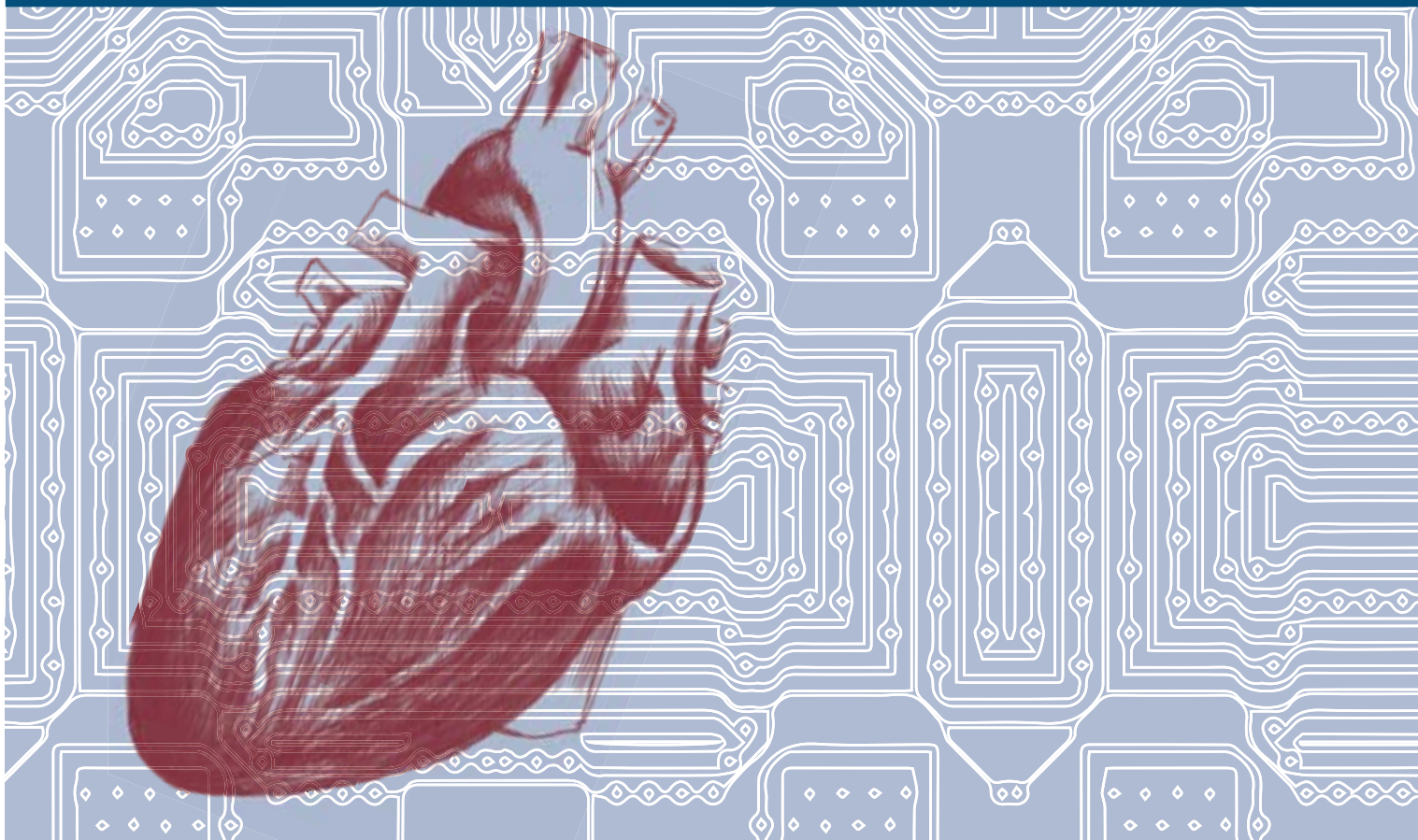


EXPORT CREDIT GUARANTEES



ANNUAL REPORT 2017

FEDERAL EXPORT CREDIT AND
UFG-GUARANTEES

► **Hermes Cover**
► **Untied Loan Finance**

Positive result

Positive result for export credit guarantees for the 19th consecutive time.
Accrued surplus for the federal budget: 5.5 billion euros.

79.4%

Once again the most frequent users were small and medium-sized companies, which accounted for 79.4% of all applications.

153 countries



The Federal Government provided Hermes Cover for exports to 153 countries in 2017.

25°N

55°O

Hermes desk opened in Dubai.

16.9 billion

Goods and services worth 16.9 billion euros backed by export credit guarantees in 2017.

Bring your project to ...

A new event format is offering exporters pooled expertise and interactive dialogue with experts and facilitating networking effects.



6.200

More than 6,200 one-on-one consultations held across Germany.

myAGA

Foreign trade promotion going digital.
Main new features: myAGA customer portal,
YouTube channel
and social media.



Product innovations

New covered bond guarantee facilitating refinancing. Wholturnover
Policy revised to simplify handling and improve convenience.

75.3%

Cover for emerging economies and developing countries accounted for 75.3% of the total (previous year: 82.6%).

85.8 billion

The Federal Government's maximum exposure under all active cover as of the end of 2017: 85.8 billion euros.

Responsibility

National Action Plan for Business and Human Rights implemented.

5.3 billion

The Federal Government's exposure under aggregate outstanding guarantees came to 5.3 billion euros as of the end of 2017.

High demand for copper

Rising market prices are driving the global development of numerous copper deposits.

1.6 billion

Applications worth 1.6 billion euros were received for untied loan guarantees in 2017.

15 raw materials in 19 countries

Over the last five years, the Federal Government has confirmed the eligibility of raw material projects in 19 countries for 15 different raw materials in the light of raw material supply considerations.



Dear Sir or Madam,

The global economy is currently in good shape, with growth being driven by almost all regions around the world. With its export-oriented companies, Germany's economy is benefiting from this as it is more closely linked with the global economy than almost any other country.

Last year, the German Federal Government's export credit guarantees again made a crucial contribution to the German corporate sector's success. In 2017, the Federal Government issued export credit guarantees worth 16.9 billion euros for exports of goods and services. Small and medium-sized companies (SMEs) in particular made use of the government cover instruments. Three quarters of the deliveries and services covered were destined for the emerging economies and developing countries.

Consequently, export credit guarantees once again helped to secure growth and employment in Germany and to simultaneously promote the economic development of emerging economies and developing countries in particular.

In 2017, the Federal Government enhanced the export credit guarantees in key areas: With the revision of the Wholturnover Policy, we substantially simplified an instrument which is of key importance for small and medium-sized companies in particular. The Federal Government also introduced a new product – the covered bond guarantee – to permit refinancing through a bank's own covered bond business as a means of improving the availability of finance for export business.

The favourable conditions in the global economy cannot conceal the major challenges facing German companies. Protectionist tendencies as well as political and economic uncertainties have not disappeared. The Federal Government will therefore continue to express its strong opposition to protectionism and work towards free and rule-based trade, open markets and sustainable development at an international level. Looking forward, companies and banks will be able to continue relying on our established instruments for promoting foreign trade.

A handwritten signature in blue ink, appearing to be 'P. Altmaier', written in a cursive style.

Peter Altmaier
Federal Minister for Economic Affairs and Energy

**EXPORT CREDIT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY
AT A GLANCE IN MILLION EUR**

| | 2016 | 2017 |
|--|----------------|--------------|
| Statutory cover limit | 160,000 | 160,000 |
| Cover applications (volume) * | 38,228 | 29,115 |
| Small and medium-sized enterprises (share of exporters supported with guarantees in %) ** | 81.7 | 79.4 |
| New Business | | |
| Covered export volume | 20,615.1 | 16,862.4 |
| of which for | | |
| emerging economies and developing countries *** | 17,018.6 | 12,697.4 |
| industrialised countries *** | 3,596.5 | 4,165.0 |
| Covered exports for EU countries | 912.3 | 1,575.5 |
| Covered volume as % of total exports | 1.7 | 1.3 |
| Results | | |
| Revenues from | | |
| Premiums and fees | 845.4 | 346.9 |
| Recoveries | 974.4 | 308.8 |
| from political claims | 803.8 | 203.2 |
| from commercial claims | 170.5 | 105.6 |
| Other income (exchange rate gains) | 3.2 | 0.3 |
| Expenses for | | |
| Claims paid | 551.8 | 429.3 |
| for political claims | 38.2 | 30.9 |
| for commercial claims | 513.6 | 398.4 |
| Management fee | 87.4 | 85.1 |
| Annual Result | 1,183.9 | 141.5 |
| Accrued Result (since 1951) | 5,401.8 | 5,543.4 |
| Amounts subrogated to Federal Government | 3,902.5 | 3,863.1 |

* Including byer credits

** Firms with up to 500 employees

*** Classification of countries see p. 74



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The Interministerial Committee 24 in contact with stakeholders

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Cover

This year's cover was designed by Olesja Reiser, a student at Design Factory International. Further details on the project can be found in the annex on page 73.





16.9 billion

Goods and services worth 16.9 billion euros backed by export credit guarantees in 2017.

79.4%

Once again the most frequent users were small and medium-sized companies, which accounted for 79.4% of all applications.

THE TASKS OF THE INTERMINISTERIAL COMMITTEE

The Interministerial Committee (IMC) for export credit guarantees is the central decision-making body for the provision of Hermes Cover. In 2017, the IMC deliberated on around 200 transactions in twelve meetings. A further important task performed by the Interministerial Committee is to work on enhancing the state export credit guarantee scheme. The IMC also decides on cover policy for the individual countries.

■ 9

Product innovations

New covered bond guarantee facilitating refinancing. Wholturnover Policy revised to simplify handling and improve convenience.

myAGA

Foreign trade promotion going digital. Main new features: myAGA customer portal, YouTube channel and social media.



DEVELOPMENTS AND TRENDS

The economic and political environment is complex and highly nuanced for the German export industry. On the one hand, companies are operating in a stable economic setting, with nearly all main economic regions around the world experiencing an upswing.

The Chinese economy is continuing to grow sharply, while economic momentum in Japan has also picked up substantially. In the main Latin American economies, there are signs that the recession is drawing to a close and giving way to a phase of recovery. What is more, the stabilisation of crude oil prices has spurred the recovery of many economies, such as Russia, that export raw materials. The upshot of all this is that not only is the global economy growing, but global trade is also gaining momentum.



Fierce competition and declining freight rates are intensifying the pressure on shipping companies, forcing them to cut costs. By fitting container ships with fuel-saving propellers it is possible to improve efficiency and reduce fuel consumption.

Mecklenburger Metallguss GmbH from Waren is the world's largest manufacturer of ship propellers. A mid-sized company, it has now equipped more than 250 ships with fuel-saving propellers. Over the last four years, it has fitted out around 145 container ships for one of the largest shipping companies. This reduces fuel consumption by up to 10% and lowers the emission of greenhouse gases, sulfur and nitrogen oxides as well as particulate matter.

KfW IPEX-Bank GmbH is financing a large part of the total order. The Federal Republic of Germany is backing the project with isolated buyer credit cover.

On the other hand, economic and geopolitical risks are persisting. Global debt and protectionist tendencies are posing a risk to sustained and steady growth. At the same time, there is mounting competition for projects.

Against this challenging backdrop, export credit agencies (ECAs) play an important role in stabilising and maintaining foreign trade and trade finance. Alternative sources of funding – such as bonds or assistance provided by regional development and multilateral infrastructure banks – are supplementing the instruments of traditional state export promotion schemes particularly for climate protection and infrastructure projects.

To ensure that export credit guarantees remain competitive, the Federal Government again introduced improvements in decisive areas in consultation with the German export and financial services industry in 2017. One milestone was the revision of the Wholturn-over Policy. Moreover, a new product – the covered bond guarantee – was launched on the market to substantially improve export-financing banks' flexibility in refinancing export credits granted in their own covered bond business.

By opening an advisory office for export credit guarantees in Dubai, the Federal Government's mandataries additionally stepped up their foreign activities. The Hermes desk in Dubai is the main port of call for investors and exporters wishing to make use of the opportunities for growth in the Middle East/Northern Africa (MENA region) and interested in using products and services as well as export cover and finance "made in Germany" to achieve these goals.

What are export credit guarantees?

State export credit guarantees are an established instrument for promoting foreign trade. They protect exporters and banks from loss of receivables caused by economic and political factors. The range of products available addresses the entire value chain from production and delivery to payment of the final instalment.

Export credit guarantees transfer a large part of the risk of a payment default to the Federal Republic of Germany. In return for this, the policyholder pays a premium calculated on the basis of the risk involved. In the event of a loss, the Federal Government indemnifies the policyholder for the amount of the receivables covered.

In addition to risk management, export credit guarantees play a key role in finance. In many cases, Hermes Cover is a prerequisite for the provision of finance by banks. As a matter of principle, all German export companies are able to apply for Hermes Cover regardless of their size or the type of transaction. The key criteria for the provision of cover include eligibility for support and the justifiability of the risks arising from the transaction.



In addition to conventional cover for the delivery of goods and the provision of services, the Federal Government also offers export credit guarantees for project finance. Project finance structures are generally selected for large-scale transactions which are not carried on the balance sheets of the companies involved. Instead, a legally and economically autonomous project company is established which is responsible for generating the cash flows needed to cover the operating costs and debt servicing for the project. Accordingly, the provision of an export credit guarantee for project finance is contingent upon the completion of comprehensive analyses of the economic viability of the project and its structure as well as the appropriate allocation of the risks to the parties involved in the project. In contrast to conventional export finance, country risks are largely mitigated by the project and collateralisation structures implemented. This means that project finance is frequently also possible in countries for which restrictions on cover are in place, e.g. country ceilings or limits on the size of individual transactions. ■

The Brazilian manufacturer of medium-density fibreboard (MDF) Floraplac has been producing at full capacity for years. The existing plant can no longer meet demand. Floraplac commissioned Dieffenbacher GmbH Maschinen- und Anlagenbau with the construction of a production plant for the production of MDF boards. With a daily capacity of 1,290 m³, the plant features state-of-the-art technology which will help to significantly reduce production costs due to the optimised production process and the more economical use of glue. The wood required is to be sourced from Floraplac's existing own eucalyptus and pine plantations. The necessary power is to be generated by a combined biomass heat and power plant, which will use the wood waste produced in the factory. The exhaust air from the power plant will be used to dry the MDF boards.

The Federal Government is supporting the transaction with manufacturing risk and supplier credit as well as buyer credit cover.



BUSINESS OVERVIEW – 2017 AT A GLANCE

Numerous government export credit agencies around the world provided cover and finance for fewer export transactions in 2017 than in the previous year. This trend was also reflected in the export credit guarantees provided by the Federal Republic of Germany. In 2017, the Federal Government issued export credit guarantees worth 16.9 billion euros for exports of goods and services. This marks a decline of 18% over the previous year (2016: 20.6 billion euros).

Although the number of single transaction policies rose to 517 in 2017 (2016: 495), the value of the transactions covered under the single transaction policies declined due to the lower average volume. Moreover, fewer big-ticket projects were covered in 2017 than in earlier years.

Despite the decline in cover volume, demand for the Federal Government's export credit guarantees remains strong. This is reflected in the number of applications as well as the value of the guarantees issued and offers of cover made as of the end of 2017. At around 38 billion euros, it was up 16% on the previous year.

However, the trends in the year under review do not signal waning interest in export credit cover and

finance. Rather, they show that foreign business is increasingly being insured and financed in the private market again. In particular, the persistently accommodative monetary policies being pursued by the main central banks around the world are facilitating access to foreign trade finance without the need for government support.

Once again, the bulk of the cover provided was for the delivery of goods and services to emerging economies and developing countries. Cover for these countries was valued at 12.7 billion euros in the year under review, accounting for 75% of new business. Once again, small and medium-sized companies particularly made use of Hermes Cover in 2017. In fact, 79.4% of all applications for export credit guarantees were submitted by SMEs.

In terms of business volumes, Russia was at the top as in the previous year with a cover volume of 1.73 billion euros, followed by Turkey, Singapore, China and the United States.

The annual result of 141.5 million euros in 2017 was transferred in full to the federal budget. The accrued result since the introduction of Hermes Cover thus increased to 5.5 billion euros.



Composition and tasks of the Interministerial Committee

14 ■

The Interministerial Committee (IMC) for export credit guarantees decides on the provision of cover for a given export transaction. In addition, it defines the cover policy and continuously develops the system and principles underlying export credit guarantees.

It comprises representatives of four ministries, the Federal Ministry for Economic Affairs and Energy, the Federal Ministry of Finance, the Federal Foreign Office

and the Federal Ministry for Economic Cooperation and Development. The Federal Ministry for Economic Affairs and Energy holds the lead function.

Decisions on whether to provide cover for a transaction are made on a consensual basis by the four IMC ministries in the interests of consistency in economic, fiscal and foreign policy as well as international development work.

INTERMINISTERIAL COMMITTEE – IMC

Ministries

BMWi

Federal Ministry for Economic Affairs and Energy
– lead function –



BMF

Federal Ministry of Finance



AA

Federal Foreign Office



BMZ

Federal Ministry for Economic Cooperation and Development



Mandatory

- ▶ Euler Hermes Aktiengesellschaft

Experts

- ▶ representatives of the exporting industries and banking sector
- ▶ KfW
- ▶ AKA Ausfuhrkreditgesellschaft mbH
- ▶ Federal Audit Office

The decision-making bodies

Generally speaking, the IMC makes decisions on transactions with a volume of over ten million euros. The Small Interministerial Committee (SIMC) is responsible for decisions on transactions valued at between five and ten million euros. Euler Hermes Aktiengesellschaft as the Federal Government's mandatary makes decisions on applications for cover of up to 5 million euros in accordance with the instructions issued by the Federal Government (powers of representation). In special cases, responsibility may be allocated to a higher level (mandatary, SIMC, IMC).

■ 15

The Interministerial Committee met on 24 August 2017 at the Federal Ministry for Economic Affairs and Energy in Berlin.



COUNTRY COVER POLICY IN 2017

16 ■

The IMC defines an appropriate **cover policy** for each country on the basis of its specific risk. It governs the scope and the conditions for the granting of export credit guarantees. The IMC reviews its cover policy in the event of any change in the risk situation.

One important parameter for the Federal Government's cover policy is the OECD country risk ratings. Countries are assigned to one of eight risk groups on the basis of a macroeconomic model and in the light of public buyers' past payment record. These country rat-

ings are binding on all export credit agencies in OECD member countries and form the basis for the minimum premium payable by the policyholder. The purpose of the minimum premium is to prevent a competitive downward spiral in the pricing of government-covered export transactions.

