZ staff now work in fragile contexts. This brings with it greater risks to the individual safety and security of staff and mounting challenges for security and risk management. Recruiting suitably qualified field staff on schedule and in line with needs is also a challenge for GIZ, as it entails potential risks to our ability to deliver in fragile contexts.

Trend 2: Refugee movements and migration have moved to the top of the development-policy and political agenda

The fact that displacement and migration have moved to the top of the political agenda presents the Federal Government and therefore GIZ with significant challenges. Thanks to a significant increase in the size of BMZ, Federal Foreign Office and EU Trust Fund budgets for stabilisation, displacement, migration and transitional development assistance, GIZ has been able to expand its activities in the home countries of internally displaced persons and in the countries of origin and host countries of refugees (including Iraq, Syria, Jordan, Turkey and Ukraine), and step up its contribution towards combating the structural causes of displacement and support refugees and internally displaced persons (e.g. through cash-for-work schemes). The challenge in this context is to combine short-term measures with sustainable results.

Trend 3: More funds are available to tackle the consequences of climate change and the problem of dwindling resources

One third of GIZ's current portfolio is already dedicated to climate change and adaptation; demand for adaptation measures remains high. New, large-scale BMZ initiatives, including climate risk insurance schemes and renewable energy in Africa, which have been established by BMZ in response to pledges of government funding for international climate action, could potentially have a major impact on GIZ's portfolio – including bilateral cooperation –

in the medium and long term. Alongside an expanding portfolio implemented on behalf of BMZ and the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), opportunities exist for additional cofinancing arrangements with bilateral donors and for commissions from emerging economies and the Green Climate Fund (GCF).

Trend 4: The global power balance is shifting towards emerging economies

The German Government has drawn up strategies for cooperating with emerging economies. GIZ has decades of experience of cooperating with and working in a great many states in this category. Based on our mandate, we have helped to implement the Government's strategies and broken new ground in terms of cooperation mechanisms (e.g. through knowledge sharing, triangular cooperation and training in our International Services business area). Work in emerging economies requires GIZ to further modify the form and content of cooperation and, in some countries, to bring the company's structures into line with new local requirements.

Trend 5: Global agendas are gaining weight in international cooperation for sustainable development

With its focus on international cooperation for sustainable development, GIZ is well placed to help implement the 2030 Agenda and other global agendas. On behalf of BMZ and other federal ministries, GIZ provides effective support for Germany's efforts to implement the 2030 Agenda in developing countries, emerging economies and industrialised states. GIZ can also act on behalf of other clients and cofinancing bodies to implement the 2030 Agenda. Given the global nature of the 2030 Agenda, GIZ could increasingly link activities and results both in partner countries and in Germany through its programmes.

Trend 6: The actor landscape in international cooperation is diversifying, with partnership approaches playing an ever more important role

Multi-stakeholder partnerships are giving GIZ greater scope for involving German civil society, the science and research community and the business community as part-

ners in efforts to implement the 2030 Agenda in partner countries. To this end, formats for cooperation with the private sector must be further developed and new formats devised that will allow us to extend cooperation on a basis of equal partnership with civil society bodies, the science and research community and other relevant institutions, including UN agencies and organisations. Through partnerships with German institutions and private companies, GIZ can also help mobilise German expertise and integrate the values, experience and systemic characteristics of German society into the advisory services we offer – in line with the heading 'made in and with Germany'. Cooperation with a large number of different stakeholders demands flexibility and the ongoing development of our methodological approaches.

Trend 7: The digital revolution is impacting on the services we deliver and the way we work

New digital technologies are enabling GIZ to devise radically new solutions, reach new target groups, tailor projects even more precisely to the specific needs of the end user, involve partners more effectively, obtain data directly, and help make the company more effective and better able to deliver by rendering internal processes more efficient. Digitalisation is also radically changing the framework within which we work in our partner countries, and state-of-the-art approaches are called for. Digitalising our internal processes will require substantial investment in our digital infrastructure and in skills development for GIZ personnel. Data privacy and data security will also be pivotal.

Trend 8: Expectations of the services delivered by development cooperation are changing

Our clients expect measurable results that can be easily and visibly communicated. Results-based management and aggregated reporting are becoming increasingly important. Large commissions with tight deadlines for implementation make great demands on the flexibility of our workforce and on our ability to incorporate suitable external providers. More and more, GIZ has to combine the task of delivering specific technical services in a bilateral context with that of coordinating large commissions, financing arrangements and global measures. Increasingly, our work involves awarding and channelling grants and

financial contributions. In turn, this requires that we have the expertise to evaluate potential recipients (due diligence). GIZ has already established a strong foundation in this area during the accreditation process for the Green Climate Fund (GCF).

Trend 9: Accountability, transparency and cost-effectiveness requirements are becoming more stringent

The development cooperation sector and its stakeholders are increasingly required to provide evidence that funds have been used effectively and cost-efficiently. As a federal public-benefit enterprise, GIZ has a particular duty to ensure that it is efficiently managed and that projects are implemented cost-efficiently and effectively. Our shareholder, clients, commissioning parties and cofinanciers expect GIZ to provide evidence of the cost-efficiency and effectiveness of its activities and to have this verified by external auditors. In some cases, the new requirements imposed by financing bodies that we provide evidence of compliance with governance and project management standards are partly at variance with calls by clients for greater flexibility and rapid implementation. The task of establishing compliance mechanisms and additional reporting systems demands considerable financial investment.

Trend 10: The special nature of development cooperation is being forced to assert itself in a new environment

The increasing volume of funds available under new budget items presents a challenge for all implementing organisations. As a result of fixed cash disbursement deadlines for each budget year, maximum terms and the replacement of direct commissions by 'ideas competitions', we are under greater pressure to manage and implement projects on very tight schedules, sometimes within just a few months. This makes it much more difficult to coordinate activities with our partners. The trend towards shorter project terms is also at variance with the often protracted process of reaching agreements under international law between Germany and its partner countries and the more complex public procurement and tendering processes now required by the new EU directive on public procurement. To compound the situation, the increasing number of supraregional projects is placing additional de-

mands on the processes of achieving legal certainty under international law in partner countries. In some cases, the framework agreements established by the Federal Government do not make it possible for us to implement projects and programmes commissioned by federal ministries and other clients in accordance with national legislation. This is the case, for example, in non-ODA² countries (e.g. Greece, which is an EU member state), in countries with which BMZ has officially ended cooperation (e.g. Thailand) and in countries in which staff provide regional services (e.g. Dubai). In these situations, we need to find alternative solutions that safeguard our ability to do business. If GIZ's activities are no longer covered by framework agreements, our staff lose the protection afforded by the Convention on the Privileges and Immunities of the United Nations. Other consequences include uncertainty over tax legislation, increased costs due to additional VAT charges, import duties for equipment and company taxes.

NEW CORPORATE STRATEGY

The opportunities and challenges presented by these trends and by the medium-term objectives set by our shareholder are reflected in the company's new corporate strategy. GIZ has also reformulated its vision, which is a key element of its identity:

'We work to shape a future worth living around the world.'

This vision and our new strategy are intended as a guide for the entire workforce, while establishing the framework for our strategic priorities over the period from 2017 to 2019.

The objectives of the new strategy are assigned to our four strategic areas of action: effectiveness; business development; expertise and alliances; cost-efficiency. In order to achieve these objectives, GIZ implements strategic measures on a largely multi-annual basis.

1. Objective in the area of action 'Effectiveness': We meet the expectations of our partners, commissioning parties and shareholder by producing tangible, sustainable and measurable results

This objective is to be met by realigning and expanding our system of recording and reporting on aggregate results, and by improving the way results are communicated outside the company. In part, this action has been made

necessary by the 2030 Agenda reporting requirements. It entails investing in appropriate IT systems. Another measure is designed to promote digital innovation in order to expand our portfolio and pilot new services in projects and programmes.

2. Objective in the area of action 'Business development': We develop economically viable business activities together with our commissioning parties

Over the period 2017–2019, strategic measures for concrete business development will focus in particular on the political priorities of clients and commissioning parties, specifically the areas of displacement and migration, security and stabilisation, and climate and energy. In response to growing demand for GIZ to manage complex, large-scale projects, we plan to optimise our internal planning, management and reporting processes. We also want to equip ourselves to offer appropriate services in countries that are moving from development cooperation towards other forms of international cooperation. The challenges we face in these countries include fewer commissions from BMZ and BMUB, measures that do not qualify as ODA, the absence of a proper legal basis in international law, risk diversification and dealing with compliance risks.

3. Objective in the area of action 'Expertise and alliances': We mobilise expertise by applying the skills and motivation of our staff, working with strong cooperation partners and forming strategic alliances

Our focus here is on further honing the skills of our workforce and on updating the instruments needed for their assignments in Germany and in the field. This will ensure that GIZ retains its ability to deliver the services requested by clients and that it remains an attractive employer. It will involve, for example, the gradual internationalisation of the workforce, developing more flexible assignment models, supporting national personnel so that they can assume managerial responsibility in our partner countries, and improving the conditions under which staff are seconded (e.g. employment opportunities for accompanying partners and security and health issues). The challenges presented by the 2030 Agenda can only be met through effective cooperation and broad-based alliances. GIZ will establish different cooperation models for implementation, evaluate them systematically and draw widely on examples of good practice.

4. Objective in the area of action 'Cost-efficiency': We remain cost-efficient and ensure compliance by using our resources efficiently and responsibly

Cost-efficiency, transparency and accountability are crucially important for a federal public-benefit enterprise. The government and taxpayers expect companies that use public funds to be accountable for their efficient use and to provide evidence that their work is effective. At international level, too, the question of verifiable cost-efficiency is increasingly important.

Over the next few years, GIZ will take additional steps to maintain the process of reform initiated by the bauhaus15 project. The further development and efficient design of processes will therefore be pivotal and will be enhanced through greater standardisation and the systematic expansion of our IT infrastructure. Accordingly, we will focus on developing and introducing IT support for the core process 'commission management' in order to facilitate the preparation of projects and the task of steering implementation.

