Welcome to Frankfurt, Welcome to Hessen

Germany’s Business State and Gateway to Europe.

Changing market conditions in Europe – opportunities for international investors
Britain’s exit from the European Union – challenges and opportunities

Market conditions in Europe are in a period of change. Companies are redefining their business models for the European market. The reason for this development is the British referendum of 23 June 2016, in which the UK voted to leave the EU. This is an enormously significant decision for global businesses and entails both challenges and opportunities for British, European and international companies.

What will change?
- EU passporting rights
- Euro clearing
- Extra capital requirements
- Additional and costly regulatory environment UK vs EU
- Free movement of goods, services, capital and people threatened
- Customs and other tariffs
- Non-tariff trade barriers

What type of businesses will be affected?
- Corporate and investment banking
- Listings, trading and lending
- Deposit taking and payments
- Regulatory and risk management
- Legal framework of trade and investment
- Delivery terms and conditions
- Functions of financial and industrial corporations’ headquarters
- Sales, marketing and distribution
- Production and R & D activities

Consequences for the financial and insurance sector

So far, it is unclear how the relationship between the EU and the United Kingdom will be shaped in the future. However, trading relations with the United Kingdom are subject to change. Firstly, international banks and companies of the financial and insurance sector are affected by the Brexit vote. London-based institutions are considering relocating some of their activities to Frankfurt because they will not be allowed to conduct some of their EU operations outside the EU.

Frankfurt: financial gateway to the EU and capital of the eurozone

As a result of the Brexit vote, financial services providers are facing fundamental new challenges. Already home to the European Central Bank, EIOPA, the central bank of Germany and many international banks and global financial services institutions, Frankfurt is ideally situated to become the economic gateway to the EU.

‘Frankfurt offers excellent advantages for financial services as well as for the industrial sector. We want to build a bridge for those seeking alternative locations for their EU offices.’

Tarek Al-Wazir
Minister of Economics, Energy, Transport and Regional Development, State of Hessen
Consequences for the industrial sector

Companies in other industries will also have to consider a new location due to potential tariff and non-tariff barriers to trade goods and services. Especially the value chains in the aerospace, automotive, chemical and pharmaceutical sectors, to name but a few, are highly integrated with continental EU member states. These industries do not only import many intermediate products from the EU but also export a large proportion of their output to the EU.

In addition to these value chains being threatened by potential customs duties, non-tariff trade barriers could also lead to increasing coordination costs. Furthermore, free movement of labour, which will almost certainly be restricted, has, up until now, also been a growth-enhancing factor in the British economy – not only with regard to highly educated experts but also to low-skilled labour. When competing for the rather static labour supply in the absence of the free movement of people from and to the EU, firms may have to pay higher salaries. This in turn will raise their costs and thereby negatively affect their competitiveness in international markets.

Many international companies have traditionally used the UK market as a gateway to the EU’s single market due not only to the English language but also its free-market tradition. These companies may have to relocate business operations in order to be able to benefit from the opportunities of the single market and the unquestionable sales possibilities that come with them. According to a survey by KPMG in September 2016, the majority of CEOs and decision makers are considering relocating their headquarters or selected business units outside the United Kingdom.

Top 10 businesses most likely to be affected by Brexit (besides financial services)

- Automotive
- Chemical and petrochemical
- Pharmaceutical and biotechnology
- Aerospace
- Medical devices
- Oil and gas
- Mechanical engineering and components
- Food and beverages
- Business, scientific and technical services
- Insurance services

Source: Ministry of Economics, Energy, Transport and Regional Development

Source: Boston Consulting Group, ‘Brexit – Banker, quo vadis?’, 2016

Find out more about Hessen’s industrial competences under: www.invest-in-hessen.com/industries-hessen
Germany – outstanding location in the heart of Europe

German economy – Europe’s No. 1 in GDP

Germany’s political and economic stability offers growing business opportunities. Germany is the strongest economy in Europe and one of the largest and most successful worldwide. It plays a leading role in the European Union and benefits from the customs duty exemptions that membership provides. Germany accounts for about 20% of EU-28’s GDP (about 25% of that of EU-27) and offers competitive tax rates. The German economy is both highly industrialised and diversified – with an equal focus on both services and industrial production. ‘Made in Germany’ is a synonym for innovation and quality. In 2015, Germany was among the top three FDI destinations of global investments.

