Official Export Guarantee Scheme of the Federal Republic of Germany

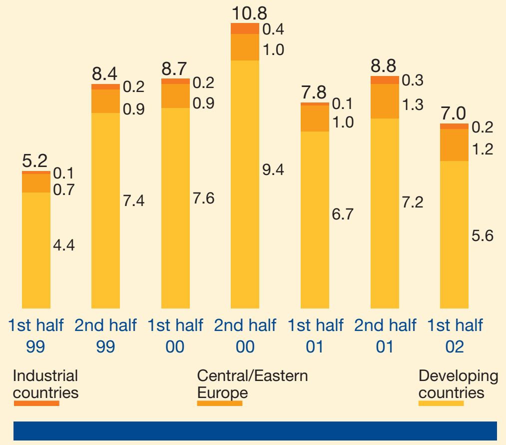
Interim Report

Newly covered business

New cover was granted for export business with an order volume of EUR 7.0bn during the first six months of 2002. This is slightly down on the same period in 2001, with EUR 7.8bn, due to the as yet only tentative recovery of the global economy. Due to the wait-and-see attitude of many investors, demand for export guarantees in the second half of 2002 is expected to remain at the present level.

The developing countries together with the threshold countries account, as in previous years, for the greatest amount (EUR 5.6bn). This represents a share of 80.3 % of new cover. The demand for cover for exports to the Central and Eastern European countries increased once again in the first half of 2002. At EUR 1.2bn (2001: 1.0bn), they account for 17.3 % of newly assumed guarantees. Russia leads the field here, followed by Poland. The volume of cover for the western industrial countries remained at a low level, EUR 168m. Their share of new cover thus stood at 2.4 %.

Guarantees by country group in billions EUR



The highest new cover assumed went to China (EUR 850m). The lion's share here consists of investments such as railway electrification, the modernisation of steelworks and the energy sector. It is remarkable that even major capital goods transactions are being handled as short-term business with payments falling due within a short period after the delivery of goods or performance of services.

Brazil follows in second place, with EUR 501m. A large part of cover was granted under whole-turnover guarantees as well as for textile and woodworking machines and for projects in the telecommunications sector.

In the case of Turkey (EUR 498m), new cover was up 42 % year-on-year. This consisted mostly of extended-term guarantees, mainly for a great diversity of machinery in various areas of the textile sector and for medical equipment.

2002

Iran, too, made up lost ground again (EUR 468m). In the main, medium and long-term cover was given here for further projects in the petrochemical, steel and telecommunications sectors as well as plants for the production of porcelain. The Federal Government has issued offers of cover for a number of large-scale projects. Export guarantees are thus making an important contribution to the diversification of the Iranian economy.

Russia has moved up the list (EUR 407m), rising by 48 % over the same period of the preceding year. A large proportion of the newly covered business is in respect of medical equipment and hardware and software destined for use in networks and systems in the information technology and telecommunications sector. Due to positive economic developments in Russia, there is brisk demand for cover. After the upgrading of Russia to the more favourable premium category 5 and the provision of a ceiling of EUR 1bn, there is sufficient scope for new cover to be assumed.

Due to the political and economic developments in January, it proved necessary to suspend cover for Argentina.

Breakdown of newly granted cover by horizon of risk

A breakdown of newly granted cover reveals a shift in the first six months of 2002 towards extended-term guarantees with credit periods exceeding one year. These increased their share of cover from 21.7 % to 25.5 % year-on-year, rising by 6 % to EUR 1.8bn after EUR 1.7bn in the preceding year.

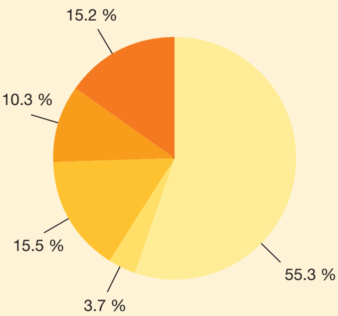
Short-term cover, which had gone up steeply in the previous year due to several specific guarantees for major transactions involving foreign construction works and other capital goods business with progress payments falling within this period, dropped back by 14 % to EUR 5.2bn. Its share of new business is thus 74.5 % after 78.3 % one year before.

While wholeturnover policies, with EUR 3.9bn, remained at the previous year's high level, short-term specific policies declined by 41 % from just under EUR 1.9bn in 2001 to EUR 1.1bn following the decrease in major projects with short payment terms. Revolving cover fell by 16 % (from EUR 313m to EUR 263m).