In order to meet stricter transparency and accountability requirements and demonstrate the company's integrity, GIZ will introduce a compliance management system (CMS) that incorporates GIZ's field structures and incentivises compliance throughout the company.

C. OPERATING FRAMEWORK

The increase of €863 million (13%) in the BMZ departmental budget 23 to €7,407 million had a positive impact on the development of business at GIZ. Our biggest source of commissions and revenue was BMZ's 'Bilateral technical cooperation'³ budget item. For the technical cooperation budget item, a cash appropriation of €1,188 million was made available in 2016, enabling GIZ to achieve total revenue of €1,147 million. Partly due to the refugee crisis, GIZ recorded a significant increase in its revenue from the three special initiatives commissioned by BMZ at the beginning of 2014 and from the transitional development assistance budget (see table on page 18).

² ODA: Official Development Assistance

³ The same budget item is also used for other TC organisations: the Physikalisch-Technische Bundesanstalt (PTB) (Germany's national metrology institute) and the Federal Institute for Geosciences and Natural Resources (BGR).

Turning to our business with other federal ministries, GIZ's largest commissions were awarded as in previous years by the Federal Foreign Office and the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). The Federal Foreign Office's budget allocation rose by over €1 billion to €4,810 million. Compared with the previous year, the amount allocated to BMUB was 18% higher at €4,544 million, although most of the increase was earmarked for national construction projects.

As well as commissions financed out of federal budget funds, GIZ generated additional revenue from cofinancing arrangements in the public-benefit business area. This method of financing involves other donors providing additional funds for projects and programmes to be carried out by GIZ on behalf of a federal ministry. Among GIZ's key external donors are the European Union (EU) and the UK's Department for International Development (DFID). Our latest cooperation with the EU involves two trust funds set up by the EU to respond to the refugee crisis. One of these, the Emergency Trust Fund for Africa, is intended to facilitate crisis management work in the Sahel region, around Lake Chad, in the Horn of Africa and in North Africa. The other, entitled the EU Regional Trust Fund in Response to the Syrian Crisis (Madad Fund), was set up in response to the crisis in Syria.

With the approval of the German Federal Government, GIZ also accepts commissions in its taxable business area International Services (InS) from bilateral donors, national governments, UN organisations and agencies, international financial institutions and the private sector.

One of the challenges currently facing InS is to make up for the loss of its vocational training portfolio in Saudi Arabia. Following negotiations with both clients, the Technical and Vocational Training Corporation (TVTC) and Colleges of Excellence (CoE), we reached agreement on payment commitments totalling €20 million for the two Technical Trainers College projects (TTC 'old' and 'new'). In fiscal 2016, InS was able to compensate for the loss of revenue caused by the cancellation of the TTC projects thanks to ongoing realignment measures, e.g. stringent cost management and streamlined procedures. Other measures that helped to meet this challenge included focusing consistently on clear-cut business opportu-

nities and on investments in selected markets such as the EU and private-sector business.

In recent years the company's existing pension scheme has faced a series of challenges in the form of major legislative, financial and other changes. In response to these challenges, in 2014 GIZ began to reorganise its company pension scheme. The company outsourced most of its existing pension arrangements in 2015. The advantage of outsourcing is that the company is not required to recognise provisions. However, this is merely a stopgap solution for GIZ, as it does not reduce the costs of the company pension scheme. Outsourcing simply eases the immediate financial pressure.

Since October 2015, pensions that fall under the old scheme have been paid by Deutscher Pensionsfonds AG (DPAG). DPAG will also pay the future pension entitlements accrued by employees up to 30 June 2015 under the old scheme's 'past service' arrangements. Pension entitlements accrued after 30 June 2015 under the old scheme's 'future service' arrangements were transferred in fiscal 2016 to the company's in-house provident fund (GIZ Unterstützungskasse GmbH, Bonn), which was set up in 2015. Since January 2016, this provident fund has also paid the pensions of retired employees with entitlements under the new company scheme.

This model combining a pension fund and provident fund was chosen based on wage tax considerations.

As a general rule, the costs of company pension schemes can be included in GIZ's cost reimbursement price. However, this is not the case for all costs. For example, certain elements of the pension provisions cannot be charged under current pricing law. They have to be covered by profit or the company's reserves. In recent years, this rule – in combination with the challenges outlined above – has led to a 'funding gap'. The average annual shortfall over the period from 2010 to 2014 was €7.7 million. If this trend had continued, it would have gradually eroded the company's equity and left it with an excessive burden of debt.

Thanks to the restructuring of our company pension scheme, we have been able to close the funding gap, consolidate our costs, remain competitive and maintain an attractive profile as an employer.

D. BUSINESS DEVELOPMENT

In 2016 both new commissions and total business volume⁴ showed a further increase compared with the high levels achieved in the previous year.

At €3,336 million, the figure for new commissions set a new record. This was partly due to successful acquisitions from third-party funding providers. Cofinancing arrangements generated €440 million in the BMZ business sector and €107 million in GIZ's business with other German Public Sector Clients.

At €2,409 million, total business volume was up by €267 million (12%) on the previous year's figure of €2,142 million. This was due to increased revenue in the public-benefit business area, both from commissions and from cofinancing arrangements.

GIZ made further cost-efficiency gains in the public-benefit business area. Its control parameter for the public-benefit business area is the ratio between management costs for the year under review and the four-year average⁵ of revenue in this business area. At the end of 2016 it stood at 10.5%, the lowest level since the merger in 2010.

In 2016 InS received new commissions totalling €152 million. The corresponding figure for total operating performance was €156 million. Thanks to cost savings, the operating result at InS showed a year-on-year improvement on the 2015 figure of €0.7 million to end fiscal 2016 at €1.3 million.

II. ASSETS, FINANCIAL POSITION AND INCOME

A. ASSETS

The balance sheet total ended the year under review at €1,333 million, up €234 million from €1,099 million.

Fixed assets rose from €329 million to €401 million. The main factors underlying this increase of €72 million (22%) were capital expenditure on the construction of the GIZ Campus in Bonn and the purchase of additional units in the security-based investment funds.

Inventories increased by €57 million (16%) from €353 million to €410 million. This was mainly due to another rise (€69 million) in the figure for advance payments. Services not yet invoiced fell by €11 million (40%) to €17 million.

Receivables and other assets increased by €31 million from €289 million to €320 million. This was primarily a result of higher trade receivables (up €14 million) and a further increase of €17 million in project-related assets.

Equity ended the year €31 million higher as a result of positive net income for the year being added to the reserves required under the Articles of Association. With growth in equity and a higher balance sheet total, the equity ratio⁶ rose to 9.5%, an increase of 0.8 percentage points over the previous year.

Provisions rose by €27 million from €331 million to €358 million. The main factor here was a payment of €22 million into pension provisions to cover those entitlements under the new company pension scheme for which GIZ is still directly responsible.

Liabilities rose by €175 million from €669 million to €844 million. This was due to an increase of €174 million in advance payments received in the public-benefit business area as a result of higher revenue. The year-on-year increase in other liabilities is due to much higher advance payments received for construction work in respect of an InS project in Ethiopia.

B. FINANCIAL POSITION

As at the balance sheet date, cash in hand and bank balances stood at €200 million, up €74 million from €126 million. Although cash in hand and bank balances in the public-benefit business area rose by €76 million as a result of increased revenue, the corresponding figure for InS fell by €2 million.

⁴ Revenue in the public-benefit business area plus the total operating performance of InS

⁵ The figure is based on revenue for the previous year, the current year and the two following years.

⁶ The equity ratio is defined as equity less premium as a proportion of the balance sheet total.

C. INCOME

Turnover for fiscal 2016 was €130 million (6%) higher at €2,197 million. The following table shows the distribution of turnover across business areas:

TOTAL OPERATING PERFORMANCE								
	2016			2015			Change	
	Public-benefit business area	InS	Total	Public-benefit business area	InS	Total	Total	
	in € millions	in € millions	in € millions	in € millions	in € millions	in € millions	in € millions	in %
Turnover	2,032	165	2,197*	1,905	162	2,067	130	6
Changes in services not yet invoiced	-2	-9	-11	0	4	4	-15	> 100
Total operating performance	2,030	156	2,186	1,905	166	2,071	115	6

* The 2016 figure for turnover includes items totalling €12,290,400 that were reported in the 2015 annual statement of accounts with a carrying amount of €10,012,144 under other operating income. In accordance with the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG), these items are now shown under turnover.

At €1,222 million, cost of materials was up €58 million on the previous year. Cost of materials is determined by the project structure. Section III. D. 'Use of resources' contains a more detailed review of this item.

Personnel costs rose by €62 million, from €795 million to €857 million. This was partly attributable to higher remuneration costs following an increase in the number of project and field staff and national personnel. Another factor was an increase in pension expenses: in 2016, the company made its first payment (€28 million) into the provident fund operated by GIZ Unterstützungskasse GmbH.

The financial result⁷ improved from €-14 million to €-0.1 million. This was due to the outsourcing of the company's pension scheme and the consequent reduction in interest expenses.

Overall, net income for the year was €31 million (prior year: €23 million).

The following table shows a breakdown of net income by business area:

NET INCOME				
	2016	2015	Change	
	in € millions	in € millions	in € millions	in %
Public-benefit business area	32.5	23.6	8.9	38
InS	-1.1	-0.2	-0.9	> 100
GIZ total	31.4	23.4	8.0	34

The net income generated by InS in 2015 was down on the previous year despite an improved operating result. This was primarily due to foreign income tax expenses.

The positive result in the public-benefit business area is largely attributable to lower costs.

III. ECONOMIC SITUATION

A. GENERAL OBSERVATIONS

2016 was another successful year for GIZ:

- › Both the volume of new commissions and revenue in the public-benefit business area set new records.
- › The control parameter fell to its lowest level since the merger in 2010.
- › InS again recorded a positive operating result.
- › Pressure on income was reduced by the next steps in the outsourcing of GIZ's company pension scheme and a corresponding reduction in interest expenses.