Hessen – Germany’s business state and gateway to Europe

Hessen is one of the strongest and most international states in Germany with a GDP per capita significantly above the national average.

Thanks to its central location in Europe and Germany and its international airport in Frankfurt, the region also serves as an outstanding logistics hub. Hessen is a major destination for foreign direct investments from the USA, China, the United Kingdom, France, Japan, South Korea and India. The United Kingdom is also among Hessen’s most important business partners in terms of imports and exports of goods.

Hessen’s foreign trade relations 2015

<table>
<thead>
<tr>
<th>Top 10 countries Hessen exported to</th>
<th>Top 10 countries Hessen imported from</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>12.8%</td>
</tr>
<tr>
<td>France</td>
<td>7.8%</td>
</tr>
<tr>
<td>UK</td>
<td>7.5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>5.2%</td>
</tr>
<tr>
<td>China</td>
<td>4.6%</td>
</tr>
<tr>
<td>Poland</td>
<td>4.5%</td>
</tr>
<tr>
<td>Austria</td>
<td>4.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.7%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

Frankfurt – continental Europe’s financial centre and capital of the eurozone

- Leading financial centre of continental Europe
- Home of the European Central Bank (ECB) and the German central Bank Deutsche Bundesbank
- Frankfurt Stock Exchange – among the world’s largest stock markets
- 201 domestic and foreign banks (+ 33 representative offices)
- Europe’s largest futures exchange: EUREX
- Capital market services with Frankfurt’s securities and derivatives exchanges
- About 7,900 companies in financial services
- Vast selection of international consulting companies

Regulators in Hessen

- European Central Bank (ECB)
- German central bank Deutsche Bundesbank
- Federal Financial Supervisory Authority (BaFin)
- European Systemic Risk Board (ESRB)
- European Insurance and Occupational Pensions Authority (EIOPA)
- Federal Agency for Financial Market Stabilisation (FMSA)
- Global Legal Entity Identifier Foundation (GLEIF)
Corporate taxation in Germany

Corporations, such as the limited liability company (GmbH) or the stock corporation (AG), based or with an executive board in Germany are liable to corporate income tax on globally generated income. Dividends that have been generated and taxed abroad may be exempt from taxation in Germany or taxes paid in a foreign country can be offset against taxation in Germany.

Corporate companies that are neither based nor have an executive board in Germany are only liable to corporate income tax on income generated inside Germany (e.g. via a permanent establishment).

Competitive tax conditions

Germany offers a reliable and competitive system of corporate taxation. The average tax burden is less than 30%. In some regions of Hessen, due to a locally variable business tax rate, it even amounts to less than 27%. Internationally operating companies are able to avoid double taxation of profits made in Germany on the basis of numerous international double tax treaties.

In Germany taxation of corporations consists of the following components:

- **Corporate income tax** (Körperschaftsteuer)
  The corporate income tax rate amounts to 15% of the taxable profits of the company. It is payable on undistributed as well as distributed profits.

- **Solidarity surcharge** (Solidaritätszuschlag)
  This surcharge rate amounts to 5.5% of the 15% corporate income tax or simply 0.825%.

- **Local trade tax** (Gewerbesteuer)
  The local trade tax is set by local authorities, which means that it varies from one municipality to another. The minimum local trade tax amounts to 7%. The average local trade tax rate across Germany and Hessen is about 14%.