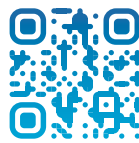
In 2017, the OECD experts recalculated the ratings of just under 150 countries. Seven countries were upgraded and five downgraded as a result.

The production of steel and wire at the steel mill in Zhlobin, Belarus, causes toxic substances such as heavy metals, salts, silicates and alkali metals. The waste water was previously discharged into the municipal sewage treatment plant, which was overloaded as a result. The water passing through the sewage treatment plant then entered the Dnieper, the source of drinking water for the population in Belarus. To avoid this, the steel plant in Zhlobin installed a new water treatment plant for the highly concentrated waste water. The supplier was AWAS International GmbH from Wilnsdorf in the German state of North Rhine-Westphalia. Using light technology, flotation, reverse osmosis and subsequent vacuum evaporation as well as crystallisation, the plant produces clean process water, which is fed back into the steelmaking process.

The Federal Government supported the transaction with manufacturing risk and supplier credit as well as buyer credit cover.



Further information on the OECD rating system and a list of the current country ratings can be found at: agaportal.de > English > Quick links > Country cover policy



A further important instrument for managing risk is the establishment of a **country ceiling**, in which the IMC sets a maximum credit limit available for a given country. As of 31 December 2017, ceilings had been defined for the following six countries: Belarus, Cuba, Dominican Republic, Serbia, Sri Lanka and Ukraine.

In the light of the current political situation in Turkey, the IMC also decided to cap cover under single transaction policies in Turkey at 1.5 billion euros in 2017.

OECD COUNTRY RISK CATEGORIES*

| | previously | new |
|--------------------|------------|-----|
| Bulgaria | 4 | 3 |
| Congo | 6 | 7 |
| Dominican Republic | 5 | 4 |
| Gabon | 5 | 6 |
| Hong Kong | 1 | 2 |
| Jamaica | 7 | 6 |
| Lesotho | 5 | 6 |
| Myanmar | 7 | 6 |
| Nicaragua | 7 | 6 |
| Senegal | 6 | 5 |
| Serbia | 6 | 5 |
| Tunisia | 4 | 5 |

* Premium is calculated according to eight country risk groups, in seven of which (1 = best risk, 7 = worst risk) the calculation is based on a set formula. In countries assigned to country risk group 0 (OECD high income countries and the countries of the Eurozone) a market-oriented premium is charged.

COUNTRY CEILINGS IN MILLION EUR

| | |
|-----------------------------|-----|
| Belarus | 80 |
| (medium and long-term) Cuba | 50 |
| (short-term) Cuba | 25 |
| Dominican Republic | 200 |
| Serbia | 200 |
| Sri Lanka | 100 |
| Ukraine | 250 |



NEW DEVELOPMENTS IN THE EXPORT CREDIT GUARANTEE SCHEME

Revision of the Wholeturnover Policy: less effort – easier to handle – greater legal certainty

18 ■

The Wholeturnover Policy (APG) is one of the Federal Government's main guarantee instruments, allowing German exporters to cover transactions for the delivery of goods and the provision of services for various foreign buyers on short payment terms against the risk of payment defaults. Decisive aspects of this instrument have now been modified after consultation with the German export industry. The new rules offer exporters a number of advantages as they minimise effort, simplify handling and provide greater legal certainty.

In particular, the turnover reporting process as well as the reporting duties in the case of overdue accounts have been simplified. Now, cover commences upon the delivery of the goods or the provision of the services and no longer depends on the turnover declaration. There is only one regular date for reporting turnover. Moreover, turnover declarations no longer have to be designated as such. This heightens the reliability of the cover. There are no changes to the scope and extent of the cover.



A summary of the main improvements can be found here:
agaportal.de > Die neue APG

“The revised Wholeturnover Policy offers exporters substantially simplified handling particularly with respect to turnover and supplementary declarations as well as the reporting duties for risk aggravating factors. The greater certainty and transparency eliminates the previous ambiguities. In this way, exporters will be able to make greater use of Wholeturnover Policies for refinancing purposes, such as factoring and securitisation. This is a very welcome development!”

*Alexander von Dobschütz,
member of the Management Board
of DKB Deutsche Kreditbank AG.*



What the experts say:

*Stefan W. Dircks,
managing director of
Terramar GmbH.*



“The revision of the Wholeturnover Policy simplifies our daily work significantly. It removes ambiguities and, thus, particularly improves legal certainty in connection with matters such as reporting or claims handling. We welcome this important step in enhancing such an important instrument.”

Covered bond guarantee – new cover product facilitating refinancing by means of German covered bonds

“The new Wholeturnover Policy is a step in the right direction. It gives users greater certainty and simplifies handling.”



*Thilo Brodtmann,
managing director
of the German
Mechanical Engineering
Industry Association
(VDMA).*

The Federal Government has widened the range of instruments for banks with the addition of an important new component – the **covered bond guarantee**. In the event of the covered bond bank’s insolvency, the covered bond guarantee protects the receivables – in favour of the covered bond creditor – from the risk of attachment by creditors of the insolvent bank.

Due to the risk of seizure abroad, it was previously only possible to have a maximum of ten percent of covered buyer credits included in the cover funds

■ 19

“The new Wholeturnover Policy allows small and medium-sized companies in particular to cover transactions for the delivery of goods and the provision of services for various customers on short payment terms against the risk of payment defaults. The new Wholeturnover Policy offers a series of advantages for German exporters. It simplifies the handling of this instrument, results in greater legal certainty and, thus, facilitates the execution of export business.”

*Gottfried Finken,
Head of Division Structured Finance
at DZ BANK AG.*



*Marck Wengrzik,
managing
director of AKA
Ausfuhrkredit-
Gesellschaft mbH.*



“The covered bond guarantee is an important and innovative instrument for widening the scope for refinancing export finance transactions. A large number of market participants stand to benefit from this instrument.”

for German covered bonds. This restriction posed an obstacle to the funding operations for export-financing banks. Under the new covered bond guarantee, the ten-percent cap can be overcome. Consequently, banks can refinance their export credits in their own German covered bond business a good deal more easily and flexibly.

The covered bond guarantee supplements buyer credit cover and is provided solely to banks to raise funds through their own covered bond business. It is also available in combination with guarantees for untied loan guarantees and Airbus guarantees.

The securitisation guarantee is still available for external funding.



*Stefan Böhlich,
managing director at Commerzbank AG.*

“We are pleased to have in the covered bond guarantee an instrument that allows us to refinance export loans covered by the Federal Government in our own covered bond business, while simultaneously protecting the covered bond creditors’ rights in the event of an insolvency of the covered bond bank. Funding possibilities such as German covered bonds are a valuable instrument in international competition for offering attractive finance to assist and support German exports.”

“We are pleased that the covered bond guarantee gives us a new instrument ensuring that covered bond creditors are protected against the attachment of export credits given to non-European borrowers as well. Given the large proportion of ECA-covered finance with debtors in third countries, we will be able to continue funding a significant volume of export loan receivables using German covered bonds. In this way, we will be able to continue supporting German exports in the future by offering competitive finance.”



*Markus Scheer,
member of the
management board of
KfW IPEX-Bank GmbH.*

KfW refinancing programme and securitisation guarantee: important refinancing instruments

The volume of export credits covered by the Federal Government and refinanced under the **KfW refinancing programme** came to 389 million euros. Under this programme, the KfW banking group provides long-term facilities for refinancing export credits.

In addition to the KfW refinancing programme, the **securitisation guarantee** is also a further important funding instrument. It was valued at 334 million euros in 2017.

Demand for both products was lower than in the previous year, reflecting the strong availability of commercial alternatives in the market. However, the Federal Government's two funding instruments continue to be appreciated and required as a reliable fall-back option.

Located on the Red Sea south of Jeddah, the Shoaiba I power plant comprises five power station blocks and ten seawater desalination plants. The desalination plants are operated by the state-owned Saline Water Conversion Corporation and deliver 223,000 m³ of drinking water each day to the major cities of Jeddah, Mecca and Taif. The operation of these plants requires 2,000 t of steam per hour, which is generated in the oil-fired boilers of the power plant units.

Standardkessel Baumgarte Service GmbH revamped and modernised these boilers and the related electrostatic filters for flue gas cleaning. This significantly reduced dust emissions and increased efficiency. In addition, the Duisburg-based company is installing a conveyor system for deashing the electrostatic filters so that ash no longer has to be removed manually.

The Federal Government has issued manufacturing risk and supplier credit as well as contract bond cover.



22 ■ *Primetals Technologies shipped a high-performance electric arc furnace to the Italian steel producer Acciaieria Arvedi. The new type of furnace replaced an electric arc furnace that had been built in 1990 in a steelworks in Cremona in northern Italy. The project will increase crude steel production by 36% to 1.5 million t a year and simultaneously reduce carbon dioxide emission by up to 30%. Electricity consumption is also significantly lower compared to the previously installed electric arc furnace. A dedusting system and a heat recovery system were also included.*

The Federal Republic of Germany backed the transaction with buyer credit as well as manufacturing risk and supplier credit cover with contract bonds. As there was a very high proportion of deliveries from Austria, Euler Hermes additionally took out reinsurance with Oesterreichische Kontrollbank.

Greece: cover by the Federal Government still available for short-term business

The Federal Government is continuing to offer export credit guarantees for business in [Greece](#) on short payment terms. The basis for this is a decision of the EU Commission, which has been extended until 30 June 2018, providing for the temporary removal of Greece from the list of marketable risk countries. This permits government export credit agencies to provide cover for exports with payment periods of less than two years, something which is normally not possible in the EU countries or the core OECD countries.



Digital customer portal online

Since May 2017, it has been possible to lodge applications for indemnification under APG and APG-light Wholeturnover Policies online quickly and simply via the myAGA customer portal. This eliminates the need to print out forms and avoids postal delays. Moreover, the automatic plausibility check facilitates the application-submission process.



Yet, digital requests for indemnification are merely the beginning. In a subsequent step, it will also be possible to apply for Hermes Cover online. After a plausibility check has been completed, the system will immediately provide an indication as to whether the transaction is fundamentally eligible for cover.

In the medium term, all applications for export credit guarantees are to be submitted online and managed digitally via myAGA.

Social media: export credit guarantees on LinkedIn and YouTube

User-oriented and self-explanatory menus: Hermes Cover is gaining a new look on the Internet.

www.agaportal.de provides all important information on export credit guarantees in a modern and contemporary style. Via the AGA website, exporters and banks have direct access to myAGA, the digital AGA customer portal. Information on export credit guarantees is also available on the social networks, namely LinkedIn, as well as a dedicated YouTube channel with interesting offers. In addition to the introductory film explaining what export credit guarantees are, other videos show how Hermes Cover helps exporters with their foreign business.

LinkedIn

Follow Us



YouTube

Watch Us





25°N 55°O

Hermes desk opened in Dubai.

Bring your project to ...

A new event format is offering exporters pooled expertise and interactive dialogue with experts and facilitating networking effects.

THE INTERMINISTERIAL COMMITTEE IN CONTACT WITH STAKEHOLDERS

The Interministerial Committee maintains continuous dialogue with the business community. Changing political, regulatory and legal conditions are posing particular challenges for all relevant parties. Once again, the IMC members discussed these matters in detail with all stakeholders in 2017. Sharing information, in particular, was the purpose of the numerous national and international consultations as well as bilateral and multilateral talks.

6,200

More than 6,200 one-on-one consultations held across Germany.

Responsibility

National Action Plan for Business and Human Rights implemented.

INTERNATIONAL COLLABORATION

26 ■

Hermes Cover is embedded in an international set of rules. The **OECD consensus** is binding for officially supported export credits with terms of more than two years. Among other things, it defines minimum standards for financing terms in order to prevent a downward competition spiral at the expense of national budgets.



Representatives of the Federal Ministry for Economic Affairs and Energy (BMWi) and Euler Hermes visited India from 19 to 22 September 2017. The main objective of the consultation was to work more closely with the Indian export credit agency ECGC.

From left standing: Shivam Tiwari, Saurabh Srivastava, Sunil Joshi, M. Senthilnathan, Tapsi De, R. Padmavathy, Aarti Pandey, Gaurav Fewari, ECGC
From left seated: Jens Heitmann, Euler Hermes, Dr. Hans-Joachim Henckel, BMWi, Geetha Muralidhar, ECGC, Christof Wegner, BMWi, Michael Schröder, Euler Hermes

International Working Group

To ensure a level playing field for all government export credit agencies, it is of crucial importance for key non-OECD trading nations to be integrated in an international set of rules. This is the purpose of the **International Working Group (IWG)**, which was established in 2012. It comprises the EU as well as nearly all other OECD countries plus Brazil, China, India, Indonesia, Malaysia, Russia and South Africa as well as other countries. 15 IWG meetings have now been held. Since the end of 2017, various working groups have also been discussing the following issues between meetings: local costs, credit periods, premium structures, interest rates and cover ratios. This intensified approach marks a preliminary success in the institutional reinforcement of the IWG following the appointment of a secretary general in September 2017.

Further development of international OECD rules

The Federal Government is actively participating in negotiations concerning the international rules for officially supported export credits with terms of more than two years (OECD consensus). In 2017, the OECD-consensus countries agreed on the introduction of **minimum premiums** for the high-income OECD countries, the Eurozone and category o countries. In addition, the **Sector Understanding on Export Credits for Rail Infrastructure (RSU)** was renewed by a further three years until the end of 2020. As well as this, the countries agreed to implement a reporting system in 2018 for projects with a positive effect on the climate. Talks on the structure of commercial interest reference rates (CIRR) are currently ongoing.

Consultations



A bilateral meeting was held in Japan on 7 and 8 November 2017 between the Japanese export credit agency NEXI and the Federal Ministry for Economic Affairs and Energy (BMWi) together with Euler Hermes. The purpose of the now traditional meeting was to share experience, coordinate positions on key OECD matters and to discuss conditions in specific countries.

From left: Masashi Mochizuki, NEXI, Dr. Martina Höppner, Euler Hermes, Christof Wegner, Dr. Christoph Herfarth, BMWi, Tetsuya Koizumi, NEXI, Jens Heitmann, Euler Hermes, Mikio Takeuchi, NEXI



Cooperation agreements

The Federal Republic of Germany has signed a number of bilateral and multilateral agreements and treaties in the area of government export credit guarantees. They are a suitable means of maintaining contact with other government agencies active in the promotion of foreign trade. Cooperation agreements frequently form a preliminary step towards a closer partnership, e.g. in the form of co-insurance or reinsurance agreements. A list of the existing cooperation agreements and framework reinsurance agreements can be found here: agaportal.de > English > Exports > Practice > Cooperation agreements



SHARING INFORMATION WITH THE GERMAN EXPORT INDUSTRY

Middle East – Hermes desk for state export credit guarantees opened in Dubai

The Middle East is one of the most promising markets for German exporters. In order to serve customers locally even more effectively, Euler Hermes opened a Hermes desk for state export credit guarantees in Dubai in September. The office is managed by Jan von Allwörden, an experienced underwriter. We interviewed him about his experience.



Jan von Allwörden is in charge of the Hermes desk in Dubai. As an experienced underwriter and expert on this region, he is familiar with the market trends and requirements of local customers.



A bilateral meeting was held in Seoul on 30 and 31 May 2017 between the Korean export credit agency K-sure and the Federal Ministry for Economic Affairs and Energy (BMWi) together with Euler Hermes. The purpose was to intensify joint activities.

From left standing: Dongyoung Kim, Hyunno Cho, Jaesueok Jung, K-sure, Jens Heitmann, Franziska Löke, Euler Hermes

From left seated: JongChul Eun, Juhyen Oh, Yanghyun Lim, K-xure, Dr. Hans-Joachim Henckel, Christof Wegner, BMWi, Adelina Papenburg, Euler Hermes

Mr. von Allwörden, you have been managing the Hermes desk in Dubai since September 2017. What conclusions can you draw after three months?

It was exactly the right decision to establish a local presence. I am now overseeing some 60 transactions of different sizes and at different stages along the application approval process. Hardly a day goes by on which I do not advise an exporter, bank or importer on a specific project. The transactions come from a wide range of different sectors, such as the automotive industry, energy production and distribution, renewable energies and the health sector. The main regional focus is on the United Arab Emirates as well as the countries of the Gulf Cooperation Council.

What significance does ECA business have in the region?

At most, companies and local banks have only been vaguely aware of export credit guarantees. However, this is currently changing. ECA finance is attracting a great deal of attention at the moment.

Previously, financing questions played virtually no role at all in the region as the capital market and banks had sufficient capacity. However, times have changed. In an era in which companies – particularly also government-owned ones – must tap new sources of finance due to low oil prices, ECA finance has become a genuine alternative.

What opportunities do German companies face in the Middle East?

The decline in commodity prices has intensified pressure on the countries to broaden the underpinnings of their national economies and to reduce their dependence on oil production. Saudi Arabia, for example, has established a reform programme known as “Vision 2030” for this purpose.

Another example is Dubai, which is hosting the Expo 2020 under the motto “Connecting minds, creating the future”. This is the first time that the Expo is being held in the Arab world, something which underscores the region’s heightened importance.

Recent developments are making it possible for German companies to establish themselves even more firmly in the region. Although Germany is viewed as a credible partner in the long term, companies are expected to offer more than just straight delivery business. Rather, it’s about capital spending, the establishment of local production facilities and, of course, the transfer of expertise.

Give us an idea of your day-to-day routine. What are talks with banks and companies like? What sort of requests do you receive?

There is fairly strong interest in ECA finance and, matching this, relatively high demands, frequently going beyond the provision of cover for business. Customers are seeking a one-stop approach, i.e. the preparation of the transaction, the financing and the granting of guarantees. When I talk to customers, I describe the various possibilities offered by export credit guarantees but also make it clear to them what is not possible.

You’re referring to direct lending, I take it.





Indeed, direct lending is outside the scope of Hermes Cover. Even so, export credit guarantees can make an important contribution to export finance.

In what way?

Cover granted by the Federal Republic allows the customer to

benefit from Germany's AAA rating. There is hardly any better guarantor than Germany. And this, in turn, has a positive impact on the scope for and cost of funding.

Imagine you meet a potential customer in the lift and he asks you to explain in two sentences why export credit guarantees

could be of interest to him. What do you tell him?