B. NEW COMMISSIONS AND ORDERS ON HAND

Commissions

In 2016 the volume of commissions awarded to GIZ reached the highest level since the company was formed. At €3,336 million, the total figure was up by €884 million (36%) compared with the previous year. While new commissions at InS remained stable in line with our target, acquisitions of third-party funding and a substantial volume of new commissions out of BMZ's transitional development assistance and special initiative budgets pushed up the overall total. As a result, the proportion of new commissions generated by the public-benefit business area rose to 95%.

The following table shows the year-on-year change in new commissions at GIZ and the contributions made by the company's business areas and sectors to the total:

NEW COMMISSIONS					
	Actual 2016	Share	Actual 2015	Share	Change 2016 to 2015
	in € millions	in %	in € millions	in %	in %
Public-benefit business area total	3,184	95	2,302	94	38
of which, BMZ	2,687	81	1,971	80	36
of which, German Public Sector Clients	476	14	307	13	55
of which, grants	20	1	24	1	-17
of which, small-scale measures in the public-benefit business area	1	0	0	0	> 100
InS	152	5	150	6	1
GIZ total	3,336	100	2,452	100	36

The figures shown above may contain rounding differences.

Changes in the level of new orders received by each GIZ business area are explained below.

New commissions in the public-benefit business area

In 2016, new commissions in the public-benefit business area reached €3,184 million, an increase of €882 million (38%) on the previous year.

New commissions in the BMZ business sector rose by €716 million (36%) on the previous-year figure, taking the total for 2016 to €2,687 million. At €1,493 million, the majority of these were attributable to BMZ's technical cooperation budget. New BMZ commissions linked to special initiatives and transitional development assistance (mainly directed at projects and programmes in Iraq and Ukraine) came to €377 million and nearly €258 million respectively. New commissions for the cofinancing of projects totalled €440 million. At €280 million, the largest source of new cofinancing was the EU.

⁷ The financial result is made up of income from long-term investments and other interest income less interest expenses.

New commissions from German Public Sector Clients totalled €476 million, up €169 million (55%) on the previous year. This was due to increases of €96 million (35%) in the volume of new commissions from federal budgets and a threefold increase in commissions based on cofinancing agreements (up by €73 million or 217%). As in the BMZ business sector, the largest source of cofinancing for commissions from German Public Sector Clients was the EU (€48 million).

New commissions at InS

In 2016, InS received new commissions with a total value of €152 million. This was a modest year-on-year increase of €2 million (1%).

In terms of funding providers, the biggest overall contributions to new commissions at InS came from the EU (€60 million) and German Public Sector Clients (€59 million, including €43 million from BMBF). New commissions from national governments totalled €9 million, while international financial institutions and funds and the private sector contributed a further €8 million to the total. New commissions from bilateral donors reached €5 million. InS was awarded new commissions totalling over €3 million from UN organisations and other donors.

Orders on hand

As at 31 December 2016, the total figure for orders on hand stood at €5,827 million. This was up by €1,002 million (21%) on the year-end figure for 2015. The main factor here was the high level of new commissions received in 2016.

Out of the total for orders on hand at the end of 2016, the public-benefit business area and InS accounted for €5,557 million and €270 million respectively.

C. BUSINESS VOLUME

GIZ's total business volume rose by a substantial margin in 2016 to reach €2,409 million. The figure for total business volume comprises revenue of €2,253 million from the public-benefit business area and a total operating performance of €156 million at InS. This was up €266 million (12%) on the previous year. This positive development was mainly driven by growth in revenue in the public-benefit

business area, which contributed 94% (2015: 92%) to the overall total. Within the public-benefit business area, there was no significant change in the percentage contributions made by the various sectors.

The following table shows the year-on-year change in business volume at GIZ and the contributions made by the company's business areas and sectors to the total:

BUSINESS VOLUME

	Actual 2016		Actual 2015		Change 2016 to 2015	
	in € millions	Share in %	in € millions	Share in %	absolute	in %
Public-benefit business area total	2,253	94	1,977	92	14	14
of which, BMZ	1,915	80	1,699	79	13	13
of which, German Public Sector Clients	315	13	250	12	26	26
of which, grants	22	1	27	1	-19	-19
of which, small-scale measures in the public-benefit business area	1	0	1	0	> 100	> 100
InS	156	6	166	8	-6	-6
GIZ total	2,409	100	2,142	100	12	12

The figures shown above may contain rounding differences.

The following section outlines the business volume situation within each of GIZ's two business areas.

Revenue in the public-benefit business area

GIZ generated revenue of €2,253 million from the public-benefit business area. This represents a substantial increase of €276 million (14%) compared with the previous year.

The contribution to revenue made by the company's BMZ business sector came to €1,915 million. At €1,147 million, the biggest contribution to the BMZ total came from its technical cooperation budget item. Together, the three special initiatives generated revenue of €244 million, thus using up all the cash funding available at the end of the year. Revenue from commissions linked to transitional development assistance came to €84 million. Other budget

items, including 'International cooperation with regions for sustainable development', contributed a further €154 million to the BMZ total. The revenue generated in 2016 by GIZ from BMZ budget items was up on the previous year. This was due to an increase in revenue from the three special initiatives and from the transitional development assistance budget. Third-party cofinancing of BMZ commissions generated total revenue of €286 million. This was up €50 million (21%) on the figure for 2015, another large year-on-year increase. With a contribution of €167 million, the EU was again the largest single source of cofinancing in 2016.

In 2016, Revenue from German Public Sector Clients was also up on the previous year at €315 million. The main factor behind this large year-on-year rise of €65 million (26%) was an increase in revenue from AA and BMUB commissions and from cofinancing agreements, especially with the EU. The amount of revenue generated by commissions from BMWi and BMI was almost unchanged on the previous year.

Total operating performance of International Services (InS)

In 2016, InS achieved a total operating performance of €156 million, €10 million (6%) lower than the previous year. This downturn was partly due to negative developments in Saudi Arabia and to the expiry of WHO projects. Nevertheless, InS maintained its progress towards greater consolidation.

In terms of donors, the biggest contribution to total operating performance (i.e. revenue from the business area's main operations) in 2016 came once again from commissions placed by national governments, which accounted for €50 million. EU commissions added €43 million to the total. Commissions from the private sector generated a further €24 million, including more than €17 million for a road-building project in Gabon. German Public Sector Clients contributed €11 million to the overall total at InS. The amount generated from bilateral donors also came to roughly €11 million. At over €7 million, the largest source of commissions in this category was the Swiss Agency for Development and Cooperation (SDC).

D. USE OF RESOURCES

Personnel

The following table shows a year-end comparison of staff numbers at GIZ as at the reporting dates 31 December 2016 and 31 December 2015:

GIZ WORKFORCE (not weighted for part-time staff; as at reporting date)				
	Actual 31.12.2016	Actual 31.12.2015	Change	
			absolute	in %
Head Office staff ¹	1,895	1,740	155	9
Project staff in Germany	1,490	1,374	116	8
Seconded field staff	2,087	1,987	100	5
Total public-benefit business area staff	5,472	5,101	371	7
Head Office staff	67	63	4	6
Project staff in Germany	35	24	11	46
Seconded field staff	81	182	-101	-55
Total InS staff	183	269	-86	-32
Staff covered by the Collective Bargaining Agreement (MTV) or Public-Sector Remuneration System (TVöD)	5,655	5,370	285	5
National personnel	12,605	11,949	656	5
Total GIZ personnel	18,260	17,319	941	5
Development workers	643	730	-87	-12
Integrated experts (CIM) ²	413	485	-72	-15
Returning experts (CIM) ²	434	506	-72	-14

¹ Excluding the Management Board and trainees

² Employment contract with local employers in partner countries

As at the balance sheet date of 31 December 2016, GIZ employed a total of 5,655 staff with contracts based on the Collective Bargaining Agreement (MTV) or Public-Sector Remuneration System (TVöD) and 12,605 national personnel. This represents a further increase of 941 (5%) compared with the year-end figure for 2015. Although staff numbers at InS fell by 32%, partly as a result of developments in Saudi Arabia, the number of personnel employed in the public-benefit business area rose by 7%. The figure for national personnel was also up, ending the year 656 (5%) higher compared with 2015.

A total of 643 development workers were deployed by GIZ at the end of 2016, and a further 413 integrated experts and 434 returning experts held employment contracts with organisations or companies in partner countries.

Purchases of goods and services

The following table compares the year-end figures for purchases of goods and services and for financing by GIZ:

CONTRACTS AWARDED

	Actual 2016	Actual 2015	Change	
	in € millions	in € millions	in € millions	in %
Head Office service contracts ¹	740	619	121	20
Head Office construction contracts	166	13	153	>100
Head Office financing agreements	38	30	8	27
Head Office procurement of goods ²	67	54	13	24
Total Head Office	1,011	716	295	41
Local service and construction contracts, financing agreements	270	237	33	14
Local procurement of goods	66	58	8	14
Total local contracts	336	296	40	18
Total contracts awarded	1,347	1,012	335	33

The figures shown above may contain rounding differences.

1 Consulting firms, advisory institutions, individual appraisers, translators (from 2014)

2 Goods, freight forwarders

In 2016, the total value of all goods, financing, construction services and other services procured by GIZ at Head Office and in the field was approximately €1,347 million. This figure was up by a substantial €335 million (33%) on the previous year due to a large-scale construction contract for the GIZ Campus in Bonn and an increase in the overall volume of financing and procurement. The volume of contracts awarded as a percentage of GIZ's total business volume (approx. €2,409 million) rose by a considerable margin to 56% in 2016 compared with 47% in the previous year, i.e. more services were provided externally rather than by GIZ personnel.