Source: Germany Trade & Invest

Global corporate tax rates 2016 (average figures in %)

- **United States**: 40.0%
- **India**: 34.6%
- **Brazil**: 34.0%
- **Belgium**: 34.0%
- **France**: 33.3%
- **Italy**: 34.1%
- **Japan**: 30.9%
- **Australia**: 30.0%
- **Germany**: 29.7%
- **Luxembourg**: 29.2%
- **South Africa**: 28.0%
- **Canada**: 26.5%
- **Austria**: 25.0%
- **Netherlands**: 25.0%
- **Spain**: 25.0%
- **China**: 25.0%
- **Korea, Republic of**: 24.2%
- **Denmark / Slovakia / Sweden**: 22.0%
- **Portugal**: 21.0%
- **UK / Finland**: 20.0%
- **Czech Republic / Hungary / Poland**: 19.0%
- **Slovenia**: 17.0%
- **Latvia / Lithuania**: 15.0%
- **Ireland**: 12.5%

Source: KPMG: Corporate tax rates table
Personal income taxation

Taxation of personal income is progressive, i.e. the higher the income, the higher the payable marginal tax rate. An individual is liable to income tax for all income (e.g. from employment or self-employment) exceeding EUR 8,820 per year. Marginal tax rates for individuals (unmarried, no children) start at only 14%; the highest marginal tax rate of 42% is payable on the amount of income that exceeds EUR 54,058 per year. For earned income exceeding EUR 256,304 per year, the marginal tax rate increases to a maximum of 45%.

In addition to the employee wage income taxation, both employers and employees are liable to the social security contributions (up to an income threshold of EUR 76,200 per year, above which marginal income is no longer liable to social security contributions).

As can be seen below, the effective tax burden in Germany for highly qualified individuals is competitive in international comparison.

Example of income taxation without incidental salary costs 2017: (unmarried, no children)

| Taxable income: 68,405.55 EUR |
| Income tax and solidarity surcharge: 21,367.97 EUR |
| Average tax rate: 31.24% |
| Marginal tax rate*: 42.00% |
| Tax-free amount: 8,820.00 EUR |
| Gross salary: 80,000.00 EUR |
| Tax-recognisable expenses (e.g. social security payments): − 11,594.45 EUR |

* income above EUR 54,058

The personal income tax rate rises progressively to a maximum tax rate of 42.0% which is applicable to an annual income of EUR 54,058 or more.

Source: Germany Trade & Invest

Source: Federal Ministry of Finance, Baker Tilly Roelfs

Tax rates and incidental salary costs for highly qualified individuals

(EUR 100,000 net income)

Source: BAK Taxation Index shows the effective tax burden as a percentage of employment costs for a single employee without children and with a disposable income of EUR 100,000.
Labour market and labour law in Germany

Germany is internationally known for its highly qualified, motivated and conscientious workforce. Employers are free to tailor the recruiting process to their individual needs. The fundamental labour market reforms in Germany in recent years have created flexible working models which correspond to the requirements of the modern marketplace. Qualified personnel can be appointed quickly and without problems in Germany. Only a few regulations have to be taken into account before concluding a contract of employment. Beside regular employment, the German labour market offers flexible models such as fixed-term contracts and temporary employment.

Employers in Germany profit from:

- German labour law is highly flexible, fair, effective and reliable.
- 66% of disputes are resolved within three months.
- There is no legal claim for redundancy payments.
- Executive employees have only limited protection against redundancies.
- A study by the Federal Statistical Office found the number of actions filed involving labour law in 2011 (three years after the financial crisis) at only 60% of the 1995 level.

Hessen scores with a highly qualified workforce due to renowned universities as well as the reliable and trusted German vocational training system (Duale Ausbildung).

Germany also benefits from good working relationships between employers and employees. There are just very few strike days per year in international comparison because staff social participation is lived to a healthy degree.

Where do European workers go on strike?

Average days not worked due to industrial action per 1,000 employees (annual average 2006–2015)

<table>
<thead>
<tr>
<th>Country</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>117</td>
</tr>
<tr>
<td>Belgium</td>
<td>72</td>
</tr>
<tr>
<td>Spain</td>
<td>62</td>
</tr>
<tr>
<td>Ireland</td>
<td>28</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>26</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Ministry of Economics, Energy, Transport and Regional Development
Flexible models of employment

Germany has different models of employment, providing investors with flexible employment solutions – especially in the starting phase of the business.

Fixed-term contracts

Companies are free to offer fixed-term contracts. Such fixed-term contracts expire automatically on a specific date. A dismissal is not required to terminate this type of contract. It is for the employer to decide whether to renew the contract or not.