State export credit guarantees help him to secure his business and offer him attractively priced access to liquidity. This makes them an interesting alternative to local loans or bond finance. ■

Sports, life style and business life – that is what the Meydan Group in Dubai is known for. The group not only owns the race course with various stables and a horse and camel breeding farm but also apartments, restaurants and a hotel. The complex is to be expanded by spring 2018 with the addition of a factory for producing feed for horses, camels, poultry and ornamental birds. Consisting of raw material storage in silos as well as grinding, chopping, flaking, dosing, mixing, extruding, pelleting and packaging machinery, the plant is being manufactured, supplied, installed and put into operation by Reinbek-based company Amandus Kahl GmbH & Co. KG. Looking forward, this investment will enable the production of high-quality feeds that are tailored to the needs of different species. The products are to be sold in the United Arab Emirates and exported to other countries.



Amandus Kahl GmbH & Co. KG has obtained manufacturing risk and supplier credit cover for the export transaction.



Interview with ...

... Dr. Christoph Herfarth, Chairman of the Interministerial Committee for Export Credit Guarantees

*Dr. Christoph Herfarth,
Federal Ministry for Economic
Affairs and Energy, Chairman of
the Interministerial Committee
for Export Credit Guarantees.*

Dr. Herfarth, IMC is the abbreviation of “Interministerial Committee”. However, the German version of this abbreviation is also an acronym for the words “innovation, SMEs and foreign trade promotion”. Let us review 2017 in the light of these three aspects.

Innovation

What new developments arose last year?

The corporate world is in a state of constant flux. For this reason, our guarantee instruments constantly undergo change. Last year was no exception to this. We enhanced further aspects of our product range, making adjustments in the light of the changing economic and regulatory requirements. This particularly refers to the covered bond guarantee that was introduced

on 1 December 2017. It helps banks to refinance export receivables in their own German covered bond business, thus easing the pressure on their balance sheets as well as those of their corporate customers. Covered bond guarantees address an urgent need in the market.

One major issue is digitisation. What progress was made in this area last year?

By launching the myAGA customer portal for our products, we took a preliminary major step into the digital era. Looking forward, exporters and banks will be able to use myAGA to submit and manage requests online. The first two digital applications – the claim form for APG and APG-light Wholeturnover Policies – are already on line. Swiftly, more efficient, simpler – policyholders’ response to our digital offerings shows that we are headed in the right direction. But this is only the beginning. Further digital offerings will be following.

Obviously, I am aware that digitisation goes far beyond providing a digital process for submitting applications. Accordingly, we will be forced to respond to changes in the digitalised world and to make the necessary adjustments to our own instruments.

SMEs

Transactions executed by small to medium-sized companies are especially eligible for cover.

To what extent do SMEs utilise the export credit guarantees offered by the Federal Government?

Once again, most of the applications for cover lodged in 2017 came from small and medium-sized companies. This reflects the high importance that export credit guarantees have for these companies. Bad debts can very quickly threaten SME’s going-concern status.





What I find particularly gratifying is that the satisfaction with this instrument is still very high. In a recent customer survey, 98% of the policyholders questioned were very positive about the Federal Government's export credit guarantee products and services. This was a splendid result but at the same time also a clear indication of what is expected of us in the future. After all, we are aware that the effort involved in submitting an application for Hermes Cover must be kept as low as possible for SMEs in particular. Last year, we continued to work intensively again towards this goal.

The Wholeturnover Policy is a product specially designed for SMEs. Why was it revised?

True to the motto that nothing is so good that it can't be improved, we had decided quite some time ago to modernise this product. We considered this to be particularly important as the Wholeturnover Policy is one of the Federal Government's main guarantee instruments for SMEs. The upshot of all this was the revised Wholeturnover Policy, which came into effect in the summer and is characterised by

less effort, more convenient handling and greater legal certainty.

Foreign trade promotion

Despite the innovations and a strong focus on small and medium-sized companies, the transactions for which new cover was provided declined substantially in 2017. What do you think the main reasons for this are?

It is wrong to view the success of the export credit guarantees solely in terms of cover volume. Traditionally, there is sharp fluctuation in the volume of new export business covered as this is materially determined by individual big-ticket transactions for which cover is provided.

The number of applications is a more reliable indicator than the cover volume and this figure is still high, thus testifying to the sustained interest in the Federal Government's foreign trade promotion instruments.

Our political goal is not to generate as much business as possible. The

instrument plays a subsidiary role. This means that we offer reliable support where reasonable market-based solutions are not available. Logically, there is less demand for Hermes Cover in phases characterised by copious liquidity in the market.

Let us venture a glance forward. What are the greatest challenges facing foreign trade in general and Hermes Cover in particular?

One of the greatest challenges is obviously the growing protectionist tendencies in foreign trade. After all, open markets and the free exchange of goods and services are a guarantee of growth and prosperity – not only in Germany but worldwide.

With respect to export credit guarantees, we particularly want to improve the scope for financing what we refer to as "small tickets". This is a concern which is of particular relevance for SMEs.

In addition, moves to revise the scope for including local costs in the cover at an international level remain high on the agenda.

What does this specifically mean?

Last year, Germany triggered a discussion on making the OECD rules more flexible for local costs, submitting a proposal to this effect to the European Council's working group together with the Netherlands and Spain. Under the proposal, the proportion of local costs eligible for cover is to rise from 30% to 50% of the value of the export

order to provide sufficient scope for companies' more complex value chains. Currently, we are working on convincing the EU to adopt this proposal so that it can be subsequently implemented on an OECD level.

Not all ECAs play by the same rules. What progress is being made in efforts to achieve a level playing field for all parties involved?

We still see the need to define clear rules and binding standards for export finance applicable to all ECAs both inside and outside the OECD. The International Working Group is coordinating this process. Last year, we worked with the other participants to fundamentally revise the way in which the International Working Group operates in order to achieve swifter and more efficient processes.



There is growing demand in Senegal and the neighbouring countries of West Africa for sweets made from hard caramel. The second largest manufacturer of hard caramel in Senegal is expanding its production capacity using equipment made in Hannover. Hänsel Processing GmbH is supplying a production line for the production of hard caramel for sweets and lollipops in the Senegalese capital of Dakar. The production line is fully automated and thus ensures high product quality in tandem with low production costs.

The Federal Republic of Germany is backing the transaction with supplier credit cover.

Advisory service:
competent partners never far away



Exporters, banks and industry associations never have far to go when they need information on the Federal Government's export credit guarantees. The AGA field service offers first-hand expertise and advice at eight locations across Germany. Especially small and medium-sized companies seek information and advice.

This is reflected in the fact that more than 6,200 talks were held in person last year (2016: 10,100). In addition, 150 information events in Germany as well as other countries including Argentina, Kenya and the United Arab Emirates were held in conjunction with industry and business associations and chambers of industry and commerce as well as chambers of foreign trade together with Germany Trade & Invest. The main aspects touched upon included the resumption of cover for business with Iran, the new rules for including foreign content in Hermes Cover and the expansion of cover for transactions with sub-Saharan Africa.

Bühler GmbH from Leingarten in Baden-Württemberg supplied a complete line for the production of cereal bars in Iran. From weighing, mixing, shaping to cooling and cutting, the system produces about 15,000 bars per hour using different recipes. Then, the bars are coated with chocolate or decorated as desired. In this way, the Iranian company is addressing the increasing local demand for cereal bars.

The Federal Republic of Germany is supporting the project by issuing a supplier credit guarantee.

The revised Wholeturnover Policy, which was launched on 1 July 2017, was a further main aspect touched upon in talks. Numerous representatives from banks and export companies attended roadshows and workshops to find out more about the new Wholeturnover Policy.



Details of the contact partners and upcoming events can be found at agaportal.de > English > Info centre > Contacts

Bring your project to...



Held at the beginning of September for the first time in conjunction with the German-African Business Association, the “Bring your project to ...” project day was dedicated to trading relations with Africa. More than 120 representatives from the business community, politics and industrial associations met in Hamburg. In addition to the German-African Business Association, the event was also attended by Germany Trade & Invest, the economic development agency of the Federal Republic of Germany.

In the course of the day-long meeting, companies presented specific projects and met with experts to discuss the types of assistance available from the Federal Government to support them. The projects included the delivery of off-grid solar power systems, ambulances, ferries and aviation electronics as well as the delivery of a fully equipped hospital. The event successfully highlighted the opportunities that Africa offers German exporters and the contribution that German companies can make to the continent’s development. Currently, solutions and structuring ideas for these projects are being developed.

With a length of 680 metres, the largest suspension bridge in Africa is being built in Mozambique. From mid-2018, the bridge with its up to 141 m high pillars will connect the capital of Maputo with the south of the country. Consequently, it will be playing a crucial role in Mozambique’s economic development. China Road and Bridge Corporation (CRBC) is responsible for the design and construction, while Gauff Engineering is handling construction supervision and quality assurance. In addition, the Nuremberg-based company oversaw the planning and construction of a 170-km long road linking Maputo with Ponta do Ouro – one of the most attractive tourist regions in southern Africa. This also improved access to the South African border and created a new and much shorter transport link between Maputo and Durban.

The Federal Republic of Germany is supporting the project by issuing a counter-guarantee.

EXPORT CREDIT GUARANTEES AND RESPONSIBILITY

36 ■

Environmental matters, social responsibility and the observance of human rights are important aspects in the activities of the Federal Republic of Germany to promote foreign trade.

The Federal Government does not provide any cover for export transactions that breach environmental, social or human rights standards.

Environmental, social and human rights aspects must be reviewed in the case of projects and transactions coming within the scope of the OECD [Common Approaches](#).

If there is any evidence that a project may have a significant adverse environmental or social impact or breach human rights, the transaction must undergo a sustainability review regardless of the underlying credit period and the value of the contract.

Under the OECD rules, the reference standards for the [environmental and social impact and human rights review](#) are the World Bank Operational Safeguard Policies, the Performance Standards of the International Finance Corporation (IFC) and the World Bank Group's Environmental, Health and Safety Guidelines.

The mandataries performed 85 assessments of environmental, social and human rights issues in 2017 (2016: 131).

Common Approaches

The Common Approaches are guidelines issued by the OECD defining the procedure and principles for assessing environmental and social impacts including the observance of human rights by companies applying for state export credit guarantees.

“Common Approaches” is the short form for “Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence”. They can be found here: [agaportal.de > English > Exports >](#)



[Process > Environmental and social due diligence.](#)

Untreated waste water was previously discharged into the Black Sea in Batumi, Georgia. The quality of the drinking water was poor and supplies of drinking water had to be shut down completely after heavy rain falls. The municipal water and sewerage infrastructure in Batumi has been undergoing modernisation since 2007 in accordance with EU standards. Two project phases have now been successfully completed. Thus, for example, the water treatment system has been modernised, a modern sewage treatment plant built and a new water supply and disposal system installed. In the third phase currently under construction, work in the urban region of Batumi is being completed. The project is to be extended to the rural regions on the coast in the fourth phase. Ludwig Pfeiffer, Kassel, is responsible for the construction of water reservoirs, water distribution systems, sewerage systems, collection tanks and sewage pumping stations.

The Federal Government is backing the project with isolated contract bond cover together with a counter-guarantee.

Human rights and export credit guarantees / National Action Plan

In 2016, the Federal Government adopted the **National Action Plan for Business and Human Rights** (NAP). Among other things, it defines in greater detail governmental protection obligations in connection with the granting of export credit guarantees and companies' responsibility and duty of care with respect to the observance of human rights.

The Interministerial Committee revised the review procedure for export credit guarantees in connection with the implementation of the NAP.

Human rights, which were previously already part of the sustainability due diligence, are now given greater prominence and significance in the review process. As far as necessary, the existing review processes are supplemented with careful, project-related human rights due diligence.

Human rights aspects of transactions not coming within the scope of the Common Approaches are assessed on the basis of the "watchful eye" approach. Under this approach, all applications are reviewed for material risks.

The application forms include a reference to the high priority given to human rights as well as the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

The **German National Contact Point** located within the Federal Ministry for Economic Affairs and Energy for individuals or organisations who have evidence of possible violations by German companies of the



OECD guidelines is being strengthened as a complaints body. The Federal Government reserves the right to exclude companies that do not take part in the arbitration proceedings of the National Contact Point from the export credit guarantee scheme.

Via these rules, Hermes Cover meets the requirements of the National Action Plan for Business and Human Rights.

Regardless of the implementation of the National Action Plan, the Federal Government is committed to encouraging and implementing corporate responsibility for the protection of human rights at an international level.

Did you know?

The observance of human rights directly related to the project has formed a key aspect of the due diligence process for many years. This due diligence review includes aspects such as occupational and community health and safety, land acquisition and involuntary resettlement, protection of indigenous people, protection of cultural heritages and stakeholder consultation.

Further information on the National Action Plan can be found at



agaportal.de > English > Quick links > Responsibility > Human rights

Horn Glass Industries supplied the complete technology for the construction of a 240,000 m² glass factory in Turkmenistan. This was the largest order ever received by the Bavarian company from a Turkish contractor. Since September 2017, the first glass factory to be established in Turkmenistan has been producing 50 tons of container glass every day. 250 t of flat glass will also be produced here every day from January 2018. The necessary raw materials mainly come from local sources. The facility produces seven different glass products, including transparent, tinted, laminated and tempered glass. The country's government invested in the project to obtain an independent source of glass and to reduce its dependence on imports. The project created about 600 new jobs in Turkmenistan.

The Federal Government supported the transaction with supplier credit cover and contract bond cover with counter-guarantees.



Anti-bribery measures

The avoidance of any form of bribery in export business and the lead-up to transactions forms a key prerequisite for eligibility for cover.



The anti-bribery declaration for exporters and banks can be found at agaportal.de › English › Quick links › Responsibility › Prevention of corruption

■ 39

The Federal Government's **anti-bribery efforts** are based on a **two-stage approach**. In a preliminary step, exporters and banks must sign a declaration as part of an application for cover confirming that the transaction has arisen without any form of bribery. This declaration was updated in 2017.

Two points have been added to the disclosures required of the applicant: For one thing, the application form asks whether the applicant has been the subject of any bribery investigations on the part of the public prosecutor's office. For another, the potential policyholders must state whether their company is black-listed by any international financial organisation.

In addition, the anti-bribery declaration is no longer confined to the criminal offence of bribery but also includes passive corruption.

If any evidence of bribery-relevant circumstances comes to light, a **more detailed anti-bribery examination** is performed in a second step.

This review analyses internal measures, processes and structures for preventing and combating corruption among other things and also examines the background to the transaction for which cover is being sought. The procedure for the detailed review is undergoing constant development to factor in past experience and new developments. Thus, for example, the catalogue of questions for the review of the transaction was updated in 2017 and the process for reviewing internal compliance management systems adjusted.

In 2017, 85 companies (including group companies) were subject to such detailed anti-bribery reviews. This is equivalent to 8.7% of the 977 policyholders submitting applications for Hermes Cover in 2017.





Frequent power outages and annual growth of 6 to 7% in demand for electricity are the challenges which Egypt is increasingly facing. For this reason, it wants to cover one fifth of its energy requirements with regenerative power by 2020. Egyptian company Infinity Solar S.A.E. and German company ib vogt GmbH joined forces in a consortium to build a solar power station in Benban, Egypt. The 64-MW peak power station is composed of just under 200,000 solar modules with an annual output of around 110,000 MWh of electricity.

The government-owned utility EETC has entered into a 25-year offtake agreement with the project company. During this period, carbon dioxide emissions of up to 1.3 million t that would otherwise arise from conventional power production will be avoided. A mid-size company based in Berlin, ib vogt GmbH is responsible for the technical planning, procurement of the materials and the construction and operation of the power station, among other things.

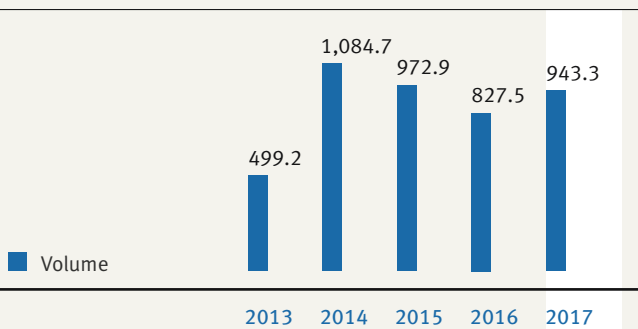
The Federal Republic of Germany is backing the project, which is structured in the form of project finance, with isolated buyer credit cover.

Export credit guarantees in the energy sector

Sustainability plays a crucial role in the promotion of foreign trade by the Federal Republic of Germany and is duly reflected in its cover policy. For example, renewable energy and climate protection projects are particularly promoted through long credit periods of up to 18 years.

Cover for renewable energies rose to 943 million euros in 2017 (2016: 827 million euros). As in the previous year, cover was provided for wind power projects in most cases. In addition to several wind farms in Turkey, export credit guarantees were issued, for example, for projects in Argentina, Sweden and Serbia.

EXPORT CREDIT GUARANTIES FOR RENEWABLES
IN MILLION EUR



Under the 2015 Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects, the conditions for providing cover for coal-fuelled power stations were revised and made substantially more stringent. Consequently, cover may now only be provided for the most efficient technology for constructing and modernising coal-fuelled power stations. In 2017, the Federal Government provided cover worth 153 million euros for the delivery of goods and the provision of services in connection with coal-fuelled power stations.



A digression:

Investment guarantees – an important element of risk management for foreign projects

Developing countries, emerging economies and former transformation countries offer great economic potential but are frequently also characterised by legal and political uncertainty. Investment guarantees provide cover against loss caused by political events in the country in which the facility in question is located, e.g. as a result of expropriation or conversion and transfer problems.

In 2017, the Federal Government issued investment guarantees worth 1.1 billion euros for projects in 17 countries. Of these, Asia (primarily China, India and Iran) accounted for 61% and (Eastern) Europe (primarily Turkey and Russia) for 31%. One third of the approved applications were submitted by small and medium-sized companies. The most important target sector was construction, ahead of the chemical and pharmaceutical industry

as well as the energy industry. The Federal Government's exposure under investment guarantees was valued at 35.0 billion euros at the end of 2017.

Guarantees are only available for investments that are eligible for support and have a beneficial impact on the target country as well as the Federal Republic of Germany. In mid-2017 the environmental, social and human rights due diligence process was revised for investment guarantees. It now follows the OECD Common Approaches applicable to export credit guarantees and also systematically takes account of the National Action Plan for Business and Human Rights adopted by the Federal Government at the end of 2016. A further condition for the issue of a guarantee is the existence of a bilateral investment promotion and protection treaty between the Federal Republic of Germany and

the host country of this investment.