Out of the total for Head Office service contracts (€740 million), €344.9 million went to consulting firms and around €69.9 million to individuals for appraisal or advisory serv-

es. In addition, service contracts with a value of just under €322.9 million were awarded to German and international institutions. This is equivalent to a year-on-year increase of approximately €93.4 million (40.7%). At €123.5 million, the total global volume of financing agreements with partner country recipients was slightly higher compared with the previous year (€99 million). Out of this total, around €38.2 million is attributable to Head Office and €85.3 million to GIZ's country offices.

The total value of Head Office contracts for the procurement of materials and equipment rose by approximately 24% from €54 million in 2015 to approximately €67 million in 2016. The volume of individual orders was reduced by 22% in favour of large-scale orders and a substantial increase in requests for security and risk management services under framework agreements. Large-scale procurements of materials and equipment rose significantly in 2016, for instance, in the field of emergency and transitional development assistance.

IV. PROPORTION OF WOMEN ON THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE BOARD OF TRUSTEES

A. PROPORTION OF WOMEN ON THE MANAGEMENT BOARD

When managing directors are appointed, GIZ's Articles of Association stipulate that the Supervisory Board should ensure diversity and in particular ensure that an appropriate number of women are considered. Women should make up at least 40% of the Management Board. Until this proportion is achieved, the Supervisory Board should give preference to women where they demonstrate equal suitability, capabilities and technical experience, after carefully weighing up the merits of each individual case.

With a view to implementing the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector, the Supervisory Board decided that by 30 June 2017 the Management Board should be made up of an equal number of women and men.

During the period under review, the Management Board was made up of two women and two men. As such, the proportion of women was 50%.

B. PROPORTION OF WOMEN IN MANAGERIAL POSITIONS BELOW MANAGEMENT BOARD LEVEL

GIZ has also established targets for the proportion of women in management level one and two positions below Management Board level. For 2016, these targets were 43% for management level one positions immediately below the Management Board and 40% for management level two. As at 31 December 2016, the actual proportion of women at these levels was 55.6% (level one) and 41.9% (level two), thus exceeding the above targets.

C. PROPORTION OF WOMEN ON THE SUPERVISORY BOARD

Section 5.2.1 of Germany's Public Corporate Governance Code stipulates that efforts must be made to ensure that women are equally represented when electing members of supervisory boards. This requirement was met in the case of GIZ's Supervisory Board. In addition, the company's shareholder takes account of Germany's Appointments to Federal Bodies Act (Bundesgremienbesetzungsgesetz).

In compliance with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector, the Supervisory Board decided that by 30 June 2017 the Supervisory Board should be made up of an equal number of women and men and amended its rules of procedure accordingly. In 2016, out of the ten members appointed by the shareholder, the number of women remained at four.

During the year under review, the ten employee representatives on the Supervisory Board were made up of six women and four men.

As at 31 December 2016, the Supervisory Board therefore comprised an equal number of women and men.

D. PROPORTION OF WOMEN ON THE BOARD OF TRUSTEES

In accordance with article 24 of its Articles of Association, GIZ has a Board of Trustees with up to 40 members. As at 31 December 2016, out of a total of 36 trustees, there were 14 women (39%). As a result of new staff appointments, the proportion of women was down slightly on the previous year (2015: 42%).

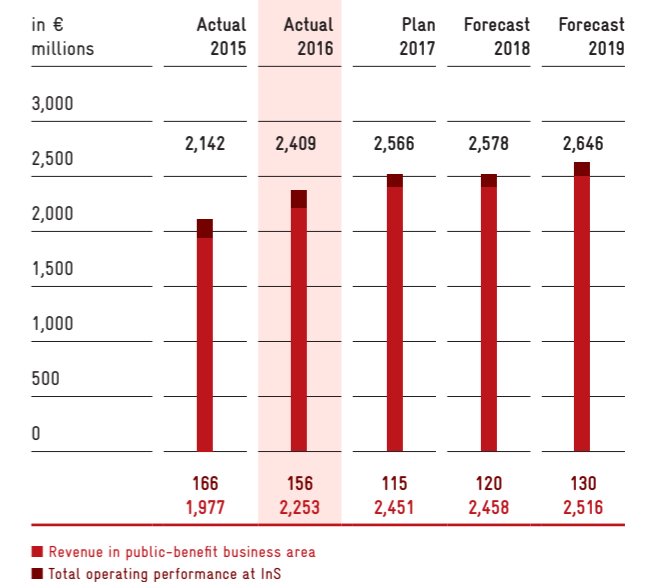
V. OUTLOOK

A. BUSINESS FORECAST

GIZ aims to generate continued growth in the years ahead. Our 2017 plan for total business volume is €2,566 million. This would be a further increase on the high level achieved in 2016. This trend is expected to continue into 2019.

The following chart shows actual and projected business volume figures from 2015 up to 2019:

BUSINESS VOLUME



Revenue in the public-benefit business area is expected to account for €2,451 million of GIZ's total projected business volume for 2017, i.e. €198 million (9%) above the actual figure for 2016. This target for a further year-on-year increase is based on higher anticipated revenue from the technical cooperation budget and from commissions in the field of transitional development assistance, both from cofinancing arrangements and BMUB commissions.

The following table contains a detailed breakdown of actual and projected revenue for the years 2015 to 2019:

REVENUE					
in € millions	Actual 2015	Actual 2016	Plan 2017	Forecast 2018	Forecast 2019
BMZ	1,699.1	1,915.2	2,087.7	2,103.1	2,156.7
of which, technical cooperation items	1,149.3	1,147.2	1,238.9	1,254.9	1,270.8
of which, international cooperation with regions	39.9	38.4	35.0	35.0	35.0
of which, other BMZ items	274.0	443.8	521.2	513.2	550.9
of which, cofinancing	235.9	285.8	292.6	300.0	300.0
German Public Sector Clients	249.9	315.3	343.1	335.4	340.6
of which, budget funds	239.8	285.5	300.5	290.4	290.6
of which, cofinancing	10.1	29.7	42.6	45.0	50.0
Grants	26.9	21.8	19.5	18.6	18.0
Small-scale measures in the public-benefit business area	0.9	0.6	0.5	0.5	0.8
Public-benefit business area total	1,976.8	2,252.8	2,450.8	2,457.6	2,516.1

The figures shown above may contain rounding differences.

Over the coming years, we aim to generate further increases in revenue in the BMZ business sector. The planned figure for revenue in 2017 is €2,088 million. As well as an increase of around €173 million (9%) on the actual total for 2016, this would take us over the €2 billion mark for the first time. By 2019, we expect revenue to climb to approximately €2.2 billion. This forecast is based on the assumption that an increase in the volume of commissions will boost the cash funds available in the technical cooperation budget and GIZ's revenue from commissions in the field of transitional development assistance.

Revenue from German Public Sector Clients is also expected to grow in 2017. We aim to generate an increase of approximately €28 million (9%), especially from BMUB

commissions and from cofinancing. We expect revenue to stabilise at this high level by 2019. Looking ahead, projects linked to BMUB's International Climate Initiative will remain the biggest source of revenue in this sector.

The control parameter is expected to remain consistently below the upper limit set by the Supervisory Board. On the basis of GIZ's revenue targets and projected management costs, the control parameter for 2017 is projected to be 11.4%. Based on the information currently available, we anticipate a level of 11.5% for the following year.

After a downturn in the current year, total operating performance at InS is likely to move back up. For fiscal 2017, InS has planned a total operating performance of €115 million. This projection is €41 million (-26%) below the actual figure for 2016. The main factor behind this anticipated decline is the loss of business in Saudi Arabia. From 2017 onwards, in response to this downturn, InS will streamline its operations in Saudi Arabia to the minimum level required for ongoing projects and programmes and the effective management of receivables. Other factors in the anticipated reduction of total operating performance at InS in 2017 include the expiry of two major projects in Ethiopia and Gabon. By 2019, we expect total operating performance to climb back up to €130 million.

Despite the expected decline in total operating performance in 2017, InS aims to generate a positive operating result. Compared with previous years, the new commissions received in 2016 are much more profitable, and we therefore anticipate higher profit contribution margins. InS aims to deliver a significant increase in its operating result by 2020.

B. ANTICIPATED USE OF RESOURCES

Personnel forecast

In 2017, we expect total staff numbers to show a further increase compared with the year-end figure for 2016, rising by 7.6% to a headcount of 19,643, and thus slightly outpacing the target increase of 6.8% in business volume. Looking further ahead to 2018 and 2019, the overall workforce is again projected to grow, albeit only by a small amount.

GIZ STAFF				
	Actual 31.12.2016	Plan 2017	Forecast 2018	Forecast 2019
Head Office staff ¹	1,962	2,052	2,055	2,056
Project staff in Germany	1,525	1,668	1,683	1,683
Seconded field staff	2,168	2,353	2,367	2,384
Staff covered by the Collective Bargaining Agreement (MTV) or Public-Sector Remuneration System (TWöD) ¹	5,655	6,073	6,105	6,123
National personnel	12,605	13,570	13,673	13,794
Total employees¹	18,260	19,643	19,778	19,917

¹ Excluding the Management Board and trainees

Forecast purchases of goods and services

It is very difficult to predict in any detail the future volume of contracts for goods and services and for financing agreements, as they depend on the specific requirements of each project. Assuming the company meets its targets for new commissions, the volume of contracts awarded worldwide in 2017 should be on a par with the figure for 2016.

C. RISKS AND OPPORTUNITIES

Risks

A forward-looking approach requires planning and involves dealing with risks. GIZ is ready to accept such risks in a controlled and conscious manner if it is appropriate to do so in order to achieve the company's objectives and fulfil its mandate, and provided that no unlawful conduct is involved. All uncertainties that pose a risk to GIZ's (economic) performance are generally classed as risks. The Risk Management Unit compiles details of risks among GIZ's organisational units on a quarterly basis using a standardised risk identification form. However, risks can also be reported on an ad-hoc basis at any time via the line manager or directly to the Risk Management Unit. At present, a detailed risk report is submitted to the Man-

agement Board every quarter by the Risk Management Committee.