Fixed-term contracts are generally limited to a maximum of two years. A fixed-term contract may be extended up to three times provided the total duration of contract does not exceed the maximum of two years.

If there are sufficient reasons for a fixed-term contract, such time-limitations are permitted in Germany for as long as required on a case-by-case basis. There is no statutory maximum time period.

Temporary employment

A company can hire staff without concluding an employment contract. This allows for a range of flexible work models. Instead, the company hires staff from a temporary employment agency by concluding a service contract which regulates the conditions under which the employees are sent to the hiring company. The employee is legally employed by the temporary employment agency, which means that the employee receives financial remuneration only from the temporary employment agency, as no contractual relationship exists between the hiring company and the employee. The hiring company pays a certain fee to the temporary employment agency. Beginning in April 2017, a statutory maximum hire term of 18 months with an extension possibility by collective agreements is planned.

Salaries and working times

In Germany, wages are generally subject to collective bargaining and especially for highly qualified employees to individual negotiation. However, there is a nationwide minimum wage of EUR 8.84 per hour. Working hours are very flexible in Germany. The legally permitted working time for ordinary employees generally totals eight hours per day (exceptionally ten hours) and 48 hours per week (exceptionally 60 hours) on average. These provisions are basically subject to the EU’s Working Time Directive. Employees are entitled to a minimum of 20 paid vacation days per year. The number of public holidays in Germany varies from one federal state to another. Hessen counts ten public holidays, which is rather at the lower end.

The German social security system

Major parts of the highly effective public social security system (pensions, healthcare, unemployment and nursing care) in Germany is collectively financed by employees and employers alike through a pay-as-you-go system. The core social security in Germany is financed collectively by means of a process of redistribution.

The German social security system consists of:

- Pension insurance
- Health insurance
- Unemployment insurance
- Nursing care insurance
- Accident insurance (paid by employer only)

Generally speaking, social security contributions are roughly shared equally by employer and employee. Only the costs for accident insurance are exclusively borne by the employer. In total, the employer’s share of social insurance contributions amounts to approximately 21% of the employee’s gross wage.

For more details about taxation and labour law in Germany visit: www.gtai.de/investment-guide
Real estate market in Hessen and Frankfurt

Office premises

When comparing the rental market for prime office properties in selected European cities, Frankfurt scores with low rental prices and high vacancies. Approximately 1.5 million square metres of office space is currently available in the Frankfurt area, thereof about 50% grade A office premises. An additional 100,000 square metres of offices are being built at present and will be finished within the next 12 to 24 months.

<table>
<thead>
<tr>
<th>Office vacancies in%</th>
<th>Dublin</th>
<th>Frankfurt</th>
<th>London</th>
<th>Luxembourg</th>
<th>Paris</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.4</td>
<td>11.8</td>
<td>3.9</td>
<td>4.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Office prime rent in EUR per square metre and month</td>
<td>51.6</td>
<td>39.5</td>
<td>83.3</td>
<td>46</td>
<td>60.1</td>
</tr>
</tbody>
</table>

Source: IW, Cologne

Industrial and logistics sites

Prices for industrial and logistics sites start at approximately EUR 3.00 per square metre and month in the Frankfurt surroundings and rise to about EUR 7.50 per square metre and month in the Frankfurt Airport area.

<table>
<thead>
<tr>
<th>Industrial and logistics prime rent in EUR per square metre and month:</th>
<th>Dublin</th>
<th>Frankfurt</th>
<th>London</th>
<th>Luxembourg</th>
<th>Paris</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.7</td>
<td>6.0</td>
<td>16.9</td>
<td>8.0</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Furthermore, several industrial parks in and around Frankfurt provide space for production and additional services such as facility management and support in approval procedures.

Source: Cushman & Wakefield

Residential real estates

The housing market is rather reasonably priced in comparison to other European metropolitan areas. In the second half of 2016, the average rent for apartments in Frankfurt was around EUR 13.30 per square metre of living space. Apartments with 60 square metres are available from EUR 650 to 800 per month. A 100-square-metre apartments are available for rent between EUR 1,000 and 1,200 per month. Depending on the location, the rental rates vary strongly, particularly inner-city locations and older buildings with original features are popular. Housing outside the Frankfurt area is less pricey but nevertheless of high quality.