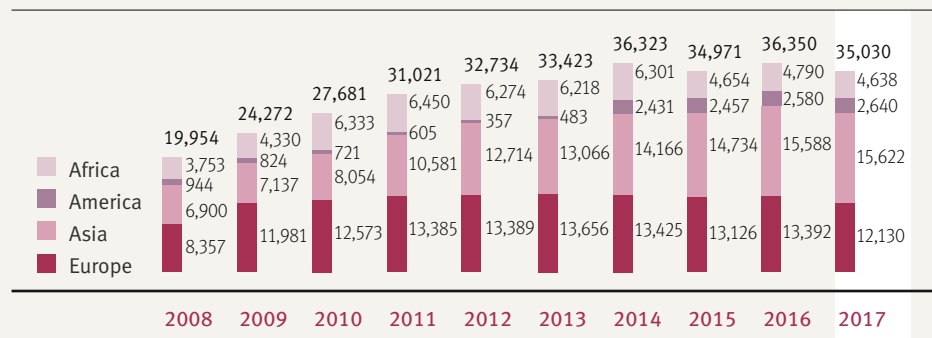
Applications for investment guarantees are approved by the Federal Ministry for Economic Affairs and Energy with the consent of the Federal Ministry of Finance and in agreement with the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development in an Interministerial Committee. Experts from the business community, the banking industry and national associations attend in an advisory function. The Federal Government has mandated PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft with the management of the investment guarantees.

For further details, please contact:
Tel.: +49 (0) 40 / 63 78 - 20 66
investitions Garantien@de.pwc.com
www.investitions Garantien.de

TOP FIVE COUNTRIES
NUMBER OF APPROVED APPLICATIONS

| | |
|---------------------------|-----------|
| China PR | 15 |
| Turkey | 9 |
| Russia R.F. | 9 |
| Iran | 6 |
| Colombia | 6 |
| Subtotal 2017: (67.2%) | 45 |
| Total 2017: (100%) | 67 |

TOTAL COMMITMENTS (EXPOSURE) 10-YEAR OVERVIEW BY REGIONS IN MILLION EUR





153 countries

The Federal Government provided Hermes Cover for exports to 153 countries in 2017.

75.3%

Cover for emerging economies and developing countries accounted for 75.3% of the total (previous year: 82.6%).

BUSINESS PERFORMANCE

At 16.9 billion euros, the volume of export credit guarantees was 18% down on the previous year. Russia, Turkey, Singapore, China and the United States led the list of the top ten countries. Indemnification payments dropped by 22%, while recoveries of indemnification payments fell by 68%. The year closed with a positive result of 142 million euros.

Positive result

Positive result for export credit guarantees for the 19th consecutive time. Accrued surplus for the federal budget: 5.5 billion euros.

85.8 billion

The Federal Government's maximum exposure under all active cover as of the end of 2017: 85.8 billion euros.

NEW BUSINESS

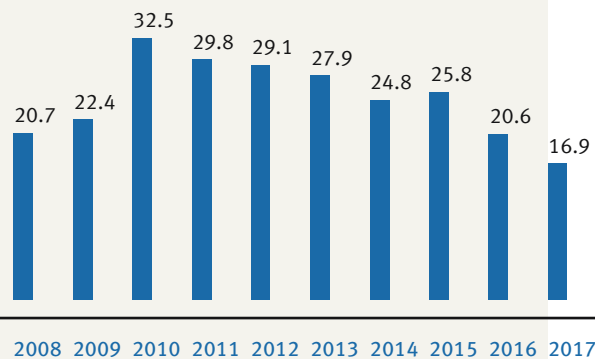
German exports rose by 6.3% over the previous year, coming to 1,279.1 billion euros in 2017 (2016: 1,207.0 billion euros)¹. Accordingly, German foreign trade benefited from the upswing in the world's main economic regions. Given the favourable scope for raising finance and obtaining cover in the private market, this growth is not reflected in state export credit guarantees. **New cover provided** dropped by 18.2% over the previous year to 16.9 billion euros in 2017 (2016: 20.6 billion euros). In 2017, Hermes Cover was primarily sought for small-ticket transactions, whereas in the previous years several big-ticket transactions had been covered. 1.3% of all German exports were backed by Hermes Cover in 2017 (previous year: 1.7%).

In 2017, the total number of new **single transaction policies** rose by 4.4%, although the total value of cover provided declined by 30.6% over the previous year. The number of **big-ticket transactions** with an order value of over 50 million euros contracted from 35 to 34, accounting for a total of 73.2% of the total individual transactions covered (2016: 81%).

83% of the volume of single transaction policies was for private and 17% for public buyers (2016: 74% private buyers and 26% public buyers). The number of export credit guarantees for public-sector buyers almost

¹ Source: Foreign trade statistics of the Federal Statistical Office

DEVELOPMENT OF NEW GUARANTEES IN BILLION EUR



TOP TEN MARKETS FOR NEW GUARANTEES IN BILLION EUR

| | | Single | Whole |
|----------------------------|----------------|--------------|--------------|
| Russia R.F. | 2017 | 692 | 1,035 |
| | 2016 | 2,857 | 918 |
| Turkey* | 2017 | 790 | 780 |
| | 2016 | 484 | 619 |
| Singapore | 2017 | 1,104 | 90 |
| | 2016 | 0 | 117 |
| China PR | 2017 | 502 | 517 |
| | 2016 | 294 | 516 |
| United States | 2017 | 995 | 0 |
| | 2016 | 2,038 | 0 |
| Brazil | 2017 | 123 | 642 |
| | 2016 | 21 | 621 |
| India | 2017 | 374 | 359 |
| | 2016 | 423 | 381 |
| Sweden | 2017 | 626 | 0 |
| | 2016 | 0 | 0 |
| Mexico | 2017 | 329 | 265 |
| | 2016 | 28 | 242 |
| United Kingdom | 2017 | 552 | 0 |
| | 2016 | 428 | 0 |
| ■ Single transaction cover | Subtotal 2017: | 6,078 | 3,688 |
| ■ Wholturnover policies | Share 2017: | (70.0%) | (45.1%) |
| Total 2017: (100%) | | 8,686 | 8,177 |

* Deviating from these statistics (newly granted single transaction cover and Wholturnover Policies) cover under Wholturnover Policies is not taken into account for the calculation of the limit on cover for Turkey in 2017 but both all guarantees granted and all offers of cover made for single transactions because of the objectives pursued with the ceiling.

NEW GUARANTEES

| | 2016 | 2017 | Share in % | Change in % |
|--|---------------|---------------|---------------|----------------|
| Number of single transaction policies | 495 | 517 | 100 | 4.4 |
| of which for private buyers | 465 | 459 | 89 | -1.3 |
| for public buyers/guarantors | 30 | 58 | 11 | 93.3 |
| Volume of cover in million EUR | 20,615 | 16,862 | | -18.2 |
| of which single transaction policies volume in million EUR | 12,521 | 8,686 | 100 | -30.6 |
| of which for private buyers | 9,284 | 7,189 | 83 | -22.6 |
| for public buyers/guarantors | 3,237 | 1,497 | 17 | -53.8 |

APPLICATIONS

| | 2016 | 2017 | Share in % | Change in % |
|--------------------------------------|---------------|---------------|---------------|----------------|
| Number of applications | 10,908 | 9,379 | 100 | -14.0 |
| of which single transaction policies | 1,132 | 1,093 | 12 | -3.4 |
| wholturnover policies | 9,776 | 8,286 | 88 | -15.2 |
| Applications in million EUR | 38,228 | 29,115 | | -23.8 |

FUNDS EARMARKED FOR EXPORT CREDIT GUARANTEES

| Countries | 2016 million EUR | Share in % | 2017 million EUR | Share in % |
|---|------------------------|---------------|------------------------|---------------|
| Emerging economies and developing countries | 9,767.1 | 80.9 | 10,532.6 | 75.8 |
| Industrialised countries | 2,306.5 | 19.1 | 3,354.7 | 24.2 |
| Total | 12,073.6 | 100.0 | 13,887.3 | 100.0 |

doubled over 2016. At the same time, however, their proportion in total cover volume shrank by half (down 53.8%).

Number and volume of applications

The number of new applications dropped by 14%, with the volume of applications declining by 23.8%. This shows that exports are increasingly being insured and financed in the private market again. The persistently accommodative monetary policies being pursued by the main central banks around the world are facilitating access to foreign trade finance, resulting in a decline in demand for export credit guarantees.

Offers of cover

Offers of cover for contracts still under negotiation had a total value of 13.9 billion euros as of 31 December 2017, 15% higher than in the previous year. Although experience shows that not all of the transactions earmarked for cover are in fact realised as it is still uncertain on the date on which these offers of cover are issued whether the contracts concerned will actually be awarded to the exporter, the existing offers of cover suggest that cover volume will increase in 2018. Thus, cover has been applied for or already offered for several big-ticket projects.

Cover by horizon of risk and type of cover

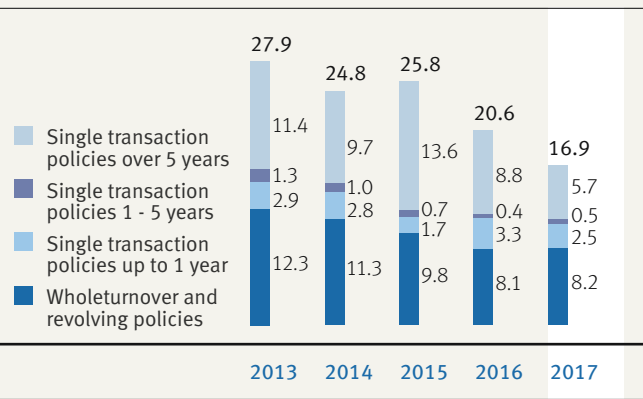
Export credit guarantees in **short-term business** (credit periods of up to one year) came to 10.7 billion euros, falling 6.3% short of the previous year’s high level (11.4 billion euros). This underscores the ongoing normalisation after the financial crisis. Short-term business accounted for a higher 63.3% of new cover provided (2016: 55.3%) due to the even greater decline in medium and long-term business.

The **Wholeturnover Policies** (APG and APG-light), under which exporters are able to obtain cover for short-term credits in transactions with numerous buyers in different countries, posted a small increase of 1.1%, thus remaining on a par with the previous year. As in the previous year, turnover of 8.0 billion euros was covered in 2017. Russia, Turkey and Brazil were the most sought-after markets, contributing just under one third of the APG turnover covered (30.3%).

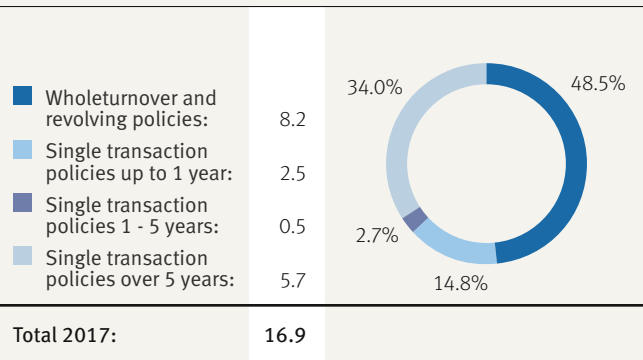
Market normalisation and, resulting from this, the availability of cover in the private market are also mirrored in the continued decline in the number of Wholeturnover Policies. At just under 800 in 2017, they hovered around their multiyear average.

In addition to Wholeturnover Policies, which account for a large proportion of the short-term cover provided, the Federal Government also offers revolving single transaction

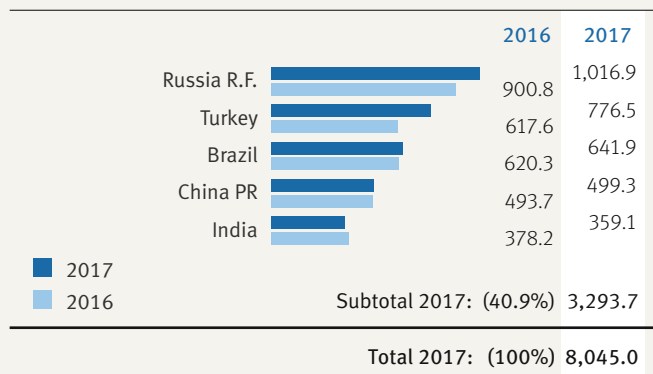
NEWLY COVERED EXPORTS
BY HORIZON OF RISK IN BILLION EUR



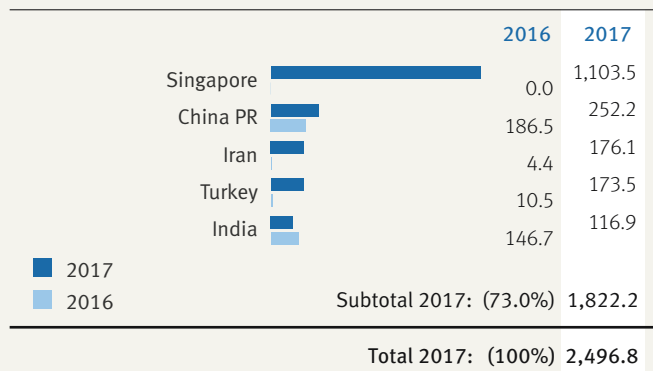
GUARANTEES BY HORIZON OF RISK IN BILLION EUR



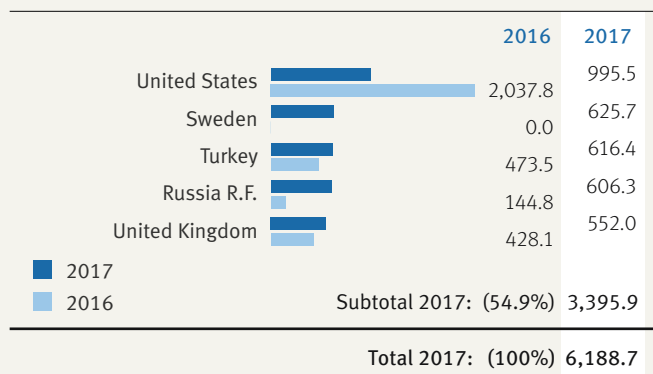
TURNOVER UNDER WHOLE-TURNOVER POLICIES IN MILLION EUR



SHORT-TERM SINGLE TRANSACTION POLICIES IN MILLION EUR



MEDIUM AND LONG-TERM POLICIES IN MILLION EUR



policies for regular business with a single buyer and cover for individual projects with credit periods of up to one year. **Revolving single transaction policies** dropped again slightly by 3.4% to 132 million euros, thus falling short of the previous year (2016: 137 million euros).

The volume of export credit guarantees for **short-term single transaction policies** with a credit period of up to one year declined by one quarter over the previous year (down 24.2%), coming to 2.5 billion euros (2016: 3.3 billion euros). This includes short-term receivables (on near cash terms) arising from the delivery of goods and services under construction service contracts as well as capital goods on short payment terms. In the previous year, cover volume had almost doubled due to several big-ticket transactions with Russian buyers on short payment terms.

The proportion of **medium and long-term cover** in the total volume shrank by one third (down 32.9%) to 6.2 billion euros (2016: 9.2 billion euros). In addition to a further decline in cover for big-ticket transactions with protracted credit periods, this was also due to the continued absence of any cover for Airbus transactions. A total of 45% of the transactions were executed with buyer credits (95% of the corresponding cover volume).

Cover by country group

Traditionally, export credit guarantees are provided for the **emerging economies and developing countries**¹: 75.3% of aggregate cover was for these countries (previous year: 83%). The importance that the availability of cover has for German exports to emerging economies and developing countries is highlighted by its share in total exports: 4.2% of German exports to emerging economies and developing countries were covered by guarantees issued by the Federal Government in 2017 (12.7 billion euros, previous year: 17.0 billion euros).

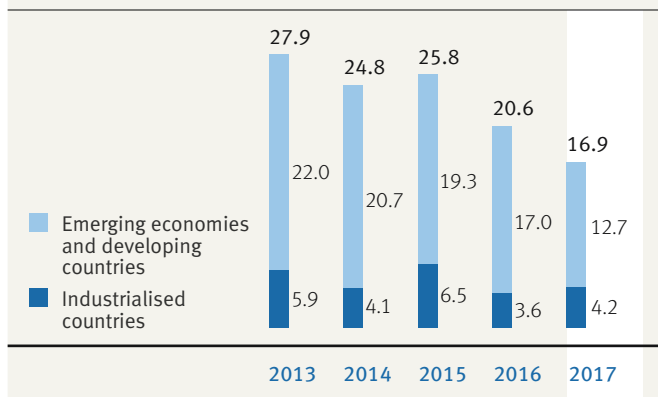
A good three quarters (974.6 billion euros) of total German exports go to the **industrialised nations**. Given the lower political risks and the availability of private export credit insurance, the proportion of government-backed exports in total exports to **industrialised countries** is mostly relatively small. In 2017, exports valued at 4.2 billion euros (0.4%) were covered by the Federal Government (2016: 3.6 billion euros).

Emerging economies and developing countries

Latin America and the Caribbean

At 2.7 billion euros, cover volume for the entire region of **Latin America and the Caribbean** was 4.3% up on the previous year (2016: 2.6 billion euros). Consequently, the share in total cover widened to 16.1% (2016: 12.6%).