The global reduction in BMZ budget disbursements⁸ in 2017 and the possibility of a provisional budget for 2018 could have a negative impact on GIZ's business development.

New commissions and revenue in the public-benefit business area are largely dependent on the size of the federal budget. In the budget year 2017, BMZ has to bring about a global reduction of around €100 million in its budget disbursements. To achieve this goal, BMZ has decided – after adopting its financial, investment and personnel plans for 2017 – to initially release only 95% of the target amounts in each of its individual budget items and therefore to initially hold back a total of €425 million. For GIZ, this creates a risk that revenue from BMZ budget funds could turn out to be lower than planned.

There is also a risk of a provisional budget after Germany's parliamentary elections in 2017. This could mean that government negotiations will not be held and commissions not awarded in the fourth quarter of 2017, thus potentially reducing the amount of cash usually available in the first quarter of 2018.

Security has deteriorated in many of the countries in which GIZ operates, especially those classed as fragile states. This creates greater risks to the personal security of international and national personnel. In turn, this can lead to increased project staff turnover and prolong the time needed to recruit new personnel. Equally, security risks can jeopardise the scheduled implementation of commissions and undermine the quality of the services provided, especially if it becomes necessary to manage projects remotely when project locations become inaccessible or after a complete evacuation. Under these circumstances, planned revenue may be delayed or even lost. Appropriate security systems must be established and expanded to ensure that projects and programmes can be implemented, even in critical security contexts, while meeting GIZ's duty of care as an employer.

⁸ Global reduction in BMZ budget disbursements, i.e. mandatory cost savings to be made by BMZ and other federal ministries. These are specified centrally as negative expenditure in the budget plan and must then be achieved over the budget period by means of cost savings or demand reductions in designated budget areas.

The large volume of receivables in Saudi Arabia pose a considerable burden on liquidity at InS. As at 31 December 2016, outstanding receivables from clients in Saudi Arabia totalled €43 million. These amounts make up around 49% of all outstanding receivables at InS and therefore present the greatest cluster risk.

Although we anticipate liquidity restrictions in Saudi Arabia, there is no doubt about the Saudi government's ability to pay its debts. In the past, there have been frequent long delays before receivables were settled. By way of example, one expert secondment dating back to 2009 was only paid at the end of 2015. Nevertheless, InS has recognised bad debt allowances to cover disputes over services or settlement methods.

As yet, in terms of risk, we have not received formal confirmation with contractual safeguards in respect of one large receivable (SAR 25 million/approx. €6 million) from the clients TVTC. On 15 March 2017, however, GIZ concluded a written agreement on the outcome of negotiations with its client CoE and therefore obtained contractual safeguards in respect of a receivable of SAR 60 million (approx. €14 million). However, neither amount has been received to date.

Opportunities

Aside from risks, GIZ identifies opportunities linked to current and future developments in the sector and in particular to the trends outlined above in section I. B. 'Strategy – Developments and trends affecting GIZ'. Both the German Federal Government and other bilateral and multinational donors in GIZ's client base are increasing their budgets in response to growing state fragility, violent conflict and terrorism in our partner countries. The issue of displacement and migration has also attracted new funding in the budgets allocated to BMZ, AA and the EU Trust Funds.

At the same time, problems such as climate change and increasing resource scarcity remain extremely relevant. Having gained accreditation as an implementing organisation by the Green Climate Fund (GCF), GIZ hopes to win its first commissions in 2017.

Africa is once again a key regional focus for the German Federal Government. Launching a proposal for a Marshall Plan with Africa, Federal Development Minister Dr Müller called for a paradigm shift, stressing that Africa should be seen not as a continent of cheap resources but as one in which people need infrastructure and a future. GIZ is well placed to contribute effectively to this plan in the areas of 'Economic activity, trade and employment', 'Peace and security' and 'Democracy and the rule of law' and to support the Federal Government by establishing new forms of cooperation and reform partnership arrangements.

Furthermore, GIZ sees opportunities for continued growth through the EU's External Investment Plan (EIP), a new instrument set up to combat the causes of displacement and promote economic development in Africa and the EU's neighbouring states. This plan entails providing technical assistance on a large scale and therefore offers potential for both InS (in the form of EIP-financed support measures) and the public-benefit business area.

The Management Board informs the Supervisory Board on a quarterly basis about significant opportunities and risks that could have an impact on GIZ's business development.

Bonn/Eschborn, 12 May 2017

The Management Board

Tanja Gönner
Chair of the Management Board

Dr Christoph Beier
Vice-Chair of the Management Board

Dr Hans-Joachim Preuß
Managing Director

Cornelia Richter
Managing Director

ANNUAL STATEMENT OF ACCOUNTS 2016

2

ANNUAL STATEMENT OF ACCOUNTS 2016

BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS		in €			
	Notes	31.12.2016		31.12.2015	
A. FIXED ASSETS					
I. Intangible assets	1				
Purchased concessions, industrial property rights and similar rights and assets as well as licences to such rights and assets		2,116,800		1,247,276	
II. Tangible assets	1				
1. Land, land rights and buildings including buildings on third-party land		165,409,904		153,132,331	
2. Other plant, operating and office equipment		15,199,831		14,633,225	
3. Advance payments and assets under construction		45,424,688	226,034,423	7,553,893	175,319,449
III. Financial assets	2				
1. Shares in affiliated companies		75,881		75,881	
2. Participating interests		535,862		535,862	
3. Securities classified as fixed assets		163,944,850		143,944,862	
4. Other loans		570,050		655,799	
5. Claims from administrative costs credit		7,528,319	172,654,962	7,338,111	152,550,515
		400,806,185		329,117,240	
B. CURRENT ASSETS					
I. Inventories	3				
1. Services not yet invoiced		17,218,694		28,467,949	
2. Advance payments made		393,193,469	410,412,163	324,051,855	352,519,804
II. Receivables and other assets	4				
1. Trade receivables		113,752,448		99,888,373	
2. Receivables from affiliated companies		345,801		2,237,326	
3. Project-related assets		172,487,814		155,299,053	
4. Other assets		33,594,936	320,180,999	31,481,021	288,905,773
III. Cash in hand, Central Bank balances, bank balances			199,921,148		126,375,118
		930,514,310		767,800,695	
C. PREPAID EXPENSES					
		1,967,938		1,855,807	
		1,333,288,433		1,098,773,742	
Off-balance sheet item Trust assets	9	1,820,200		3,441,797	

SHAREHOLDER'S EQUITY AND LIABILITIES		in €			
	Notes	31.12.2016		31.12.2015	
A. SHAREHOLDER'S EQUITY					
I. Subscribed capital	5	20,452,000		20,452,000	
Subscribed capital unpaid		-11,759,713		-11,759,713	
Called-up capital		8,692,287		8,692,287	
II. Capital reserve	5	5,112,919		5,112,919	
III. Revenue reserves	6				
Statutory reserves		116,857,067		85,447,403	
IV. Unappropriated profit		0		0	
		130,662,273		99,252,609	
B. PROVISIONS					
1. Provisions for pensions and similar obligations		243,665,741		221,399,034	
2. Provisions for taxes		3,009,539		2,459,480	
3. Other provisions		111,833,531		106,986,106	
		358,508,811		330,844,620	
C. LIABILITIES					
1. Advance payments received		773,989,978		599,726,443	
2. Trade payables		43,183,596		44,344,424	
3. Liabilities to affiliated companies		0		2,675,965	
4. Other liabilities		26,925,974		21,907,385	
- of which, relating to taxes €6,518,190 (2015: €6,152,298)					
- of which, relating to social security €22,906 (2015: €102)					
		844,099,548		668,654,217	
D. DEFERRED INCOME					
		17,801		22,296	
		1,333,288,433		1,098,773,742	
Off-balance sheet item Trust liabilities	9	1,820,200		3,441,797	

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016**

	Notes	2016		2015	
		in €	in €	in €	in €
1. Turnover	10		2,197,433,633		2,066,702,332
2. Change in services not yet invoiced			-11,249,256		3,391,562
3. Other own work capitalised			395,685		357,711
Total operating performance			2,186,580,062		2,070,451,605
4. Other operating income	11		17,831,465		37,097,324
5. Cost of materials					
a. Cost of purchased goods		138,313,972		144,853,876	
b. Cost of purchased services		1,084,094,100	1,222,408,072	1,019,845,098	1,164,698,974
6. Personnel costs					
a. Wages and salaries		698,571,444		661,968,827	
b. Social security, retirement pension and support costs		158,413,048	856,984,492	133,029,267	794,998,094
of which, pensions €53,062,037 (2015: €33,210,794)					
7. Amortisation and depreciation of intangible and tangible fixed assets			10,324,043		9,623,661
8. Other operating expenses	12		80,688,744		99,309,453
9. Income from other securities and long-term financial investments			54,252		92,085
10. Other interest and similar income			702,594		645,197
11. Interest and similar expenses	13		882,343		15,188,711
12. Taxes on income	14		2,233,691		854,249
13. Earnings after taxes			31,646,988		23,613,069
14. Other taxes			237,324		202,343
15. Net profit for the year			31,409,664		23,410,726
16. Transfer to the statutory reserves			-31,409,664		-23,410,726
17. Unappropriated profit			0		0

NOTES TO THE ACCOUNTS 2016

**NOTES TO THE BALANCE SHEET AND
THE PROFIT AND LOSS ACCOUNT**

As at the balance sheet date of 31 December 2016, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn, qualifies as a large corporation within the meaning of section 267, paragraph 3 of the German Commercial Code (HGB). GIZ's annual statement of accounts is prepared in accordance with the German Commercial Code and the supplementary provisions of the German Limited Liability Companies Act (GmbH-Gesetz). The fiscal year corresponds to the calendar year. To improve the clarity of presentation, the item 'Project assets' has been added in the balance sheet. The profit and loss account is classified using the total cost method. The legally required information on the balance sheet and the profit and loss account is provided in the notes to the accounts.

