



PARTICULARITIES OF OPERATING MODELS

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INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Direct Investments Abroad**

► PARTICULARITIES OF OPERATING MODELS**PROJECT FINANCINGS**

Since the beginning of the nineties German enterprises have increasingly realised their infrastructure projects abroad on the basis of so-called project financings. In the range of project financings the investment cost of an economic unit, its operating cost and the debt service for external funds have to be generated by the project itself. The lenders and the investors mainly focus on the expected surplus cash resources and the anticipated profits of the project to repay the external funds and to yield interest on the equity capital. Thus the repayment of the loans and the investors' dividend depend, on the one hand, on the expected revenues of the project and, on the other hand, on the operating cost of the project. Consequently the project has to self-finance itself.

OPERATING MODELS

Project financings are often realised in the form of operating models such as, for example, BOT ("Build Operate Transfer") or BOO ("Build Operate Own"). These models are particularly suitable for infrastructure projects (for instance power plants, transportation projects, utilities and disposal systems).

BOT

In the case of the usual BOT-model private investors initiate the construction of an infrastructure project ("Build"). Afterwards this project is operated by the investors for a certain period of time ("Operate") in which the revenues from the project flow to the investors. After expiration of the project term the project is transferred to a state institution of the country where the project is situated ("Transfer"); the price for this transfer either is stipulated before starting the construction of the project or it is free of charge. Normally the increased risk of investors in the course of such projects for a set time is taken into account by stipulating a priori a rate of return exceeding the usual rate of return. In contrast, the BOO-concept does not include the "transfer" of the project.



TERMS OF COVER

The Federal Republic of Germany (Federal Government) provides special cover options under its investment guarantees for the already mentioned project structures. Thus the Federal Government is prepared to increase the cover for earnings in the form of **DIVIDENDS** on the basis of **OPERATING MODELS**. The annual cover for earnings has to be determined according to the project figures. As a rule, the maximum rate for the cover for earnings is limited to at most 100% of the contribution value. Due to the specific risk structure of operating models the Federal Government can accept for these projects a cover for earnings of up to 300% in total of the capital brought in. For this an additional application according to clause C.6 of the application form is necessary.

Moreover, **AN EXTENDED GUARANTEE PERIOD** of 20 years in total can be granted for operating models, if necessary.

In connection with operating models also commitments made by the government or state-directed or state-controlled authorities are very important. For information on the possibilities of a **BREACH OF CONTRACT COVER** please see the relating leaflet.

Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and political risks of untied loans to finance projects which are particularly deserving of support.

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



Federal Ministry
of Economics
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