VOLUME OF COVER BY COUNTRY GROUPS IN BILLION EUR



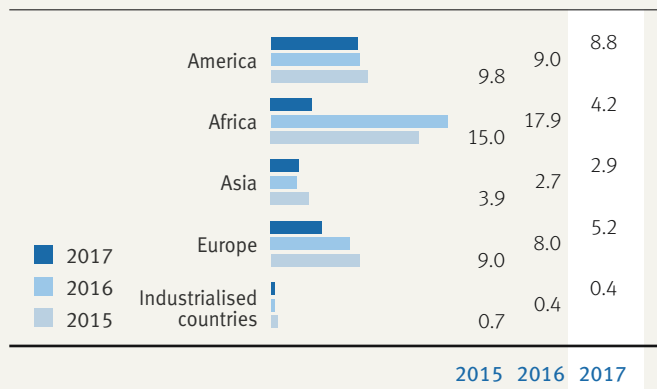
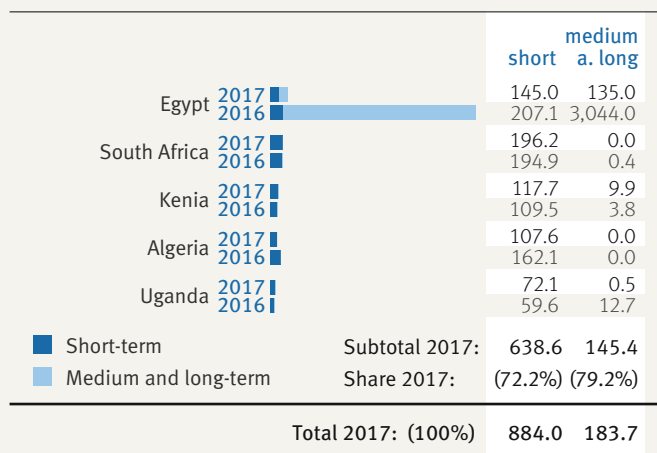
VOLUME OF COVER BY COUNTRY GROUPS

| Countries* | 2016 million EUR | Share in % | 2017 million EUR | Share in % | Change in % |
|--|------------------|--------------|------------------|--------------|--------------|
| Emerging economies and developing countries | 17,018.6 | 82.6 | 12,697.4 | 75.3 | -25.4 |
| Latin America | 2,600.3 | 12.6 | 2,711.9 | 16.1 | 4.3 |
| Africa | 4,385.6 | 21.3 | 1,067.6 | 6.3 | -75.7 |
| Asia | 4,184.0 | 20.3 | 4,718.9 | 28.0 | 12.8 |
| Middle East | 986.5 | 4.8 | 1,007.2 | 6.0 | 2.1 |
| Southern/Central Asia | 1,216.2 | 5.9 | 1,379.1 | 8.2 | 13.4 |
| East Asia | 1,981.3 | 9.6 | 2,332.5 | 13.8 | 17.7 |
| Oceania | 7.6 | 0.0 | 1.6 | 0.0 | -78.9 |
| Europe | 5,841.2 | 28.3 | 4,197.4 | 24.9 | -28.1 |
| Industrialised countries | 3,596.5 | 17.4 | 4,165.0 | 24.7 | 15.8 |
| Total | 20,615.1 | 100.0 | 16,862.4 | 100.0 | -18.2 |
| Thereof EU-countries | 912.3 | 4.4 | 1,575.5 | 9.3 | 72.7 |

* See the country list p. 74

Differences in the sums are due to rounding

¹ See country allocation on page 74

COVER PERCENTAGE OF TOTAL EXPORT VOLUME
BY COUNTRY GROUPS IN %GUARANTEES FOR LATIN-AMERICAN EMERGING
ECONOMIES AND DEVELOPING COUNTRIES IN MILLION EURGUARANTEES FOR AFRICAN EMERGING
ECONOMIES AND DEVELOPING COUNTRIES IN MILLION EUR

84% of the cover for **Brazil** took the form of Wholturnover Policies. The largest single transaction concerned equipment for the production of MDF boards. Major projects in this region included goods and services for automotive production in **Mexico** and wind turbines in **Argentina**. The Federal Government provided cover for further single transactions in **Ecuador** (including road-work machinery and knitting machinery) and **Colombia** (saw mill).

Africa

In 2017, the Federal Republic of Germany provided export credit guarantees worth 1.1 billion euros (2016: 4.4 billion euros) for the delivery of goods and services to **Africa**. In the previous year, the provision of cover for two gas and steam power stations in Egypt had accounted for 2.7 billion euros alone. The share in total cover contracted to 6.3% in 2017 (2016: 21.3%).

The largest project for which cover was provided in Africa was an electricity transformer station in **Egypt**. Export credit guarantees were also provided for power production equipment in **South Africa**, a high bay warehouse system in **Kenya**, a plant for producing ground limestone in **Algeria** and road-work machinery in **Uganda**. Projects in the **sub-Saharan region** included the expansion of a brewery in **Angola**, a bottling plant in **Tanzania**, packaging machinery in **Zambia** and semitrailer tractors in **Ghana**.

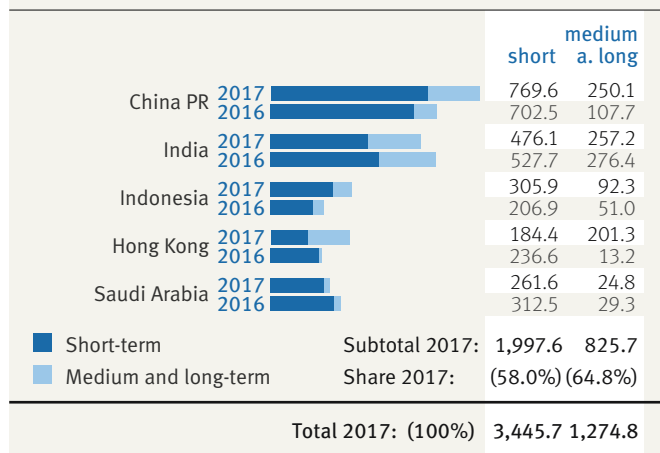
Asia: East, South and Central Asia

Cover for Asian countries rose by 12.8% to 4.7 billion euros at the end of 2017 (2016: 4.2 billion euros). Consequently, this region's share in total new cover widened to 28.0% (2016: 20.3%).

At 17.7%, the greatest growth was recorded in **East Asia**. The volume of cover for goods and services to **China** rose by a good quarter (25.8%) over the previous year on account of a number of big-ticket projects (board machine, ring rolling machine). Cover was provided for a big-ticket project in the steel sector in **Indonesia**, for gas and steam turbines, among other things, in **Hong Kong** and a biometric driving license system and a stretch blow machine for producing plastic bottles in the **Philippines**. Cover for deliveries to **Thailand** solely took the form of Wholeturnover Policies.

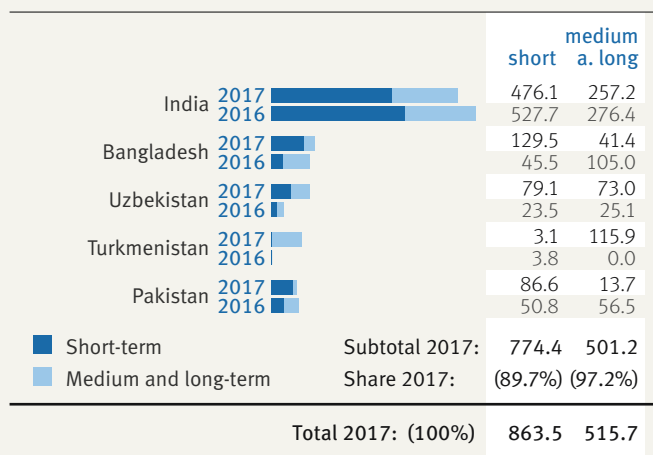
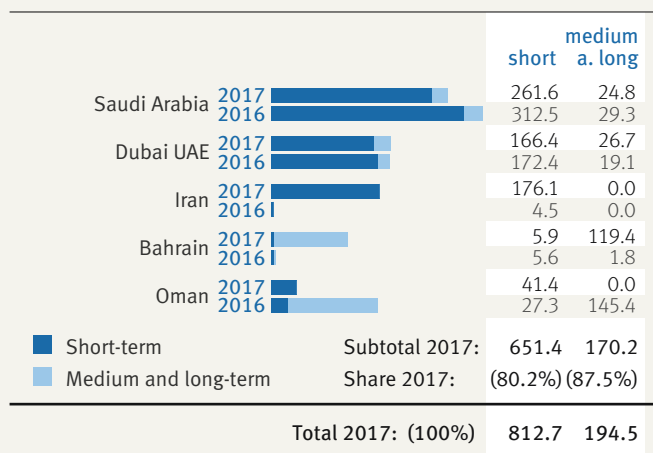
Hermes Cover for **South and Central Asia** grew by 13.4%. Export credit guarantees for **India** were granted for the delivery of textile machinery and converter steelworks. Equipment for an electric steel mill, power plant equipment, railway cranes and knitting machines were covered for **Bangladesh**, a gold ore processing plant for **Uzbekistan**, agricultural and construction machinery for **Turkmenistan** and a cold rolling mill for **Pakistan**.

GUARANTEES FOR ASIAN EMERGING ECONOMIES AND DEVELOPING COUNTRIES IN MILLION EUR



GUARANTEES FOR EAST ASIAN EMERGING ECONOMIES AND DEVELOPING COUNTRIES IN MILLION EUR



GUARANTEES FOR SOUTH AND CENTRAL ASIAN EMERGING ECONOMIES AND DEVELOPING COUNTRIES IN MILLION EUR

GUARANTEES FOR MIDDLE EASTERN COUNTRIES IN MILLION EUR

Asia: Middle East

At 1.0 billion euros, total cover for the entire **Middle East** was roughly 2% up on the previous year (2016: 987 million euros). This is equivalent to 6.0% of total cover (2016: 4.8%).

Export credit guarantees were provided for the delivery of cranes, an animal feed production plant and bottling machinery for **Saudi Arabia** and the delivery and assembly of a spinning plant, cranes and heavy-duty vehicles as well as a packaging line for **Dubai**.

Despite German exporters' keen interest in export credit guarantees for business with **Iran**, the continuing EU and US sanctions remain a challenge. In 2017, 74 applications for export credit guarantees for Iran with a total value of around 5 billion euros were received. The IMC approved 49 transactions involving a volume of some 800 million euros. Following the signing of the export contracts in question, cover worth a total of 176.1 million euros was provided as of the end of the year. Big-ticket projects included the delivery of railway cranes and ambulance vehicles.

In addition, Hermes Cover was provided for gas-insulated high-voltage switchgear and an anode furnace with equipment in **Bahrain**. Cover for deliveries to **Oman** solely took the form of Wholetrunover Policies.

Europe (without the industrialised countries)

The Federal Government issued export credit guarantees of 4.2 billion euros (2016: 5.8 billion euros) for the delivery of goods and the provision of services for **countries in Europe**. They accounted for 24.9% of the total volume (2016: 28.3%). In **Russia**, a project for crude oil and natural gas production, a polyester staple fibre plant, a logistics centre and a tank and loading system were covered. Export credit guarantees were granted for paperboard machines, the modernisation of a power plant and the installation of a wind farm in **Turkey**. Cover was provided for drilling rigs for oil and gas production in **Ukraine**, a milking carousel and a wind farm in **Serbia** and drilling rigs and machinery for the production of MDF boards in **Belarus**.

Industrialised countries

Cover granted for **industrialised countries** rose by 15.8% in the year under review. The Federal Government issued export credit guarantees of 4.2 billion euros in 2017 (2016: 3.6 billion euros). This is equivalent to 24.7% of total cover (2016: 17.4%). The largest single transaction for which cover was provided entailed the delivery of submarines to **Singapore**. Among other things, cover was provided for the construction and delivery of one cruise ship for the **United States** and one cruise ship for the **United Kingdom**, the delivery and installation of a wind farm and paper machinery for **Sweden** and four river cruise ships for **Malta**.

GUARANTEES FOR EUROPEAN COUNTRIES (WITHOUT INDUSTRIALISED COUNTRIES) IN MILLION EUR

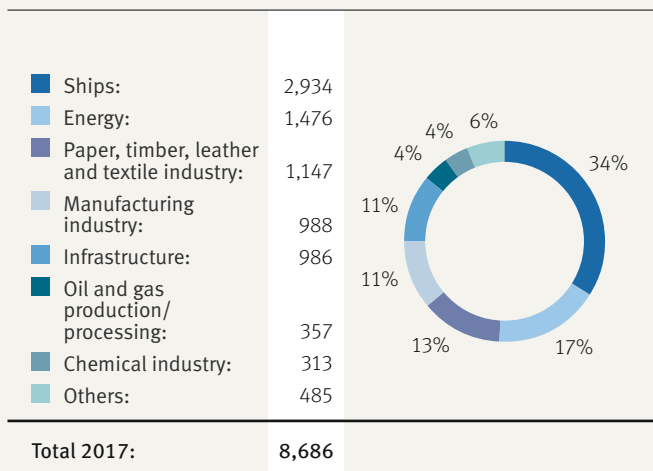
| | | | medium short | a. long |
|--------------------|------|----------------|-----------------|---------|
| Russia R.F. | 2017 | | 1,119.9 | 606.3 |
| | 2016 | | 3,630.3 | 144.8 |
| Turkey* | 2017 | | 953.1 | 616.4 |
| | 2016 | | 629.1 | 473.5 |
| Ukraine | 2017 | | 426.9 | 1.3 |
| | 2016 | | 269.5 | 68.4 |
| Serbia | 2017 | | 98.2 | 112.2 |
| | 2016 | | 106.8 | 29.8 |
| Belarus | 2017 | | 97.0 | 83.7 |
| | 2016 | | 75.8 | 233.4 |
| | | Subtotal 2017: | 2,695.1 | 1,419.9 |
| | | Share 2017: | (97.4%) | (99.2%) |
| Total 2017: (100%) | | | 2,765.7 | 1,431.7 |

* Deviating from these statistics (newly granted single transaction cover and Wholeturnover Policies) cover under Wholeturnover Policies is not taken into account for the calculation of the limit on cover for Turkey in 2017 but both all guarantees granted and all offers of cover made for single transactions because of the objectives pursued with the ceiling.

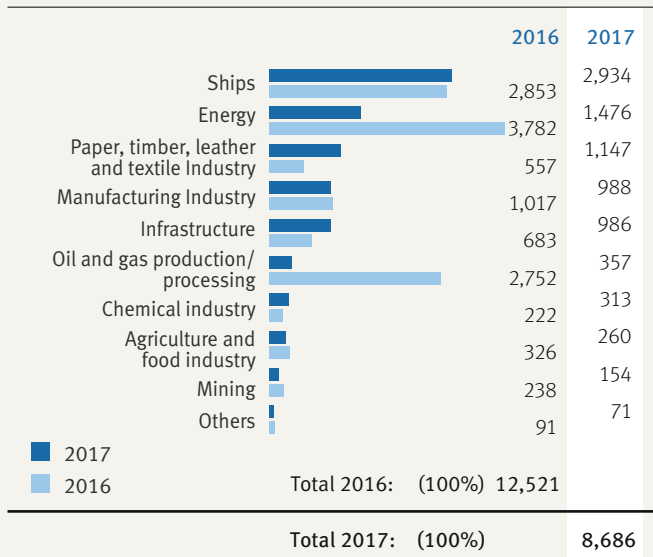
GUARANTEES FOR INDUSTRIALISED COUNTRIES IN MILLION EUR

| | | | medium short | a. long |
|--------------------|------|----------------|-----------------|---------|
| Singapore | 2017 | | 1,193.3 | 0.0 |
| | 2016 | | 116.8 | 0.0 |
| United States | 2017 | | 0.0 | 995.5 |
| | 2016 | | 0.0 | 2,037.8 |
| Sweden | 2017 | | 0.0 | 625.7 |
| | 2016 | | 0.0 | 0.0 |
| United Kingdom | 2017 | | 0.0 | 552.0 |
| | 2016 | | 0.0 | 428.1 |
| Malta | 2017 | | 0.0 | 206.0 |
| | 2016 | | 0.0 | 0.0 |
| | | Subtotal 2017: | 1,193.3 | 2,379.2 |
| | | Share 2017: | (72.0%) | (94.3%) |
| Total 2017: (100%) | | | 1,642.1 | 2,522.9 |

SHARE OF SINGLE TRANSACTION POLICIES BY INDUSTRIAL SECTORS IN MILLION EUR



SINGLE TRANSACTION POLICIES BY INDUSTRIAL SECTORS IN MILLION EUR



Cover by industrial sector

At 2.9 billion euros, cover for **ship transactions** rose marginally by 2.8% and thus remained at previous year's level (2.9 billion euros). This sector, which traditionally entails big-ticket transactions, thus accounted for 17.4% of the total volume of Hermes Cover (2016: 13.8%) and 33.8% of the single transaction cover.

Export credit guarantees in the **energy sector** declined by 60% to 1.5 billion euros (2016: 3.8 billion euros). This is equivalent to 8.8% of total cover and 17.3% of single transaction cover. In addition to renewable energy projects (943 million euros), Hermes Cover was provided for the delivery of gas and steam turbines to Hong Kong (201 million euros) among other things.

Export credit guarantees in the **paper, wood, leather and textile industries** almost doubled to 1.1 billion euros (previous year: 0.6 billion euros). Consequently, the share in total cover widened to 6.8%. Among other things, the increase was due to cover provided for several paper machines for packaging and cardboard boxes as well as equipment for producing MDF boards.

Special forms of cover

Project finance

54 ■

In 2017, the Federal Republic of Germany issued export credit guarantees worth 976 million euros for four projects (2016: 5 projects, 3.1 billion euros). Specifically, it provided cover for a liquefied gas complex in Russia, the largest European onshore wind farm in Sweden, one of the first wind farms in Serbia and a wind farm in Argentina. Offers of cover were provided for a further four projects with a combined value of around 1.1 billion euros. These included a fertiliser complex in Mexico, a gas and steam power plant in Israel, a wind farm in Argentina and a plant for the production of high-purity aluminium oxide. Final cover for the projects is expected to be forthcoming in 2018.

The value of new applications of around 4.5 billion euros testifies to the unabated strong demand for cover by the Federal Government for project finance. A large part of these transactions have already entered the due diligence phase. Regionally, they again concentrated on Russia, South America and the Middle East.

Cover worth 41 million euros was provided for **structured finance** for a plant for the production of timber goods in Brazil.

Ship business

In 2017, the German **maritime industry** again received significant major orders for construction of river and ocean cruise ships. In addition to the well-known cruise com-

panies Disney Cruise Lines, Saga Cruises and Carnival, the American company Crystal Cruises also ordered ships in Germany. Shipyard MV Werften was awarded a contract to build four river cruise ships for Crystal Cruises. The Federal Government issued export credit guarantees to cover these transactions. These are the first guarantees issued by the Federal Government for the new MV Werften shipyard group. Alongside shipyards, maritime components suppliers are increasingly also interested in Hermes Cover. The Federal Government issued offers of cover for deliveries of components in connection with new ships being built at foreign shipyards as well as for retrofitting contracts. Cover was provided in the second core area of shipyard business in Germany, namely ferry construction, for two orders placed with Flensburger Schiffbau-Gesellschaft by a Danish customer, thus making an important contribution to protecting jobs.

All told, the Federal Government provided new cover worth 1.8 billion euros in civilian maritime engineering. This was joined by cover for military shipbuilding of 1.1 billion euros, resulting in total cover of 2.9 billion euros (2016: 2.9 billion euros). In addition, there are offers of cover valued at around 2.8 billion euros.

No **Airbus Guarantees** were provided for **aircraft** in the year under review. Applications worth 1.3 billion euros were received for cover for aircraft business. Offers of cover worth 385 million euros were granted.