In fiscal 2016, with effect from 1 September, GIZ outsourced all pension scheme obligations created since 1 July 2015 under 'Collective bargaining agreement no. 3 covering retirement, invalidity and surviving dependants' pensions for Head Office employees' (old company pension scheme) to GIZ Unterstützungskasse GmbH. Pension entitlements accrued under this collective bargaining agreement up to 30 June 2015 were outsourced to Deutscher Pensionsfonds AG (DPAG) in 2015. As these outsourced pension obligations will be met in future by GIZ Unterstützungskasse GmbH and DPAG, they are classified as indirect obligations.

As provided for in section 296, paragraph 2, number 1 HGB, GIZ is not required to draw up consolidated financial statements and a consolidated management report as its subsidiaries are of subordinate importance with regard to the company's statutory obligation to provide a true and fair view of its asset, financial position and income.

**GENERAL NOTES ON ACCOUNTING AND
VALUATION METHODS**

ACCOUNTING AND VALUATION METHODS

The German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG) was applied to the accounts for the first time in 2016. The classification of the profit and loss account was amended accordingly. Amounts previously shown as 'Extraordinary expenses' are now shown under 'Other operating expenses'. The comparison figure for 2015 has been restated to reflect this change. From 2016 onwards, following the redefinition of what is classed as turnover, certain other operating income is now shown under turnover. In this case, the figures for 2015 have not been restated.

GIZ has chosen to exercise the option provided for in Article 28, paragraph 1, sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) and has therefore recognised obligations incurred under the old company pension scheme from 1 July 2015 (indirect obligations) as provisions in the balance sheet. As stipulated in Article 28, paragraph 2 EGHGB, all amounts not recognised in the balance sheet are disclosed in the notes. On each reporting date, the total sum required in order to meet GIZ's pension obligations less all frozen pension provisions less the fair value of the assets held by the pension provider in the provident fund must be disclosed as a funding deficit in the notes.

The accounting and valuation methods used by GIZ have not changed compared with the previous year.

FIXED ASSETS

Intangible and tangible assets

Intangible and tangible assets are shown at purchase or production cost less amortisation or depreciation based on the useful life of the assets as determined by the specific depletion of value in operating activities. Depreciation is calculated on a straight-line basis for periods between three years (IT and IT infrastructure) and 48 years (office buildings in Eschborn). The Meander Building in Bonn and the office building in Berlin are depreciated over 33 years and 40 years respectively. Land with buildings and rights of use in partner countries are depreciated over a period of between eight and 20 years.

A collective item is formed in the year of purchase for low-value assets (LVA) with purchase costs between €150 and €1,000. This is depreciated on a straight-line basis over five years.

Grant-financed fixed assets are entirely financed through investment grants. Investment grants have been deducted from the acquisition costs.

Newly constructed buildings are capitalised at production cost. Production cost includes individually attributable costs from the deployment of personnel and an appropriate share of production overheads.

Financial assets

Financial assets are valued at the lower of purchase cost and fair value. Lower valuations are applied where sustained impairment is anticipated. If the reasons for recognising write-downs on financial assets in previous years no longer apply, those assets are written up.

Under 'Other loans', the long-term loans bearing interest at 2.5% and provided to help staff purchase residential property for their own use were additionally discounted at 2.5% per year. Otherwise, amounts are recognised at nominal value.

The balance sheet item 'Claims from administrative costs credit' reported for the first time in the previous year is valued at amortised cost.

CURRENT ASSETS

Current assets are valued strictly at the lower of purchase or production cost.

Goods and services not yet invoiced are recognised at purchase or production cost, including an appropriate portion of overhead costs. Advance payments made and receivables are stated at nominal value less individual and general bad debt allowances.

'Project-related assets' is a special GIZ balance sheet item allowing a better insight into the company's assets and financial position. This item includes the cash and bank balances of projects, as well as receivables and corresponding liabilities.

Other assets are stated at their nominal value.

Cash in hand and balances at banks are stated at nominal value, unless a lower fair value measurement is required in individual cases.

Receivables and payables in foreign currencies

Long-term receivables and payables denominated in foreign currencies are valued at the lower or higher of cost or market respectively. Short-term receivables and payables in foreign currencies as well as balances at banks with terms to maturity of up to one year are translated using the average spot exchange rate on the balance sheet date. Non-convertible currencies are not translated or revaluated. Currencies held in projects are valued at an average rate that is updated using an exchange-rate calculation programme. These funds are generally not intended to be repatriated, and a substantial part is also non-convertible.

Provisions

Provisions are recognised at the settlement amount deemed necessary according to prudent business judgement. In calculating this amount, any direct compensation claims are deducted from the total obligation.

No provisions are recognised for direct compensation claims.

All the actuarially calculated provisions were valued according to the projected unit credit method, using the Heubeck 2005 G mortality tables of Prof. Dr Klaus Heubeck.

In accordance with section 253, paragraph 2, sentence 1 HGB, other provisions with a remaining term of more than one year were valued using the average market interest rate (published by the German Bundesbank) for the previous seven fiscal years.

In fiscal 2015, GIZ outsourced the company pension scheme entitlements accrued by its staff up to 30 June 2015 under 'Collective bargaining agreement no. 3 covering retirement, invalidity and surviving dependants' pensions for Head Office employees' (old company pension scheme) to Deutscher Pensionsfonds AG. In 2016, the remaining entitlements were outsourced as at 1 September 2016 to GIZ Unterstützungskasse GmbH, which was formed in 2015.

Although GIZ Unterstützungskasse GmbH (Bonn, Germany) assumed all pension obligations created up to 31 December 2015 under the collective bargaining agreement on pensions dated 1 March 2004 (new company pension scheme), entitlements based on pension obligations arising under the same agreement after 1 January 2016 are still settled by GIZ. As at 31 December 2016, the accrued entitlements not outsourced by GIZ are recognised in the balance sheet as a provision for direct pension obligations.

As outsourced pension obligations will be met in future by Deutscher Pensionsfonds AG and GIZ Unterstützungskasse GmbH, they are classified as indirect obligations.

GIZ has chosen to exercise the option provided for in Article 28, paragraph 1, sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) to show indirect pension obligations as provisions in the balance sheet. On each reporting date, the total sum required in order to meet GIZ's pension obligations less all frozen pension provisions less the fair value of the assets held by the pension providers in the pension fund and provident fund must be disclosed as a funding deficit in the notes.

Liabilities

Liabilities are reported at their settlement amount.

Deferred taxes

Deferred taxes result from the following temporary differences:

BALANCE SHEET ITEM	31.12.2016 Difference between statutory and tax accounts		31.12.2016 Deferred taxes
	in €	Tax rate in %	
Advance payments made	-14,828	27.725	-4,111
Trade receivables	-2,389,818	27.725	-662,577
Cash in hand, Central Bank balances, bank balances	-444,781	27.725	-123,316
Provisions for pensions and similar obligations	24,023,976	27.725	6,660,647
Other provisions	3,458,490	27.725	958,866
			6,829,509

As at the balance sheet date, there were net deferred tax assets of €6,829,509. GIZ did not exercise the option to capitalise deferred tax assets provided for under section 274, paragraph 1, sentence 2 HGB.

PROFIT AND LOSS ACCOUNT

Appropriation of profits

GIZ's Articles of Association stipulate that profits must only be used for those public-benefit purposes approved under the Articles of Association.

An amount equal to the annual net profit of €31,409,664 was transferred to the statutory reserves.

NOTES TO THE BALANCE SHEET

(1) INTANGIBLE AND TANGIBLE ASSETS

Changes in fixed assets are shown in the appendix to the notes (Changes in fixed assets in fiscal 2016).

(2) FINANCIAL ASSETS

In fiscal 2015, GIZ formed its own provident fund under the name of GIZ Unterstützungskasse GmbH (registered office in Bonn, Germany) and is the sole owner. As at 31 December 2016, the equity of GIZ Unterstützungskasse GmbH stood at €25,000. The net profit/loss for the fiscal year was €0.

GIZ has held a 51% stake in its affiliate GIZ-Festo Training Services LLC (based in Riyadh, Saudi Arabia) since 2014. At the time of formation in 2014, this company's equity stood at SAR 500,000 (€126,253 based on the exchange rate as at 31 December 2016). In fiscal 2015, the equity of GIZ-Festo Training Services LLC stood at SAR 259,700 (€65,576 based on the exchange rate as at 31 December 2016) and its net loss for the fiscal year was SAR 240,300 (€60,677 based on the exchange rate as at 31 December 2016). As of this writing, the annual accounts as at 31 December 2016 are not yet available.

Since 2010, GIZ has also held a 49% equity investment in sequa gGmbH, with registered office in Bonn. This holding is recognised at purchase cost (€535,862). In fiscal

2015, the equity of sequa gmbH totalled €2,334,302, with a surplus for the year of €427,853. As of this writing, the annual accounts as at 31 December 2016 are not yet available.

The administrative costs credit is accounted for separately and administered by Deutscher Pensionsfonds AG. The pension fund will submit an annual report to GIZ on changes in the administrative costs credit and the current balance. As at the balance sheet date, the administrative costs credit balance stood at €7,528,319.

