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Chapter 1

Overview Saxony-Anhalt
The Federal and State Levels of Government in Germany

**Key facts:**
- **Capital:** Magdeburg
- **Airport:** International Airport Leipzig-Halle

<table>
<thead>
<tr>
<th>Saxony-Anhalt</th>
<th>Key figures</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,452 km²</td>
<td>Area</td>
<td>357,168 km²</td>
</tr>
<tr>
<td>(6% of German area)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3mn inhabitants</td>
<td>Population</td>
<td>81.5mn inhabitants</td>
</tr>
<tr>
<td>(3% of German inhabitants)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 56,378mn</td>
<td>GDP in 2016</td>
<td>EUR 3,132,670mn</td>
</tr>
<tr>
<td>(1.9% of Germany)</td>
<td>(in current prices)</td>
<td></td>
</tr>
<tr>
<td>EUR 57,633</td>
<td>GDP per employee in 2016</td>
<td>EUR 70,437</td>
</tr>
<tr>
<td>(80% of Germany)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+1.0%</td>
<td>GDP growth rate in 2016</td>
<td>+1.9%</td>
</tr>
<tr>
<td>9.6 %</td>
<td>Unemployment rate in 2016</td>
<td>6.1 %</td>
</tr>
<tr>
<td>Since 2012</td>
<td>Balanced budget</td>
<td>Since 2014</td>
</tr>
<tr>
<td>Since 2012</td>
<td>Debt redemptions</td>
<td>-</td>
</tr>
<tr>
<td>Christian Democrats, Social Democrats and Green Party since 2016</td>
<td>Government</td>
<td>Christian Democrats and Social Democrats since 2013</td>
</tr>
</tbody>
</table>
Well Diversified Economy

Gross Value Added (2015 at current prices) by sector in the State and Germany

Key contributors to the State’s GDP

The most important segments of the manufacturing sector are food, chemicals and metal processing and metal manufacturing.

- **Food Industry**
  - Contributed ~16% of total turnover of State’s manufacturing sector last year
  - Productivity measured by revenue per employee is above German average

- **Chemical Industry**
  - Synthetic fibre was first developed and first colour film was produced in the State
  - As part of the State’s restructuring the chemical industry continues to improve its competitive edge

- **Metal Processing and Manufacturing Industry**
  - Primarily small and medium enterprises engaged in processing metals and manufacturing metal products such as light metals for the automobile industry

- **Financial Institutions, Real Estate and Business Related Services**
  - The sector has taken a leading role in the development of economic growth since 1990
  - Besides the growth in real estate and business related activities driven by the structural change initiated by the State, financial institutions contributed significantly to the GDP of the State

- **Tourism**
  - Based in the heart of the German nation with its rich cultural heritage the State offers significant potential to grow this industry
Chapter 2

Strong constitutional framework of Germany
Constitutional principles

Germany is a federal republic, consisting of 2 concurrent levels of government:

*state level (“Länder”) ➔ federal level (“Bund”)*

German States – Sovereigns within the German Constitution

The 16 States signed the German Constitution. In addition to that they all have an own parliament, courts and government and also their own Constitution (German constitution overrules states Constitutions). They are autonomous and independent with regard to their budgets.

Allegiance to the federation (“Bundestreue”)

The federal and state governments are under an obligation to respect their mutual interests, to co-operate in the performance of the tasks assigned to them by the Constitution and to render mutual assistance.

Federal Equalisation System

The federal equalisation system (enshrined in the constitution and regulated by law) is an important instrument for apportioning the tax revenues to the States. It ensures sufficient financial strength of all states and provides equal standards of living for all citizens in Germany.

Review of the Equalisation System

The federal and state governments have agreed in principal on a reform of the federal equalisation system. All States stand to benefit from the new rules, which shall take effect in 2020 (legislation pending).

Zero Borrowing Rule (“debt brake”)

The states have to reduce their deficit to zero by 2020, the Bund to not more than 0.35% of GDP by 2016.
Chapter 3

Saxony-Anhalt – A strong credit
### Rating Agency Review of the State of Saxony Anhalt

**Moody’s**
- **Rated Aa1, Stable Outlook**
  - Since December 2006

**Standard & Poor’s**
- **Rated AA+, Stable Outlook**
  - Since December 2010

**Fitch Ratings**
- **Rated AAA, Stable Outlook**
  - Since March 1999

<table>
<thead>
<tr>
<th>Facet</th>
<th>Rating Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong ongoing support from the German financial equalisation system</td>
<td><strong>Moody’s</strong> December 2016</td>
</tr>
<tr>
<td>Strong budgetary performance and low contingent liabilities</td>
<td><strong>Fitch July 2016</strong></td>
</tr>
<tr>
<td>Sound debt management, with very good capital markets access</td>
<td><strong>S&amp;P October 2016</strong></td>
</tr>
</tbody>
</table>

**Strong Support from German Financial Equalisation System**
- The ratings of the State of Saxony Anhalt reflect the stability and sustainability of the solidarity mechanism for German Länder. According to German federalism, underpinned by the constitution, the central government (Bund) and the states (Länder) are jointly responsible for supporting a state in financial distress.