EXPORT CREDIT GUARANTEES FOR MILITARY GOODS IN BILLION EUR

| | 2017 | Type of goods |
|-------------------|--------------|--|
| Singapore | 1.104 | Two submarines incl. hardware and service |
| Iraq | 0.004 | Aircraft refuelling vehicles |
| Algeria | 0.001 | 16 aircraft towing tractors |
| Indonesia | 0.025 | Six training aircraft for the training of pilots |
| Total 2017 | 1.134 | |

ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

| | 2016 number | Volume billion EUR | 2017 number | Volume billion EUR |
|---|----------------|--------------------------|----------------|--------------------------|
| Audited projects | 131 | 17.6 | 85 | 9.4 |
| In-depth assessment Category A and B | 48 | 4.3 | 50 | 7.0 |
| Officially supported projects Category A | 11 | 3.2 | 13 | 2.2 |
| Officially supported projects Category B | 29 | 1.0 | 34 | 2.3 |

OFFICIALLY SUPPORTED, ENVIRONMENTALLY RELEVANT PROJECTS BY CATEGORIES AND INDUSTRIAL SECTORS

| | 2017 number | Volume billion EUR |
|--------------------------------|----------------|--------------------------|
| Category A | | |
| Power generation | 4 | 769.2 |
| Chemical industry | 2 | 681.1 |
| Infrastructure | 3 | 391.4 |
| Service industry | 1 | 40.1 |
| Oil and natural gas production | 1 | 200.0 |
| Manufacturing industry | 2 | 122.9 |
| Total Category A | 13 | 2,204.7 |
| Category B | | |
| Power generation | 14 | 640.9 |
| Chemical industry | 3 | 500.6 |
| Wood processing and paper | 5 | 352.6 |
| Service industry | 1 | 40.0 |
| Agriculture and food industry | 2 | 43.3 |
| Mining | 2 | 43.5 |
| Manufacturing industry | 5 | 661.1 |
| Infrastructure | 2 | 51.2 |
| Total Category B | 34 | 2,333.2 |
| Total 2017 | 47 | 4,537.9 |

Cover for exports of military goods

Export credit guarantees of 1.1 billion euros were provided for **military goods** in 2017 (2016: 0 euros). Consequently, the new cover granted in this segment accounted for 6.7% of the total. The long-term average (calculated since 1997) is 3.8%.

■ 55

Environmental and social assessment of projects

Projects coming within the scope of the Common Approaches must undergo environmental, social and human rights (ESHR) due diligence. This particularly includes all transactions with a credit period of more than two years. The transactions are categorised in accordance with their possible environmental, social and human rights impact. The category determines the scope of the review. In 2017, the Federal Government provided cover worth 2.2 billion euros for environmental category A transactions (projects which have the potential to have significant adverse ESHR impacts which are diverse, irreversible and/or unprecedented or which may be located in or near sensitive areas and for which the buyer must take special mitigation measures to minimise the impact). In environmental category B (projects with site-specific or easily reversible ESHR impacts), cover came to 2.3 billion euros. Under the Common Approaches, deliveries for existing plants which do not result in any material change of function or capacity do not need to undergo any detailed environmental due diligence; in this case, a risk assessment is sufficient. These transactions reached a volume of some 702 million euros.

CLAIMS, RECOVERIES AND RESCHEDULING

Claims

56 ■

Outgoing payments for claims dropped by 22.2% over the previous year to 429.3 million euros. This was primarily due to the decline in outgoing payments for **commercial claims** to 398.4 million euros (2016: 513.6 million euros). In the case of the United Kingdom, the increase was chiefly caused by payment defaults on two big-ticket projects in the steel and shipping industries. In Dubai, indemnification was payable for transactions in the steel and energy segment. Outgoing payments for India rose as a result of claims in the textile and mechanical engineering segments.

Indemnification for **political claims** also dropped by 19.1% as a large part of the outstanding receivables for Iran had been settled in the previous year. Payments were made for Iraq, Gabon, Libya and Algeria.

Recoveries

Recoveries of indemnification paid (excluding interest) dropped by 68.3% to 308.8 million euros. Recoveries in the previous year had been unusually high due to payments from Iran in settlement of long-standing liabilities and under the rescheduling agreement with Argentina. Agreed restructuring plans for large claims as well as the broad portfolio of commercial claims under management of just under 2.3 billion euros distributed across some 1,000 foreign debtors point to continued high recoveries in the future.

CLAIMS PAYMENTS IN MILLION EUR

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Political risk claims | 116.2 | 288.4 | 94.9 | 38.2 | 30.9 |
| Commercial risk claims | 116.3 | 215.5 | 300.1 | 513.6 | 398.4 |
| Total | 232.5 | 504.0 | 395.1 | 551.8 | 429.3 |

Differences in the sums are due to rounding

TOP TEN COUNTRIES – CLAIMS PAYMENTS UNDER COMMERCIAL RISK COVER IN MILLION EUR

| | 2016 | 2017 |
|-------------------------------|------|--------------|
| United Kingdom | 6.7 | 81.4 |
| Brazil | 56.2 | 44.0 |
| Dubai UAE | 3.3 | 43.9 |
| Russia R.F. | 57.7 | 42.2 |
| Ukraine | 58.0 | 40.5 |
| India | 22.4 | 26.2 |
| Spain | 47.9 | 20.8 |
| Bahamas | 17.3 | 11.3 |
| Mexico | 3.3 | 10.7 |
| Bulgaria | 11.8 | 9.2 |
| Subtotal 2017: (82.9%) | | 330.2 |
| Total 2017: (100%) | | 398.4 |

RECOVERIES FOR CLAIMS PAID (EXCL. INTEREST) IN MILLION EUR

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------------|--------------|--------------|--------------|--------------|
| under political risk cover thereof rescheduled amounts | 101.6 | 181.4 | 153.3 | 803.8 | 203.2 |
| under commercial risk cover | 99.7 | 147.9 | 146.3 | 279.4 | 178.8 |
| | 142.7 | 118.4 | 132.5 | 170.5 | 105.6 |
| Total | 244.3 | 299.8 | 285.7 | 974.4 | 308.8 |

Differences in the sums are due to rounding

TOP TEN COUNTRIES – RECOVERIES UNDER COMMERCIAL CLAIMS IN MILLION EUR

| | |
|-------------------------------|--------------|
| Turkey | 34.3 |
| Indonesia | 17.8 |
| Russia R.F. | 11.7 |
| Kazakhstan | 11.1 |
| Bulgaria | 6.6 |
| Singapore | 6.0 |
| Ukraine | 4.3 |
| Brazil | 3.6 |
| Egypt | 3.1 |
| India | 2.9 |
| Subtotal 2017: (96.0%) | 101.4 |
| Total 2017: (100%) | 105.6 |

Rescheduling

Once again, the Paris Club's activities in 2017 were dominated by discussion of fundamental issues.

Thus, **Mongolia's** payment problems and the ensuing rescheduling negotiations prompted discussion as to the reasonable distribution of burdens between private and public creditors, resulting in talks with the creditor groups concerned as well as representatives of the International Monetary Fund and the World Bank.

The Paris Club is closely observing and analysing the further increase in debt in some African countries, for which debt relief had been provided under the HIPC (Heavily Indebted Poor Countries) initiative. Together with experts from the IMF and the World Bank, technical discussions on the definition of public debts were also held. The results are relevant for potential rescheduling negotiations with individual countries and for IMF evaluations and actions. Discussion by the Paris Club on these two issues is to continue in 2018.

Once again, there were substantial recoveries under the bilateral rescheduling treaties in 2017 particularly as a result of payments made by **Argentina** and **Iraq**. These were added to the federal budget to cover earlier indemnification payments.

RESULTS

Revenues

Total revenues for the federal budget from export credit guarantees declined by more than half (down 56.5%) in the year under review.

Income from **premiums and fees** fell by 59.0% due to the decline in cover, particularly for medium and long-term big-ticket transactions, for which higher premiums are normally payable.

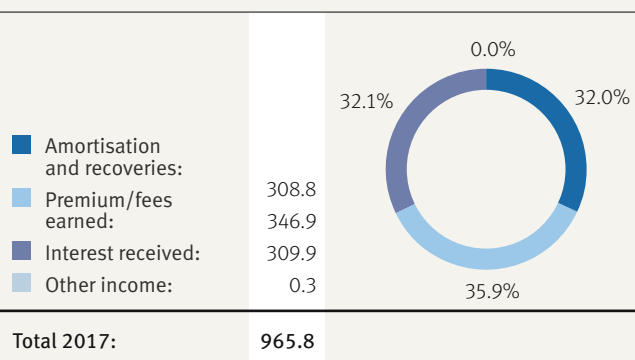
Recoveries under previously indemnified claims and **debt repayment under rescheduling agreements** fell by a good two thirds (down 68.3%) over the previous year. The largest recoveries were received from Argentina (132.2 million euros), Iraq (36.5 million euros), Turkey (34.3 million euros), Indonesia (17.8 million euros) and Pakistan (12.3 million euros).

The **interest income** of 309.9 million euros (2016: 397.5 million euros) arose almost solely from rescheduling agreements. In addition, currency-translation gains of 0.3 million euros were recorded in connection with claims.

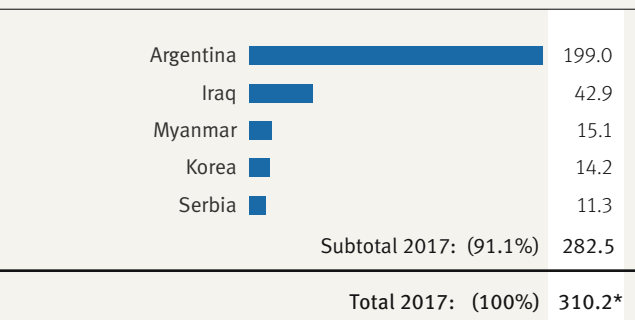
Expenses

In the year under review, expenses declined by 19.5% to 514.4 million euros (2016: 639.1 million euros). They comprise **claims payments** (429.3 million euros) and the **costs** for the administration of export credit guarantees (85.1 million euros).

REVENUES IN MILLION EUR



HIGHEST INTEREST PAYMENTS IN MILLION EUR



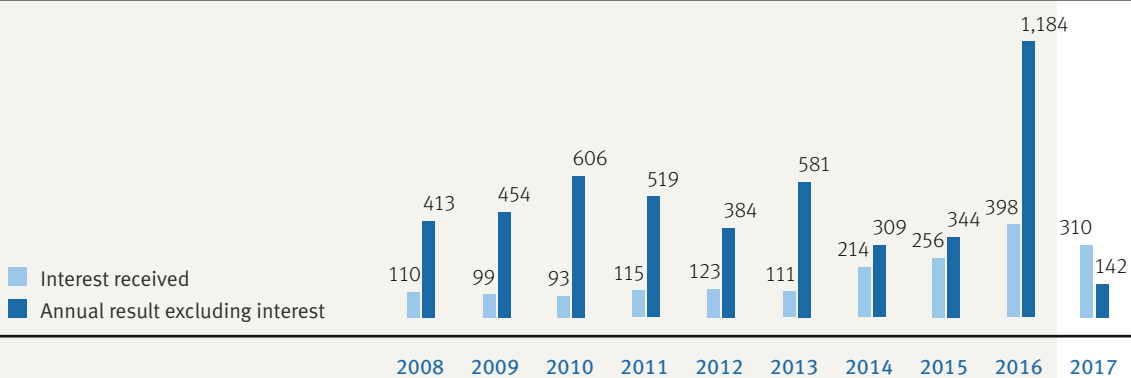
* Interest incl. exchange rate gains of EUR 0.3 million from claims

Annual result

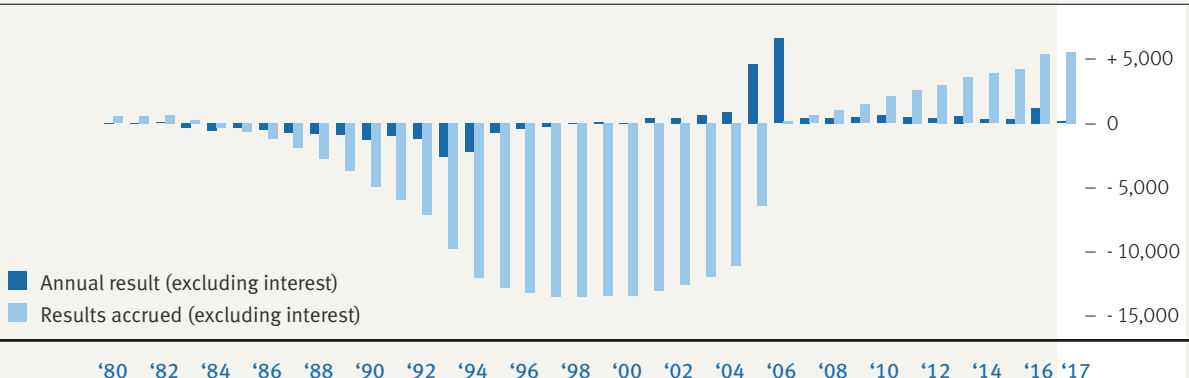
With a **cash surplus** of around 142 million euros, the Federal Republic of Germany's export credit guarantee scheme achieved a positive result for the federal budget for the 19th year running. Accordingly, the accrued total balance of export credit guarantees rose to around 5.5 billion euros (not adjusted for inflation) as of the end of 2017.

The interest income of 309.9 million euros (2016: 397.5 million euros) arising predominantly from rescheduling agreements was transferred to the federal budget. It is excluded from the calculation of the financial result as the funding costs incurred by the Federal Government in respect of claims paid are likewise not included.

FINANCIAL RESULT IN MILLION EUR



ANNUAL RESULT AND RESULTS ACCRUED OF THE FEDERAL EXPORT CREDIT GUARANTEES 1980-2017 IN MILLION EUR



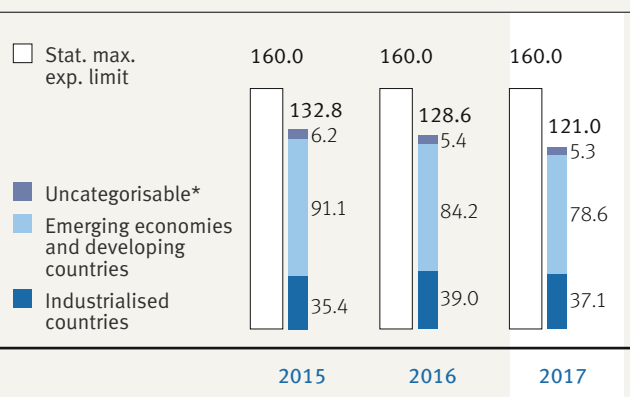
STATUTORY COVER LIMIT AND TOTAL COMMITMENT LEVEL

Export credit guarantees are granted on the basis of amounts **authorised by the budget**. As of the end of the year, 75.6% of the statutory cover limit of 160 billion euros had been utilised. Interest covered does not count towards the statutory cover limit.

The **Federal Government's total commitment level (exposure)** fell to 121.0 billion euros as of 31 December 2017 (2016: 128.6 billion euros). This figure equals the total volume of export credit guarantees issued (net of interest) which are still exposed to risks. Exposure is defined as the actual portfolio registered by the Federal Office of Administration (BVA). However, it does not provide any indication of the real outstanding risk as the export credit guarantees count towards the statutory cover limit on the basis of their full amount until liability has been discharged regardless of their execution status. In the year under review, there were additions of 10.8 billion euros for new cover but discharges of 18.3 billion euros.

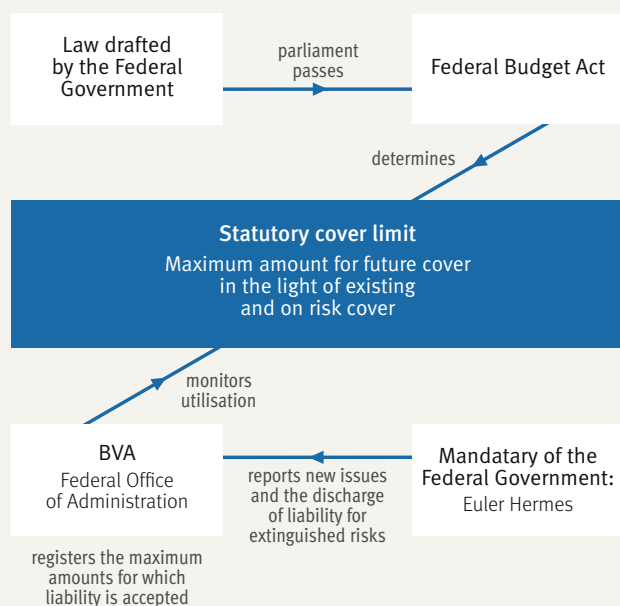
In addition, cover for interest came to 49.6 billion euros at the end of the year (2016: 53.1 billion euros). The Federal Government's total commitment level including interest thus stood at 170.6 billion euros.

TOTAL COMMITMENTS OF THE FEDERAL GOVERNMENT (EXPOSURE) BREAKDOWN BY COUNTRY GROUPS AND STATUTORY MAXIMUM EXPOSURE LIMIT IN BILLION EUR



* The "uncategorisable" exposure refers to allocations made for wholeturnover policies under the statutory maximum exposure limit.

THE FEDERAL GOVERNMENT'S STATUTORY COVER LIMIT



TOTAL OUTSTANDING RISK BY INDUSTRIAL SECTORS

| Sector | 2017 billion EUR | Share in % |
|---|------------------------|----------------|
| Ships | 29.6 | 34.5 |
| Energy | 17.3 | 20.2 |
| Oil and gas production/processing | 8.5 | 9.9 |
| Manufacturing industry | 7.7 | 9.0 |
| Aircraft | 7.5 | 8.7 |
| Infrastructure | 3.8 | 4.4 |
| Paper, timber, leather and textile industry | 3.5 | 4.1 |
| No recording of industries* | 2.6 | 3.0 |
| Chemical industry | 2.1 | 2.4 |
| Mining | 1.9 | 2.2 |
| Agriculture and food industry | 1.0 | 1.2 |
| Environmental engineering | 0.3 | 0.3 |
| Service industry | 0.0 | 0.0 |
| Total 2017 | 85.8 | 100.0** |

* Wholeturnover policies, reschedulings

** Differences are due to rounding

TOP TEN COUNTRIES –
TOTAL OUTSTANDING RISK IN BILLION EUR

| | 2016 | 2017 |
|-------------------------------|------|-------------|
| United States | 10.4 | 9.7 |
| Turkey | 8.9 | 8.6 |
| Russia R.F. | 8.9 | 8.3 |
| Bermuda | 7.8 | 6.6 |
| Egypt | 6.8 | 6.5 |
| United Kingdom | 3.8 | 4.3 |
| India | 3.5 | 3.3 |
| Singapore | 2.0 | 3.3 |
| Switzerland | 3.2 | 2.7 |
| China PR | 2.0 | 2.1 |
| Subtotal 2017: (64.7%) | | 55.5 |
| Total 2017: (100%) | | 85.8 |

OUTSTANDING RISK

The **Federal Government's outstanding risk** is derived from the future maturities of commitments under cover granted plus interest, less the percentage to be retained by the exporters and banks for their own account. This amount constitutes the theoretical maximum outstanding risk from current Federal Government guarantees at any given time if the entire risk occurs in full. However, it does not provide any indication of the real likelihood of the risk turning into a claim and thus the Federal Government's liability to indemnify it.