(4) RECEIVABLES AND OTHER ASSETS

	Residual term less than 1 year	Residual term over 1 year	Total 2016	of which, from shareholder	Residual term less than 1 year	Residual term over 1 year	Total 2015	of which, from shareholder
	in €	in €	in €	in €	in €'000	in €'000	in €'000	in €'000
1. Trade receivables								
Public-benefit business area	45,950,819	0	45,950,819	41,614,525	48,217	0	48,217	42,393
InS	67,801,629	0	67,801,629	0	51,671	0	51,671	0
	113,752,448	0	113,752,448	41,614,525	99,888	0	99,888	42,393
2. Receivables from affiliated companies	345,801	0	345,801	0	2,237	0	2,237	0
3. Project assets								
Cash and balances at banks	71,084,365	0	71,084,365	0	56,926	0	56,926	0
Partnership services advanced	154,669	0	154,669	0	335	0	335	0
Receivables, other	107,289,891	0	107,289,891	0	107,994	0	107,994	0
Liabilities, other	-6,041,111	0	-6,041,111	0	-9,955	0	-9,955	0
	172,487,814	0	172,487,814	0	155,300	0	155,300	0
4. Other assets								
Receivables								
from premium, see (5)	0	4,090,335	4,090,335	4,090,335	0	4,090	4,090	4,090
from rent advances abroad	2,594,771	0	2,594,771	0	3,289	0	3,289	0
from staff for travel and other advances	4,379,558	20,400	4,399,958	0	3,577	138	3,715	0
from the tax authorities	1,007,808	239,921	1,247,729	0	4,188	240	4,428	0
Other	21,262,143	0	21,262,143	0	15,959	0	15,959	0
	29,244,280	4,350,656	33,594,936	4,090,335	27,013	4,468	31,481	4,090
	315,830,343	4,350,656	320,180,999	45,704,860	284,438	4,468	288,906	46,483

(3) INVENTORIES

Advance payments made

This item includes advances totalling €21,576,403 covered by guarantees. A general valuation allowance of 1% has been recognised for advance payments. In total, €51,619,991 (previous year: €'000 52,299) have a term of over one year.

(5) CAPITAL (THROUGH PAYMENT)

Both subscribed capital and the capital reserve are shown at nominal value.

	2016	2015
	in €	in €
Subscribed capital	20,452,000	20,452,000
Capital reserve	5,112,919	5,112,919
Less:		
Subscribed capital unpaid	11,759,713	11,759,713
Premium due, see (4)	4,090,335	4,090,335

The item 'Subscribed capital unpaid' refers to those parts of the capital increase made in accordance with the shareholder resolution of 23 June 1978 (and entered in the commercial register) that have not yet been called up. The last two items should be regarded as risk capital and can be called up if needed subject to the agreement of the shareholder.

(6) STATUTORY RESERVES

Changes in statutory reserves

	in €
Brought forward as at 1 January 2016	85,447,403
Net profit for the year transferred to reserves	31,409,664
Total as at 31 December 2016	116,857,067
Of which:	
tied reserves	89,421,699
untied reserves	27,435,368
	116,857,067

(7) PROVISIONS

Provisions for pensions and similar obligations

Provisions for pensions were actuarially calculated using the average market interest rate for the last ten years (previous year: seven years) as published by the German Bundesbank, based on an expected remaining term of 15 years. Discounting pension provisions at the average

market interest rate for the last ten years rather than the last seven years produces a difference (as per section 253 (6) of the German Commercial Code) of €6,516,367. This difference is reported net in the financial result.

The main actuarial parameters are listed in the following table.

	in %
Actuarial interest rate	4.01
Rate of pension increase during the qualifying period (new company pension scheme)	4.20
Rate of pension increase during the qualifying period (previous company pension scheme)	3.78
Rate of increase in new company pension scheme, annual	1.0
Rate of increase in previous company pension scheme, every two years	5.26
Trend in social security contribution assessment ceiling, annual	2.50
Fluctuation, scaled according to age, up to	12.00

GIZ has chosen to exercise the option provided for in Article 28, paragraph 1, sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) and has therefore shown entitlements accrued by staff under the old company pension scheme and entitlements accrued under the new, partially outsourced company pension scheme (indirect obligations) as provisions in the balance sheet. On each reporting date, the total sum required in order to meet GIZ's pension obligations less all frozen pension provisions less the fair value of the assets held by the pension providers in the pension fund and provident fund must be disclosed as a funding deficit in the notes.

As at 31 December 2016, there was a funding deficit of €133,848,308 in respect of the indirect obligations being settled by Deutscher Pensionsfonds AG.

	in €
Settlement amount	553,324,078
Pension fund assets	369,648,921
Frozen pension provisions	49,826,849
Funding deficit	133,848,308

As at 31 December 2016, the funding deficit for the indirect obligations being settled by GIZ Unterstützungskasse GmbH (Bonn) stood at €40,926,105.

	in €
Settlement amount	239,961,769
Provident fund assets	3,609,994
Cash surrender value of employer's liability insurance	23,853,485
Frozen pension provisions	171,572,185
Funding deficit	40,926,105

Other provisions

Provisions for commitments in respect of phased retirement ('Altersteilzeit') and benefits were determined in accordance with actuarial methods. Maturity-congruent average market interest rates for the previous seven fiscal years of 2.14% and 3.24% were used.

Obligations totalling €121,823 for phased-retirement schemes were offset against a fixed-term deposit (cover fund) of €50,000.

Provisions for working-time accounts are recognised at fair value in line with the rules for securities-based pension obligations pursuant to section 253, paragraph 1, sentence 3 HGB.

The other provisions with a remaining term of more than one year were valued using the average market interest rate of the previous seven fiscal years in line with their remaining term.

For the most part, the other provisions recognised are listed in the following table:

	2016	2015
	in €	in €'000
Amount payable following withdrawal from the Pension Institution of the Federal Republic and Federal States	24,786,000	24,010
Working-time accounts	24,285,963	20,165
Costing and warranty risks	17,731,466	20,075
Outstanding direct costs	10,662,803	5,265
Variable remuneration	8,938,042	8,254

(9) OFF-BALANCE SHEET ITEM: TRUST ASSETS/ TRUST LIABILITIES

	2016	2015
	in €	in €'000
Intangible and tangible assets	1,640,805	3,047
Deutsches Haus Moscow	179,394	394
Participating interests	1	1
	1,820,200	3,442

The assets of €1,820,200 are matched by liabilities in the same amount.

NOTES TO THE PROFIT AND LOSS ACCOUNT

(10) TURNOVER

Turnover by business area

	2016	2015
	in €	in €'000
Business contracts	2,006,371,661	1,877,851
Grant-based (incl. GIZ-initiated measures with third-party financing)	26,267,072	27,021
Public-benefit business area	2,032,638,733	1,904,872
InS	164,794,900	161,830
	2,197,433,633*	2,066,702

* The 2016 figure for turnover includes items totalling €12,290,400 (2015: €10,112,144) that were shown in 2015 as other operating income and that must now be shown as turnover in accordance with the German Accounting Directive Implementation Act.

(8) LIABILITIES

	Residual term less than 1 year	Residual term 1-5 years	Residual term over 5 years	Total 2016	of which, to shareholder
	in €	in €	in €	in €	in €
1. Advance payments received					
Public-benefit business area	740,597,822	0	0	740,597,822	718,724,867
InS	47,790,289	0	0	47,790,289	0
	788,388,111	0	0	788,388,111	718,724,867
less					
VAT not yet offset on advance payments received	-14,398,133	0	0	-14,398,133	-12,315,149
	773,989,978	0	0	773,989,978	706,409,718
2. Trade payables	43,183,596	0	0	43,183,596	0
3. Liabilities to affiliated companies	0	0	0	0	0
4. Other liabilities	25,526,608	491,281	908,085	26,925,974	0
	842,700,182	491,281	908,085	844,099,548	706,409,718

	Residual term less than 1 year	Residual term 1-5 years	Residual term over 5 years	Total 2015	of which, to shareholder
	in €	in €	in €	in €	in €
1. Advance payments received					
Public-benefit business area	552,415	0	0	552,415	511,783
InS	59,240	0	0	59,240	0
	611,655	0	0	611,655	511,783
less					
VAT not yet offset on advance payments received	-11,928	0	0	-11,928	-9,957
	599,727	0	0	599,727	501,826
2. Trade payables	44,344	0	0	44,344	0
3. Liabilities to affiliated companies	2,676	0	0	2,676	0
4. Other liabilities	20,421	471	1,015	21,907	0
	667,168	471	1,015	668,654	501,826

By location of commissioning party

	2016		2015	
	in €	in %	in €'000	in %
Federal Republic of Germany	2,058,405,924	94	1,918,873	93
Rest of Europe	76,806,793	3	78,825	4
Africa	17,174,721	<1	13,616	<1
Americas	4,743,469	<1	9,329	<1
Asia	40,302,726	2	52,067	2
Oceania	0	0	-7	<1
	2,197,433,633*		2,066,702	

By region of activity

	2016		2015	
	in €	in %	in €'000	in %
Africa	694,476,048	31	671,474	32
Americas	171,842,162	8	184,467	9
Asia	709,256,425	32	686,030	33
Europe	161,833,249	7	135,633	7
Oceania	5,595,803	<1	6,224	<1
Supraregional	454,429,946	21	382,874	18
	2,197,433,633*		2,066,702	

* The 2016 figure for turnover includes items totalling €12,290,400 (previous year: €10,112,144) that were shown in 2015 as other operating income and that must now be shown as turnover in accordance with the German Accounting Directive Implementation Act.

(11) OTHER OPERATING INCOME

Income from foreign currency valuations came to €3,819,697 (previous year: €5,531,000). Income not related to the period under review was €12,102,882 (previous year: €4,898,000). This income is mainly due to the release of provisions.

(12) OTHER OPERATING EXPENSES

Expenses from foreign currency valuations came to €2,229,615 (previous year: €4,855,000). Expenses not related to the period under review were €398,835 (previous year: €58,000). These expenses relate primarily to losses on the disposal of fixed assets. In accordance with the first-time application of German Accounting Directive Implementation Act, the figure of €8,896,000 recognised under 'Extraordinary expenses' in the previous year is reported here under 'Other operating expenses' for the previous year.

This item includes the costs of the audit for the annual statement of accounts (€121,000) and other audits carried out by the external auditors (€378,000).

(13) INTEREST AND SIMILAR EXPENSES

These expenses relate primarily to the reversal of discount rate on other provisions with a remaining term of over one year in the amount of €467,011 (previous year: €617,000).

(14) TAXES ON INCOME

	2016	2015
	in €	in €
Corporation tax		
income previous year	579,016	54,213
expense current year	-2,417,974	-542,746
expense previous year	0	-188,056
Trade tax		
income previous year	90,396	0
expense current year	-485,129	-177,660
	-2,233,691	-854,249

Significant events after the balance sheet date

There were no significant events after the balance sheet date of 31 December 2016.