Source: statista, ImmobilienScout24

Identifying sites in Hessen

Hessen’s Location Information System allows individual searches for available industrial and commercial real estate as well as residential properties in the German state of Hessen. It also provides infrastructural data on all regions and communities in Hessen, information on technology and incubator centres, as well as contact details of all local economic development agencies in Hessen.

www.standorte-in-hessen.de/en
High quality of life in Hessen and Frankfurt

People from around the world quickly feel at home in Hessen, the heart of Europe. Frankfurt is ranked the seventh of the most liveable city worldwide (Mercer, Quality of Living Survey, 2016). You are well advised to work and live in Hessen!

### Highly international workforce and communities:
- English broadly spoken

### Multicultural environment and broad intercultural competence

### High standard of living: affordable and available housing

### Outstanding education system: numerous private international and multilingual public schools

### Excellent healthcare: affordable at every income level

### Many well-known sports teams with great fan scenes

### Vivid cultural scene: vast number of museums, orchestras, theatres and opera houses

### Attractive places for sport and recreation activities: parks, lakes and vineyards

### Vibrant nightlife: wide range of clubs, discos and wine bars with live music

### Unique shopping opportunities: numerous shopping malls, individual stores and local markets

Find more information at:
- [www.hessen-tourismus.de/en](http://www.hessen-tourismus.de/en)

Discover our film about the German state of Hessen as a strong business location with outstanding infrastructure and an exciting international scene:
Hessen and Frankfurt – the place to go

Frankfurt ranks first in ‘German Cities of the Future’
(FDi, German Cities of the Future, 2016)

The financial centre Frankfurt will emerge as a major
winner of Brexit in the areas:
‘securities trading and settlement’,
‘corporate banking’ and ‘asset management’.
(Center for Financial Studies, CFS Survey, 2016)
‘[…] for the moment, Frankfurt is out in front.’
(The Guardian, 22.09.2016)

Germany is the top destination for FDI in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>69%</td>
</tr>
<tr>
<td>UK</td>
<td>43%</td>
</tr>
<tr>
<td>France</td>
<td>36%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>19%</td>
</tr>
<tr>
<td>Poland</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: EY, European attractiveness Survey, 2016

Frankfurt ranks first among the most attractive locations for financial
service providers with offices in London

<table>
<thead>
<tr>
<th>Rank 1 ++ +</th>
<th>Rank 2 ++</th>
<th>Rank 3 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frankfurt</td>
<td>New York</td>
<td>Dublin</td>
</tr>
</tbody>
</table>

- Economic stability and rating of the target country: ++ +, ++ , +
- Pool of qualified employees and specialised knowledge: + +, ++ +, +
- Tax system: ++ +, ++ , + + +
- Political stability in the target country: ++ +, ++ , +
- National language of the country: +, ++ +, ++

Further locations such as Singapore, Amsterdam, Luxembourg, Hong Kong
and Paris were ranked less attractive across the five most important criteria.

Hessen Investor Survey:

95% of international direct investors evaluate the
current situation of their company in Hessen as good,
very good or even excellent.

Source: EY, European attractiveness Survey, 2016

10 reasons to choose Hessen

1. One of the strongest economies of all German states
2. Direct access to the German and European market
3. Frankfurt: Germany’s number one airport and central hub in Europe
4. Leading financial and trading centre within the eurozone
5. Strong industries: automotive, electronics and mechanical engineering, pharmaceuticals, chemicals and life sciences
6. Europe’s leading region for digitalisation, ICT, IT security, and the world’s leading Internet exchange point DE-CIX
7. Highly skilled workforce and top location for research and development
8. Available and affordable office spaces and industrial sites
9. People from more than 190 countries and 12,500 international companies
10. High quality of life
Welcome to Hessen.

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Publisher and editor
Hessen Trade & Invest GmbH
Dr. Rainer Waldschmidt

Layout and Design
Q Kreativgesellschaft mbH

Printing
A&M Service GmbH,
print run 8,500 copies

March 2017 / BE

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