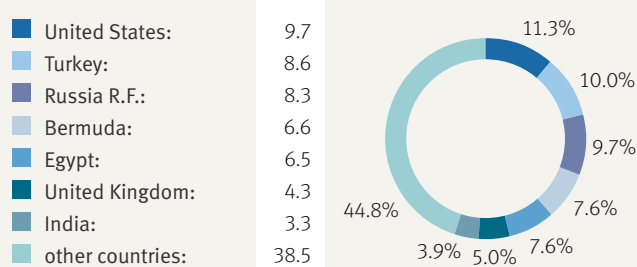
UNRECOVERED AMOUNTS UNDER CLAIMS PAID

At the end of the year, **unrecovered amounts** under claims paid for commercial and political loss – including rescheduled trade and loan receivables – stood at just under 3.9 billion euros (2016: 3.9 billion euros). These unrecovered amounts arise from claims paid for receivables transferred to the Federal Government which might still be recovered in the future.

Significant recoveries can be expected from outstanding **commercial claims** totalling 2.3 billion euros due to existing restructuring agreements in respect of major claims.

In the case of **outstanding political claims** (225 million euros), further recoveries can generally be expected unless future debt relief measures take effect.

SHARE OF TOTAL OUTSTANDING RISK BY COUNTRY IN BILLION EUR



Total 2017: **85.8**

TOTAL OUTSTANDING RISK BY COUNTRY GROUPS

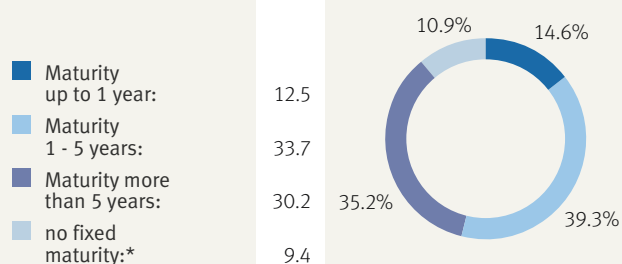
| Countries* | 2016 million EUR | Share in % | 2017 million EUR | Share in % |
|---|------------------------|---------------|------------------------|---------------|
| Emerging economies and developing countries | 60,236.6 | 67.1 | 56,603.0 | 65.9 |
| Latin America | 12,123.1 | 13.5 | 11,116.2 | 13.0 |
| Africa | 10,790.0 | 12.0 | 10,022.0 | 11.7 |
| Asia** | 17,690.3 | 19.7 | 16,722.6 | 19.5 |
| Europe | 19,633.2 | 21.9 | 18,742.2 | 21.8 |
| Industrialised countries | 29,529.8 | 32.9 | 29,227.6 | 34.1 |
| Total | 89,766.4 | 100.0 | 85,830.6 | 100.0 |

* see country classifications p. 74

** including Oceania

Differences in the sums are due to rounding

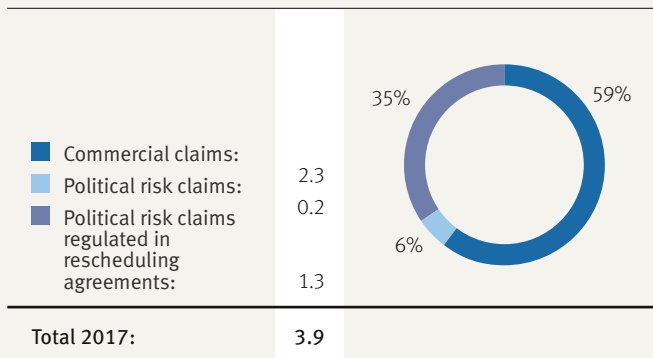
TOTAL OUTSTANDING RISK BY MATURITIES IN BILLION EUR



Total 2017: **85.8**

* isolated manufacturing risk cover, contract bond cover

AMOUNT OUTSTANDING IN BILLION EUR



TOP TEN COUNTRIES – DEBT OWED TO THE FEDERAL GOVERNMENT OUT OF RESCHEDULING AGREEMENTS AND POLITICAL RISK CLAIMS IN MILLION EUR

| | |
|-------------------------------|--------------|
| Argentina | 688 |
| Iraq | 179 |
| Pakistan | 154 |
| Myanmar | 146 |
| Korea DPR | 109 |
| Zimbabwe | 72 |
| Serbia | 71 |
| Sudan | 47 |
| Saudi Arabia | 21 |
| Egypt | 15 |
| Subtotal 2017: (95.9%) | 1,502 |
| Total 2017: (100%) | 1,567 |

An outstanding amount of 1.3 billion euros has been restructured in the Paris Club to take account of the ability of the debtor countries to pay and is governed by bilateral **rescheduling agreements**. However, there is no certainty that the repayments thus agreed will be actually received as existing and future debt relief arrangements may additionally reduce the value of the outstanding claims.

No outstanding amounts due to the Federal Government were **cancelled** under debt rescheduling arrangements in 2017 (2016: 2.7 million euros). Since the establishment of export credit guarantees, the Federal Republic of Germany has waived total debt of just under 4.4 billion euros owed by the poorest countries under earlier debt-rescheduling agreements.

NEW GUARANTEES AS RELATED TO TOTAL EXPORT VOLUME; COVER APPLICATIONS

UTILISATION OF THE STATUTORY MAXIMUM EXPOSURE LIMIT IN BILLION EUR

| Year | Total export volume in billion EUR | New guarantees in billion EUR | Covered percentage of total export volume | Cover applications in billion EUR | Stat. max. exp. limit | **** Allocated amount of stat. max. exp. limit | **** Total outstanding risk |
|--------|------------------------------------|-------------------------------|---|-----------------------------------|-----------------------|--|-----------------------------|
| 1950 | 4.3 | 0.2 | 3.6 | 1.0 | 0.3 | 0.3 | |
| 1955 | 13.1 | 1.6 | 12.5 | 5.1 | 3.8 | 2.5 | |
| 1960 | 24.5 | 2.4 | 9.6 | 8.3 | 6.1 | 5.2 | |
| 1965 | 36.7 | 2.8 | 7.5 | 10.0 | 8.7 | 8.1 | |
| 1970 | 64.1 | 4.9 | 7.7 | 12.0 | 13.8 | 12.9 | |
| 1975 | 113.3 | 10.1 | 8.9 | 55.8 | 30.7 | 25.0 | |
| 1980 | 179.2 | 14.6 | 8.1 | 64.8 | 76.7 | 59.6 | |
| 1985 | 274.6 | 15.9 | 5.8 | 54.0 | 99.7 | 80.9 | |
| 1990* | 348.0 | 13.7 | 3.9 | 29.9 | 81.8 | 68.3 | |
| 1995** | 383.2 | 17.1 | 4.5 | 29.8 | 99.7 | 91.9 | |
| 2000 | 596.9 | 19.5 | 3.3 | 21.0 | 112.5 | 106.1 | 56.5 |
| 2005 | 786.2 | 19.8 | 2.5 | 24.8 | 117.0 | 104.9 | 56.7 |
| 2006 | 893.6 | 20.6 | 2.3 | 33.9*** | 117.0 | 98.4 | 58.8 |
| 2007 | 969.1 | 17.0 | 1.8 | 38.1 | 117.0 | 96.7 | 58.1 |
| 2008 | 994.9 | 20.7 | 2.1 | 42.8 | 117.0 | 101.3 | 62.3 |
| 2009 | 808.2 | 22.4 | 2.8 | 48.0 | 117.0 | 107.8 | 66.0 |
| 2010 | 959.5 | 32.5 | 3.4 | 36.8 | 120.0 | 107.5 | 76.4 |
| 2011 | 1,060.2 | 29.8 | 2.8 | 37.4 | 135.0 | 116.6 | 82.3 |
| 2012 | 1,097.4 | 29.1 | 2.6 | 41.7 | 135.0 | 124.9 | 85.2 |
| 2013 | 1,093.9 | 27.9 | 2.6 | 38.7 | 145.0 | 129.1 | 87.7 |
| 2014 | 1,133.5 | 24.8 | 2.2 | 38.6 | 165.0 | 134.1 | 88.5 |
| 2015 | 1,195.9 | 25.8 | 2.2 | 36.2 | 160.0 | 132.8 | 92.4 |
| 2016 | 1,207.0 | 20.6 | 1.7 | 38.2 | 160.0 | 128.6 | 89.8 |
| 2017 | 1,279.1 | 16.9 | 1.3 | 29.1 | 160.0 | 121.0 | 85.8 |

* Starting 1989, values include former Eastern Germany

** Starting 1993, a new statistical method is applied in the EU to record overall export figures

*** Volume of new applications, until 2005 business volume of decisions

**** The column "Allocated amount of stat. max. exp. limit" reflects the overall level of exposure under the statutory limit for the respective year. On the basis of these figures conclusions cannot, however, be drawn on the amounts actually at risk, because they also include indemnification and other payments made in respect of reschedulings for which recoveries are still expected. For this reason, the Federal Government's total outstanding risk has been recorded separately since the end of 1997.

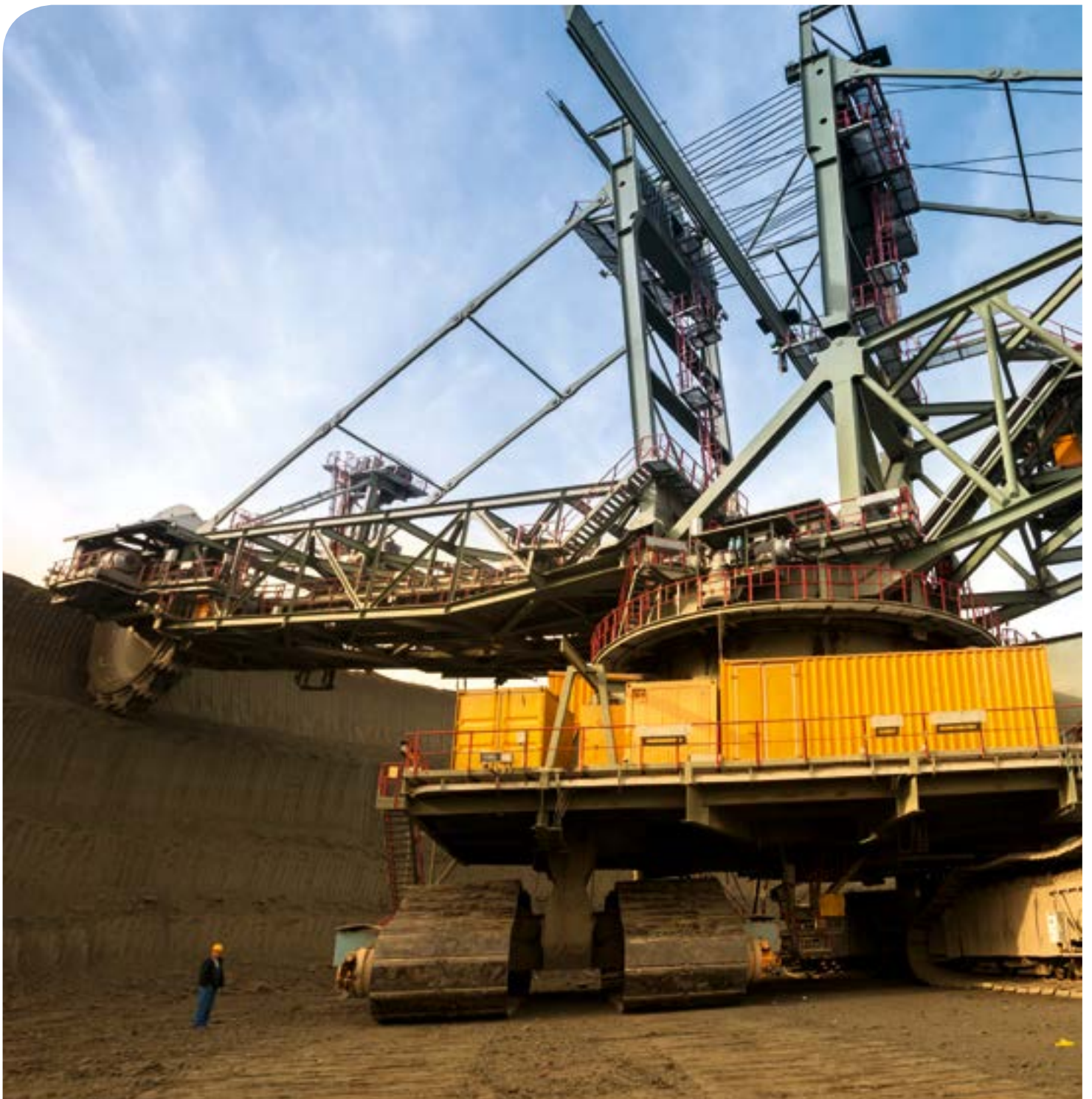
RESULT IN MILLION EUR

| Year(s) | Premiums/ fees earned | Recoveries for claims paid and rescheduled* | Disburse- ments for claims and reschedulings | Expenses for the han- dling of the export credit guarantees | Annual results excluding interest | Interest** |
|---|--------------------------|--|---|---|--|-----------------|
| 1950-1954 | 27.6 | 16.8 | 25.6 | 5.3 | 13.5 | |
| 1955-1959 | 85.6 | 83.2 | 168.0 | 10.8 | -10.0 | |
| 1960-1964 | 141.3 | 144.7 | 370.1 | 14.4 | -98.5 | |
| 1965-1969 | 247.0 | 381.4 | 587.7 | 22.8 | 18.0 | |
| 1970-1974 | 346.1 | 421.9 | 808.1 | 37.9 | -77.9 | |
| 1975-1979 | 897.5 | 468.5 | 580.6 | 82.6 | 702.8 | |
| Subtotal | 1,745.1 | 1,516.6 | 2,540.1 | 173.7 | 547.9 | 482.1 |
| 1980-1984 | 1,437.3 | 860.9 | 3,034.5 | 149.9 | -886.1 | 238.2 |
| 1985-1989 | 1,343.3 | 1,034.6 | 5,512.6 | 183.9 | -3,318.5 | 760.1 |
| 1990-1994 | 2,022.9 | 2,028.3 | 12,121.9 | 244.3 | -8,315.0 | 1,725.6 |
| 1995-1999 | 2,727.3 | 2,722.2 | 6,614.4 | 270.6 | -1,435.5 | 4,143.6 |
| 2000-2004 | 2,399.3 | 3,905.1 | 3,615.1 | 317.6 | 2,371.6 | 5,278.6 |
| 2005-2009 | 2,722.2 | 12,014.1 | 1,608.9 | 336.1 | 12,511.2 | 4,746.7 |
| 2010 | 776.5 | 187.2 | 282.2 | 75.8 | 605.6 | 92.7 |
| 2011 | 778.6 | 232.3 | 408.5 | 83.4 | 519.0 | 115.2 |
| 2012 | 546.7 | 199.4 | 282.5 | 79.8 | 383.8 | 123.6 |
| 2013 | 653.9 | 244.7 | 232.5 | 85.2 | 580.9 | 111.4 |
| 2014 | 598.1 | 299.9 | 504.0 | 84.7 | 309.3 | 214.3 |
| 2015 | 541.8 | 286.5 | 395.1 | 89.6 | 343.7 | 256.4 |
| 2016 | 845.4 | 977.6 | 551.8 | 87.4 | 1,183.9 | 397.5 |
| 2017 | 346.9 | 309.1 | 429.3 | 85.1 | 141.5 | 309.9 |
| Total amount | 19,205.3 | 26,818.5 | 38,133.3 | 2,347.1 | 5,543.4 | 18,996.0 |
| Total income | 46,023.8 | | | | | |
| Total expenses | | | 40,480.4 | | | |
| Result accrued excluding interest | | | | | 5,543.4 | |
| Debt owed to the Federal Government of which regulated under reschedulings | | | | | 3,863.1 1,341.5 | |

* Recoveries for claims paid and rescheduled amounts include special revenues and exchange rate gains

** Interest received by the federal budget is excluded when calculating the financial result since the refinancing costs incurred by the Federal Government in respect of claims paid are also not included

Differences are due to rounding



15 raw materials in 19 countries

Over the last five years, the Federal Government has confirmed the eligibility of raw material projects in 19 countries for 15 different raw materials in the light of raw material supply considerations.

1.6 billion

Applications worth 1.6 billion euros were received for untied loan guarantees in 2017.

UNTIED LOAN GUARANTEES (UFG)

The commodity markets continued to exhibit extremely strong momentum in 2017. Driven by rising prices, the development of numerous deposits made substantial progress. This heightened activity was reflected in 33 inquiries for raw material projects. Eligibility for cover in the light of raw material supply considerations was confirmed for six projects. As in the previous year, the exposure stood at 5.3 billion euros at the end of 2017.

High demand for copper

Rising market prices are driving the global development of numerous copper deposits.

5.3 billion

The Federal Government's exposure under aggregate outstanding guarantees came to 5.3 billion euros as of the end of 2017.