OTHER INFORMATION

COMPANY LAW INFORMATION

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (registered offices in Bonn and Eschborn) is entered in the Commercial Register maintained by District Court of Bonn under HRB 18394 and in the Commercial Register maintained by the District Court of Frankfurt am Main under HRB 12394.

TOTAL OTHER FINANCIAL COMMITMENTS

Commitments from commercial leases

Commitments under commercial leases for office premises and parking spaces (2017 to 2023): €66,532,350. Out of this total, €12,412,731 is payable in 2017.

Purchase commitments for investment projects

As at the balance sheet date, purchase commitments for investment projects totalled €4,255,551.

Obligations to affiliated companies

In accordance with its contractual obligations to the Saudi Government, GIZ as the parent of a local operating company (i.e. its subsidiary GIZ-Festo Training Services LLC) is obliged to provide a performance guarantee in respect of the operation of the Ar Rass vocational school in Saudi Arabia. This performance guarantee stood at SAR 7,105,193 (equivalent to €1,794,105 based on the exchange rate as at 31 December 2016).

The company's provident fund, GIZ Unterstützungskasse GmbH (Bonn), has set up two payment plans (Leistungsplan I and II) on the basis that GIZ will grant it the funds needed to make pension payments.

Contingent liabilities

GIZ is a member of several consortia in which it cooperates with partners from various EU countries and other countries to jointly win contracts and implement project measures in various fields (procurement of materials and equipment and delivery of services).

In all these consortia, each member is jointly and severally liable to the client. GIZ's liability is minimised on

account of its lead role and its provision of project funds as projects progress. Claims are therefore not expected. As at the balance sheet date, there were eleven consortia in all. GIZ has the lead role in eight of these consortia.

As at 31 December 2016, the risk arising from participation in the consortia amounted to €249,593. Based on the experience of recent years, claims are not expected.

Following approval by the relevant ministries in December 2007, GIZ became a member of the European Network of Implementing Development Agencies (EUNIDA), which is based in Brussels. This is a European Economic Interest Grouping (EEIG) with eight members, the purpose of which is to exchange information on international cooperation among members and to submit joint bids to implement projects. The network was established without equity capital.

Loan agreement

GIZ has concluded a loan agreement with Deutsche Postbank GmbH covering the purchase of land and construction of a building complex in Bonn. The agreement runs up to 2 January 2031. The loan amount is €104,037,000. No part of the loan had been disbursed as at the balance sheet date.

The property loan is covered by an interest rate swap agreement. For each month of the loan term, the agreed fixed interest rate has been hedged by means of interest rate swaps, each of which forms a single valuation unit with the associated loan. The interest rate swap agreement effectively converts the variable interest expenses on the property loan into fixed interest payments.

Average employment during the year

	2016	2015
Head Office personnel	2,006	1,924
Project staff (Germany)	1,477	1,398
Field staff	2,155	2,169
GIZ total employees (excluding national personnel)	5,638	5,491
National personnel	12,397	11,949
GIZ total personnel	18,035	17,440

**SUPERVISORY BOARD
AND MANAGEMENT BOARD**
SUPERVISORY BOARD
Chair

Dr Friedrich Kitschelt
State Secretary, German Federal Ministry for Economic
Cooperation and Development (BMZ), Bonn

First Deputy Chair

Dr Stephan Krall
Head of Competence Centre at GIZ, Eschborn

Second Deputy Chair

Daniela Spies
GIZ Departmental Advisor, Eschborn

Claudia Dörr-Voss
Director General, German Federal Ministry for Economic
Affairs and Energy, Berlin (from 8 March 2017)

Anja Hajduk
Member of the German Federal Parliament, Berlin

Armin Hofmann
GIZ Programme Manager, Myanmar

Winnie Kauderer
Junior Specialist at GIZ, Bad Honnef

Volkmar Klein
Member of the German Federal Parliament, Berlin

Antonia Kühn
Union Secretary, DGB (German Trade Union
Confederation), North Rhine-Westphalia region,
Dusseldorf

Birgit Ladwig
Office Director, Unified Service Sector Union (ver.di) –
National Office, Berlin

Michael Leutert
Member of the German Federal Parliament, Berlin

Walter J. Lindner
State Secretary of the Federal Foreign Office,
Berlin (from 8 March 2017)

Dr Sabine Müller
GIZ Director General of Department, Eschborn

Thomas Schenk
Head of Regional Division for Hesse, Unified Service
Sector Union (ver.di), Frankfurt am Main

Johannes Schmalzl
Deputy Director General, Federal Ministry of Finance,
Berlin (from 17 November 2016)

Ursula Schoch
GIZ Project Manager, Rwanda

Wolfram Schöhl
Deputy Director General, Bavarian State Ministry
for Food, Agriculture and Forests, Munich

Dr Ludger Schuknecht
Director General, Federal Ministry of Finance, Berlin
(up to 1 November 2016)

Dr Julius Spatz
GIZ Director General, Eschborn

Sonja Steffen
Member of the German Federal Parliament, Berlin

Stephan Steinlein
State Secretary, Federal Foreign Office, Berlin
(up to 8 March 2017)

Dagmar Wöhrl
Member of the German Federal Parliament, Berlin

Brigitte Zypries
Federal Minister for Economic Affairs and Energy, Berlin
(up to 31 January 2017)

MANAGEMENT BOARD

Tanja Gönner
Chair of the Management Board

Dr Christoph Beier
Vice-Chair of the Management Board

Dr Hans-Joachim Preuß

Cornelia Richter

REMUNERATION

The remuneration received by members of the Management Board generally includes a fixed salary and a variable component. For members of the Management Board currently employed, the total remuneration in fiscal 2016 was €1,027,645. In 2016, members of the Supervisory Board were merely reimbursed for their travel costs of €34,844; there was no further remuneration.

	Fixed salary	Variable remuneration	Total
	in €	in €	in €
Tanja Gönner	243,296	37,334	280,630
Dr Christoph Beier	222,590	37,334	259,924
Dr Hans-Joachim Preuß	214,480	28,000	242,480
Cornelia Richter	190,825	28,000	218,825
Other remuneration components			25,786
Total remuneration			1,027,645

A provision of €779,536 has been recognised to cover a transitional allowance for a former senior manager. Transitional allowance payments in fiscal 2016 totalled €100,692. Indirect pension obligations towards former senior managers and members of the Management Board total €8,370,763.

LOANS TO ORGANS OF THE COMPANY
EMPLOYEES ON THE SUPERVISORY BOARD

	in €
Loans as at 1 January 2016	14,755
Repayments	1,609
As at 31 December 2016	13,146

In all cases, the term is 15 years and 2 months at a rate of 2.5% per year.

Bonn/Eschborn, 12 May 2017

The Management Board

Tanja Gönner
Chair of the
Management Board

Dr Hans-Joachim Preuß
Managing Director

Dr Christoph Beier
Vice-Chair of the
Management Board

Cornelia Richter
Managing Director

APPENDIX TO THE NOTES

CHANGES IN FIXED ASSETS
IN FISCAL 2016

	COST OF ACQUISITION OR PRODUCTION					ACCUMULATED AMORTISATION AND DEPRECIATION				CARRYING AMOUNTS		
	1.1.2016	Additions	Reclassification	Retirements	31.12.2016	1.1.2016	Amortisation/ depreciation in the fiscal year	Reclassification	Retirements	31.12.2016	31.12.2016	31.12.2015
	in €	in €	in €	in €	in €	in €	in €	in €	in €	in €	in €	in €
I. Intangible assets												
Purchased concessions, industrial property rights and similar rights and assets as well as licences to such rights and values	4,849,241	1,437,993	-3,116	11,755	6,272,363	3,601,965	565,975	-623	11,754	4,155,563	2,116,800	1,247,276
	4,849,241	1,437,993	-3,116	11,755	6,272,363	3,601,965	565,975	-623	11,754	4,155,563	2,116,800	1,247,276
II. Tangible assets												
1. Land, land rights and buildings including buildings on third-party land	203,813,476	17,041,053	5,940	80,080	220,780,389	50,681,145	4,728,324	0	38,984	55,370,485	165,409,904	153,132,331
2. Other plant, operating and office equipment	43,573,811	5,937,062	127,193	6,500,882	43,137,184	28,940,586	5,029,744	623	6,033,600	27,937,353	15,199,831	14,633,225
3. Advance payments and assets under construction	7,553,893	38,000,812	-130,017	0	45,424,688	0	0	0	0	0	45,424,688	7,553,893
	254,941,180	60,978,927	3,116	6,580,962	309,342,261	79,621,731	9,758,068	623	6,072,584	83,307,838	226,034,423	175,319,449
III. Financial assets												
1. Shares in affiliated companies	75,881	0	0	0	75,881	0	0	0	0	0	75,881	75,881
2. Participating interests	535,862	0	0	0	535,862	0	0	0	0	0	535,862	535,862
3. Securities held as fixed assets	143,944,862	19,999,988	0	0	163,944,850	0	0	0	0	0	163,944,850	143,944,862
4. Other loans	841,436	0	0	120,436	721,000	185,637	0	0	34,687	150,950	570,050	655,799
5. Claims from administrative costs credit	7,338,111	497,341	0	307,133	7,528,319	0	0	0	0	0	7,528,319	7,338,111
	152,736,152	20,497,329	0	427,569	172,805,912	185,637	0	0	34,687	150,950	172,654,962	152,550,515
	412,526,573	82,914,249	0	7,020,286	488,420,536	83,409,333	10,324,043	0	6,119,025	87,614,351	400,806,185	329,117,240

AUDITOR'S REPORT

3

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn, for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB ('Handelsgesetzbuch': 'German Commercial Code') and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures

in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Mainz, 12 May 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hauptmann
German Public Auditor

Reichel
German Public Auditor

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