**Strong Budgetary Performance**
- In our opinion, Saxony Anhalt’s budgetary performance is very strong and we expect the State to maintain surpluses after capital accounts in our base-case scenario until 2018.

**Sound Debt Management**
- The Land did not take on any new debt in recent years. Over the medium term it plans to continue with annual debt repayments.
The established provision schemes by law will continue, such as a fully funded pension fund founded in 2006 for new civil servants.

Debt redemption started in 2012. Therefore it is planned to stabilize the debt redemption at 100m from 2017 onwards.

Budget consolidation by successfully implementing structural reforms, a strict expenditure control based on the consolidation of its number of personnel and good performance of tax revenues.

The annual achieved operating balance enables the State to necessary capital expenditures to improve its location profile!
Chapter 4

Debt Management -

flexible, investor focused, anticipatory strategy
State’s Debt Capital Market Strategy

- **Anticipatory issuer**
  - 1998 - establish MTN & Commercial Paper Program
  - 1998 - initial Rating from S&P followed by Moody’s and Fitch
  - 1998 - inaugural benchmark issue

- **Strong product capabilities**
  - 1999 - 1st issue in foreign currency
  - 2004 - 1st issue of SUKUK Trust Certificate

- **Innovation and investor-focus** is driving by States approach to maximize name-recognition and flexibility of funding sources especially after financial crisis
The strategic mix of all instruments enables Saxony-Anhalt to approach debt management in a flexible manner, especially in terms of investor demands. Consequently, this broadens the investor base. A clear investor focus and strong product capabilities ensure that all structures and all foreign currencies are hedged in fixed or floating EUR.
Saxony-Anhalt Debt Management Products

- Annual refinancing ratio between 10% to 15% of total debt
- Barbell-Strategy to address the low interest rate environment and steep €-curve
Chapter 5

State of Saxony-Anhalt‘s Unique Value Proposition
Key considerations

Access to a strong support system
- Embedded in strongest equalisation system globally among German States and the Federal Republic to support revenue and investment support

Good budget performance
- Saxony-Anhalt ranks above German average in terms of budget performance
- Financial surplus each year since 2012
- Building up provisions for future liabilities (e.g. pensions funds, short tax fall reserve)

Innovative and flexible issuer
- Access to multiple low cost funding avenues
- Saxony-Anhalt is strongly committed to its investor focused and flexible funding strategy, including regular liquid benchmark bonds

Unique Rating history
- Fitch (AAA) – stable outlook
- Moody's (Aa1) – stable outlook
- S&P (AA+) – stable outlook
Key considerations

- **Excellent alternative to the “Bund”**
  - Comparable credit risk
  - Attractive yield pick-up
  - More flexibility in terms of products

- **0% risk weighting in most countries**

- **Saxony-Anhalts bonds issuances qualify as HQLA**
  (Level 1 assets under LCR)

- **Saxony-Anhalts Benchmarks**

<table>
<thead>
<tr>
<th>ISIN</th>
<th>Kupon</th>
<th>Fälligkeit</th>
<th>Währung</th>
<th>Ausstehender Betrag</th>
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<tbody>
<tr>
<td>DE000A2GSCL6</td>
<td>0,500%</td>
<td>25.06.2027</td>
<td>EUR</td>
<td>500.000.000</td>
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<tr>
<td>DE000A11QP00</td>
<td>1,875%</td>
<td>10.04.2024</td>
<td>EUR</td>
<td>1.000.000.000</td>
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<tr>
<td>DE000A1TNA47</td>
<td>1,625%</td>
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<td>EUR</td>
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<td>DE000A1KQYE3</td>
<td>3,750%</td>
<td>06.04.2021</td>
<td>EUR</td>
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<tr>
<td>XS1502566232</td>
<td>1,375%</td>
<td>15.10.2019</td>
<td>USD</td>
<td>750.000.000</td>
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<tr>
<td>XS1231289312</td>
<td>1,250%</td>
<td>14.05.2018</td>
<td>USD</td>
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<tr>
<td>DE000A0S8XM4</td>
<td>4,500%</td>
<td>11.09.2017</td>
<td>EUR</td>
<td>1.000.000.000</td>
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</tbody>
</table>
Contacts
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Homepage Saxony-Anhalt: www.sachsen-anhalt.de

Ticker on BLOOMBERG:
LAEN (SACHAN GOVT)
Culture heritage in Saxony-Anhalt is very rich like UNESCO world heritage Bauhaus Dessau, Collegiate Church, the Castle & Old Town of Quedlinburg, the Luther Memorial Sites in Luther Cities Eisleben and Wittenberg as well as the Garden Kingdom Dessau-Wörlitz.

...in Saxony-Anhalt.
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