UFK-GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

► Untied Loan Finance

UFK ENQUIRIES – DISTRIBUTION AMONG THE TYPES OF RAW MATERIALS

| | Raw materials | Number |
|----------------------|-----------------------|-----------|
| Minerals | | 26 |
| | Copper | 8 |
| | Lithium | 6 |
| | Magnesium | 1 |
| | Platinum group metals | 4 |
| | Rare earths | 1 |
| | Iron ore | 2 |
| | Nickel | 1 |
| | Polyhalite | 1 |
| | Ferroniobium | 1 |
| | Gold | 1 |
| Energy raw materials | | 5 |
| | Natural gas | 2 |
| | LNG | 1 |
| | Coaking coal | 2 |
| Other raw materials | | 2 |
| | Total 2017 | 33 |

THE YEAR AT A GLANCE

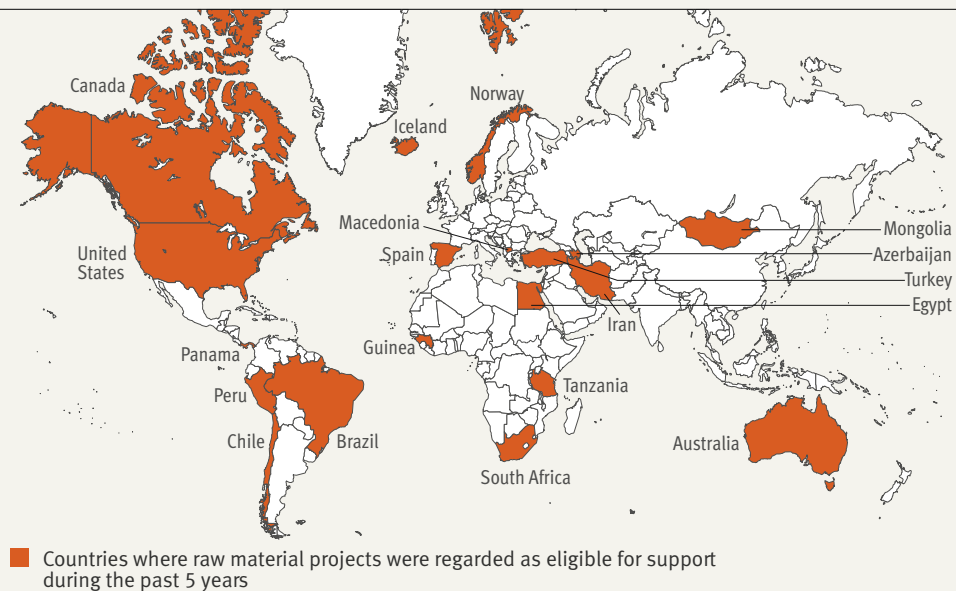
In 2017, commodity markets were generally characterised by rising and increasingly stable prices, thus continuing on from the previous year. Given the favourable prices, more and more deposits are reaching a point on the cost curve making the development or resumption of mining projects economically viable for investors. This trend prompted substantially more companies in the sector to reconsider the restraint that they had exercised in their investments plan for many years and to increasingly step up work on mining projects. This heightened activity is also reflected in substantially stronger interest in guarantees for untied loans. At the same time, however, individual countries – particularly in Africa – have adjusted their national mining legislation. Regulatory hurdles were created with the aim of ensuring that the local population gains a greater economic share of the mining projects planned or implemented by foreign investors, something which initially put an end to various projects. The extent to which government representatives and investors can find constructive solutions remains to be seen in this respect.

No new untied loan guarantees were issued in 2017. However, two (previous year: three) **applications** for raw material projects with a combined value of 1.6 billion euros (plus cover for interest) were submitted. The number of **inquiries** rose to 33, thus substantially exceeding the previous year (2016: 22). These concerned raw material projects in 20 different countries mostly entailing mineral raw materials (primarily copper and lithium). In 2017, plans for six of these projects (three copper, one rare earth, one ferroniobium and one platinum group metals projects with a total volume equivalent to around 1.4 billion euros) had

already progressed far enough for the Federal Ministry for Economic Affairs and Energy to confirm their **eligibility for cover in the light of raw material supply considerations**.

All in all, the Federal Government has confirmed the eligibility of 24 projects in 19 countries around the world in the light of raw material supply considerations over the last five years. These projects entailed 15 different mineral and energy sources, thus underscoring the range of raw materials and projects for which the untied loan guarantees are available.

UFK-UNDERWRITING PRACTICE – COUNTRIES



The Federal Government's maximum liability (exposure) under the guarantees issued and still on risk – including interest – stood at 5.3 billion euros at the end of 2017 and was thus unchanged over the previous year. Of this, development-bank projects accounted for 2.3 billion euros and raw material projects for 2.5 billion euros. As of the end of the year, the portfolio comprised a total of eleven guarantees, namely six guarantees for raw material projects and five for development bank projects.

The untied loan guarantees paid for themselves in the year under review from premiums and fees. There were no claims.

The 2017 Budget Act provided for a joint statutory cover limit of 65 billion euros for the issue of untied loan guarantees, Investment Guarantees and European Investment Bank loans.

Guarantees for untied loans can be granted for raw material projects if the Federal Ministry for Economic Affairs and Energy has confirmed their eligibility for cover in the light of raw material supply considerations.



EFFECT OF NEW TECHNOLOGIES ON RAW MATERIAL MARKETS

Technological progress has always contributed to the preservation, expansion and development of socio-cultural, economic and also ecological prosperity. These days, it is influenced in many respects by such overarching issues as **sustainability** and **digitisation**, which are having an impact in numerous different parts of society. Thus, the development of **green technologies** aimed at improving efficiency and avoiding hazardous waste has been stepped up over many years. Among other things, this trend has been spurred by political incentives, triggering a reappraisal by society at large particularly with respect to sustainability. Green technologies are already being used to a large degree, attracting strong demand in the market place. Alongside sustainability, digitisation is generating extremely important impetus for the development of new technologies in industry in particular. At the same time, technological progress and the development of future technologies frequently require the use of mineral raw materials.

New technologies such as **electromobility** and **renewable energies** will spur demand for raw materials such as lithium, rare earths and copper substantially. Light and heavy rare earths are used to produce high-performance permanent magnets, which are used in electric motors, electric vehicles and wind turbine generators for example. Lithium is required for high-performance batteries in electric vehicles and for lightweight alloys in the automotive and aviation industries. The amount of copper used in these electric vehicles will also be significantly higher than that

previously used in classic passenger cars. In addition, raw materials such as tantalum, indium and aluminium will also play an important role in future technologies, and demand for these raw materials is also expected to rise.

These developments are consistent with Euler Hermes's own experience. In 2017, numerous inquiries were received for the use of **untied loan guarantees** for projects entailing raw materials for these new technologies. Cover under **untied loan guarantees** is available provided that, in addition to the loan contract, a long-term supply contract with a German customer is signed and the supply of the raw materials concerned is in the general interests of the German economy.

For further details, please contact:

Phone: +49 (0) 40 / 88 34-90 00
info@ufk-garantien.de
agaportal.de › English ›
Raw materials



The leadership function in the Interministerial Committee, which has the underwriting responsibility for the Federal Export Credit Guarantees, is exercised by the **Federal Ministry for Economic Affairs and Energy**:

Bundesministerium für Wirtschaft und Energie
Referat VC2
Scharnhorststraße 34-37
10115 Berlin
www.bmwi.de

The Federal Government has appointed **Euler Hermes Aktiengesellschaft**, Hamburg, (Euler Hermes), to manage the official export credit guarantee scheme. Further details, information, documents and advice on the opportunities offered by export credit guarantees and the applicable procedures can be obtained by contacting the Head Office of Euler Hermes Aktiengesellschaft or one of its branch offices. Extensive information material on the official export guarantee scheme, e.g. current editions of the AGA Report, the General Terms and Conditions, application forms and

information leaflets as well as the Annual Reports can also be accessed via the Internet. The “Hermes Cover Special” addresses key aspects of export credit guarantees in detail. Further brochures are also available on the Internet.

- 2017: ▶ Guide to forfaiting for exporters
- 2017: ▶ Principles underlying ship finance
- 2017: ▶ Indemnification procedure
- 2016: ▶ Inclusion of foreign content in Hermes Cover
- 2015: ▶ Letter of undertaking – explanatory notes
- 2014: ▶ Preliminary inquiry on the inclusion of foreign content in cover
- 2013: ▶ Environmental and social review of exports: The Common Approaches

This report on the export credit guarantees provided by the Federal Republic of Germany is published in German and English.

Rev.: 31. March 2018



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ANNEX EXPORT CREDIT GUARANTEES

DESIGN OF THE COVER

The title images of the annual reports for 2017 on the export credit guarantees and investment guarantees provided by the Federal Republic of Germany are the result of an ideas competition at Design Factory International – College of Arts and Interactive Media in Hamburg.

Design Factory International has been providing courses in communication design since 1992. International partnerships with universities in countries such as the United Kingdom, Israel and China encourage a lively and inspiring exchange of ideas, cultural values and experience.



During the project, Design Factory students submitted graphic designs for the covers of the two annual reports for 2017. Olesja Reiser's design was selected. With her interpretation of the need for "heart and mind", she proved particularly adept at understanding and visualising the complex nature of foreign trade promotion.

Olesja Reiser: "The organically illustrated heart signifies the economy, which creates goods for people and establishes relationships between them through worldwide trade. The heart works with the brain, which checks the impulses and makes decisions. Graphically linked by electronic circuits, the two systems correlate perfectly with each other, jointly generating millions of impulses."

Born on 05 October 1980 in Chimkent, Kazakhstan, Olesja Reiser, is in the second semester of her design studies and is also a fully trained lawyer. She has always been interested in visual design.

Even as a child, visiting art school was her weekly highlight.



Olesja Reiser does a lot of drawing, mostly digitally these days, and is thrilled to find that her current course allows her to combine and develop all her interests and capabilities.

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CLASSIFICATION OF COUNTRIES

Classification of countries into industrialised countries and emerging economies and developing countries

Industrialised countries:

The group of industrialised countries comprises all countries with OECD country classification 0; these include OECD high-income countries (according to the World Bank definition: countries with a GNI per capita above 12,235 US dollars in 2017), member states of the European Monetary Union including their affiliated territories, as well as Singapore.

Andorra, Australia, Austria, Belgium, Canada, Chile, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, New Zealand, Norway, Poland, Portugal, San Marino, Singapore, Slovak Republic, Slovenia, Spain, South Korea, Sweden, Switzerland, United Kingdom, United States, Vatican City.

and their dependent territories:

BES Island, Ceuta and Melilla, Gibraltar, Greenland, Guadeloupe, Guiana, Martinique, Mayotte, Réunion, St. Pierre and Miquelon.

American emerging economies and developing countries:

American Virgin Islands, Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Colombia, Costa Rica, Cuba, Curaçao, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Montserrat, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Sint Maarten, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, Uruguay, Venezuela.

African emerging economies and developing countries:

Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Congo (Democratic Republic), Côte d'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, St. Helena, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe.

Asian emerging economies and developing countries:

► Middle East:

Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine (autonomous territories), Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen.

► East Asia:

Brunei Darussalam, Cambodia, China (People's Republic), Hong Kong, Indonesia, Korea (Democratic People's Republic), Laos, Macao, Malaysia, Mongolia, Philippines, Taiwan, Thailand, Timor-Leste, Vietnam.

► South/Central Asia:

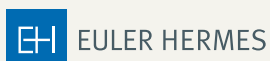
Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Georgia, India, Kazakhstan, Kyrgyzstan, Maldives, Myanmar, Nepal, Pakistan, Sri Lanka, Tajikistan, Turkmenistan, Uzbekistan.

► Oceania:

American Samoa, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia, Nauru, New Caledonia, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Islands, Solomon Islands, Samoa (Western), Tokelau, Tonga, Tuvalu, Vanuatu, Wallis and Futuna.

European countries (without industrialised countries):

Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, former Yugoslav Republic of Macedonia, Republic of Moldova, Montenegro, Romania, Russian Federation, Serbia, Turkey, Ukraine.



Export Credit Guarantees of the Federal Republic of Germany

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DEFINITIONS AND EXPLANATIONS

Arrangement (OECD Consensus):

The Arrangement is a “Gentlemen’s Agreement” between the OECD members which lays down certain minimum and maximum terms permissible for officially supported export credits with a maturity of more than 2 years. The Arrangement aims at creating a level playing field for the exporters and avoiding financing competition which would place an unnecessary burden on national budgets.

Ceiling:

For countries where cover facilities have been restricted for risk management reasons, an amount of cover is fixed which places a limit on the maximum amount for which guarantees can be issued, i.e., a ceiling is established. As a rule, such ceilings apply to transactions with repayment terms of more than 12 months.

Club of London:

The uncovered loans granted by commercial banks are re-scheduled by the banks on their own initiative (cf. also Paris Club).

Coinsurance:

When the primary supplier passes on his foreign risks to the subcontractor, e.g. if and when the latter only gets paid when the foreign buyer has paid the primary contractor, an application can be made for so-called coinsurance. Among EU member states, this is regulated by a Council Directive. There are bilateral agreements with other credit insurers. Besides this, there is the option of concluding a coinsurance agreement with other state export credit agencies covering just a single transaction.

Commercial risks:

Commercial risks are mainly insured under the cover given for the credit and manufacturing risks involved in export contracts with private buyers. In the case of credit risk, the insured event is the uncollectability of insured accounts receivable as a result of the insolvency of the foreign buyer, as well as his simple non-payment after the expiry of a certain period (protracted default). In manufacturing risk cover, the commercial risks recognized as insured are also the occurrence of buyer insolvency during the manufacturing period, the unlawful repudiation of the contract by the buyer as well as non-payment of cancellation costs if the contract was lawfully cancelled.

ECA:

Export Credit Agency which supports exports by means of state export credit insurance, direct lending, refinancing or interest subsidies.

Environmental, social and human rights audit:

The Recommendation of the Council on Common Approaches for Officially Supported Credits and Environmental and Social Due Diligence (Common Approaches) essentially forms the basis for the assessment of environmental, social and human rights risks of projects abroad, in which German exporters are involved as suppliers.

Exposure:

Total commitment level of the Federal Government booked against the maximum exposure limit or the commitment under an individual export credit guarantee.

Interministerial Committee (IMC):

Decides on matters of principle and on the availability of cover for individual transactions. The Federal Ministry for Economic Affairs and Energy takes the decisions on the cover applications with the approval of the Federal Ministry of Finance, in agreement with the Federal Foreign Office and Federal Ministry for Economic Cooperation and Development, and with the assistance of representatives of the mandatary and experts.

Marketable risks:

With effect from 2002, the political and commercial risks arising out of export transactions with credit periods of up to two years in EU countries as well as core OECD countries are considered to be marketable risks. In line with the principle of subsidiarity, state cover is therefore no longer available for such risks. The new EU Commission Communication which came into force on 1 January 2013 regulates up to 2018 the procedure under which a country may be classified as temporarily non-marketable if and when sufficient cover is not available from the private credit insurers.

Multi-sourcing projects:

Projects involving exporters from different countries and, in many cases, with multinational financing.

Offer of cover:

Declaration of intent to provide cover subject to the condition that the factual and legal basis of the transaction does not change (transaction earmarked for cover).

Parallel insurance:

When the various suppliers in a multi-sourcing project each have their own payment claims against a foreign buyer, each supplier insures his receivables against loss with his own national export credit agency.

Paris Club:

International association of official creditors which restructures the debt of countries experiencing payment difficulties. The debt treatment refers almost exclusively to officially guaranteed commercial debt, i.e. guaranteed in particular by the governments of the creditor countries and development aid loans. The Paris Club has no organisational structure with written statutes. The procedural guidelines have been developed over the course of time and are amended when and as necessary (cf. "Club of London").

Political risks:

The origin of political risks is to be sought in measures or events originating in the sphere of state authorities. In the case of cover for amounts due for payment, such risks are political circumstances which cause the insured accounts receivable to become uncollectible, especially the general political cause of loss, which includes legislative or regulatory actions and so-called chaos events such as war, civil unrest or revolution in foreign countries. The Federal Government further grants cover for the conversion and transfer risk, i.e., the risk that amounts duly paid by the foreign buyer in local currency are not converted and/or not transferred due to restrictions on the international payment system between countries. Cover is also given for the risks of frustration of contract, when it becomes impossible to fulfil a contract and entitlements under it are lost, as well as the risk of loss of goods before the passing of risk for reasons which can be attributed to political circumstances. If such a cause of loss seems likely – just as in the case of the general political cause of loss – and the goods are sold elsewhere in such a situation, then the risk of a shortfall in the proceeds realized is also insured. In the case of manufacturing risk cover the political risks insured comprise the political circumstances abroad which lead to the cessation of manufacture or to non-shipment, as well as embargos imposed under the export law and by any third countries which may be involved.

Project financing schemes:

Are applied to complex export transactions where the project itself generates sufficient income to cover the operating costs and the debt service for borrowed funds.

Protracted default:

Non-payment which persists for a longer period. If an amount owed by a foreign buyer is not settled within a period of, normally, six months after due date, this is considered to constitute protracted default. In the case of the buyer credit cover facility the waiting period is reduced to one month.

Reinsurance:

Using the reinsurance model, projects involving exporters from different countries (multi-sourcing-projects) can be covered by a single export credit insurer, so that the main supplier and the financing bank only have to deal with one partner. The risk is shared between the parties to the reinsurance agreement according to the national percentages of goods delivered.

Special Drawing Rights:

The Special Drawing Right (SDR) is a form of artificial currency unit used by the International Monetary Fund (IMF). The exchange rate is defined by a basket of currencies comprising the US dollar, the euro, the pound sterling, the yen and the renminbi (yuan).

Statutory maximum exposure limit:

Maximum amount stated in the Federal Budget Act up to which liability in the form of issued export guarantees may be accepted. The Federal Office of Administration (BVA) keeps a record of the total amount of the issued export guarantees and monitors the utilization of the statutory maximum exposure limit.

Structured finance transaction:

The financing of an export transaction in which, due to insufficient or non-assessable creditworthiness of the foreign debtor, and because conventional security instruments (payment guarantee, letter of credit) are not available, other elements are included in the construction to ensure service of the debt, such as the proceeds of offtake agreements.

Total outstanding risk of the Federal Government:

The country risk statistics reflect the debt owed by individual countries (including interest) to the Federal Republic of Germany and the amount which would actually have to be indemnified by the Federal Government under the export guarantees issued.

Uninsured percentage:

Exporter's share in the loss in an event of loss, normally 5% for political risks and 15% for commercial risks and protracted default. For wholeturnover policies, it is 10% for commercial risks. Until the end of 2019 the uninsured percentage agreed in supplier credit cover and wholeturnover policies for commercial risks can be reduced to 5% against the payment of a premium surcharge. In the case of buyer credit cover, the uninsured percentage is 5% for all risks, for manufacturing risk cover it is also 5% and for wholeturnover policies light it is 10% for all risks.

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Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government for decades. Export Credit Guarantees (“Hermes Cover”) protect German exporters and the banks financing them against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs.

They are managed on behalf of the Federal Republic of Germany by Euler Hermes Aktiengesellschaft as mandatary of the Federal Government.

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



Federal Ministry
for Economic Affairs
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OUR PARTNER



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