Cover for structured finance constructions was granted to the tune of EUR 243.6m (2001: EUR 67m). Exports under project financing transactions received cover of EUR 44.4m. Newly covered orders in aircraft business, at EUR 225m, are about a third down on the same period one year before (EUR 330m).

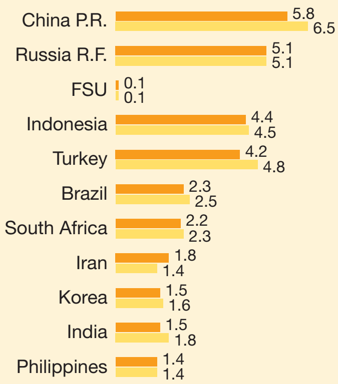
The level of applications from small and medium-sized companies remains consistently high and demonstrates that the benefits of export guarantee cover are especially felt by the small business sector. In addition to this, it is particularly in major export transactions that many companies from this sector are involved as subcontractors.

Guarantees by horizon of risk as at 30.06.2002 in billions EUR



Wholeturnover policies:	3.9
Revolving policies:	0.3
Short-term specific policies:	1.1
1 - 5 years:	0.7
Over 5 years:	1.1

Total outstanding risk of the Federal Government as at 30.06.2002 in billions EUR



30.06.2002

31.12.2001

Subtotal 30.06.2002: 30.3bn EUR (57.2%)

Total 30.06.2002: 53.0bn EUR (100%)

Total outstanding risk, utilization of the statutory maximum exposure limit, and total commitment level.

The actual maximum outstanding risk of the Federal Government from claims from all policies underwritten went down by 7.3 % during the first half of 2002 and stood at EUR 53bn (including interest) as per 30.06.2002.

The statutory maximum exposure limit authorized by the Federal Budget Law at a level of EUR 117.6bn had been utilized up to the middle of the year to an extent of EUR 102.6bn, representing 87.2 %. All business covered under the statutory maximum exposure limit remains on the register in full until it is finally discharged. A net amount of EUR 690m was added during the first six months of 2002.

Revenues

The premiums and fees received during the first half-year, EUR 212.3m, dropped by 38.9 % year-on-year over 2001, but the previous year had been marked by substantial extraordinary influences, since monies received in respect of cover for major transactions granted and invoiced at the end of 2000 were booked in 2001.

Recoveries from already indemnified claims, amounting to EUR 277m, were considerably higher than one year earlier (EUR 66.5m), due to a single payment of EUR 266m for ship deliveries to Russia. Without this extraordinary item, recoveries would have been down on the previous year, totalling EUR 11m. Capital repayment under rescheduling agreements reached EUR 255.9m (2001: EUR 408.9m). Russia accounts for the lion's share here, EUR 91m, followed by Brazil and the Ukraine.

Interest received – almost entirely under rescheduling agreements – which is, however, not included in the result of the export guarantee scheme, went up slightly by 3.5 % to EUR 610.6m. The former Soviet Union is responsible for the highest amount here, EUR 377m, with Brazil and Poland next.

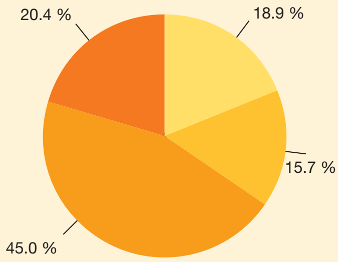
Expenses

Payments for political claims including those already regulated by rescheduling agreements stood at EUR 81.6m (2001: EUR 142m). The decline can mostly be attributed to the exhaustion of indemnifications from old Soviet debt. The highest claims payments were for the Ukraine, with EUR 64.7m, while the next highest sums were paid out for Russia (EUR 5.6m), Cameroon (EUR 2.5m) and Zimbabwe (EUR 2.4m).

Payments for commercial claims went up by 63.2 % to EUR 249m. Predominantly because of major claims, they rose to triple the amount of political claims. Claims in respect of buyers in Indonesia of EUR 96.6m (APP, Petrochem and Pacific) accounted for the majority of this. A further EUR 21.2m were paid out for India, EUR 18.3m for Singapore, EUR 16.3m for Venezuela and EUR 15.5m for Belgium (Sabena).

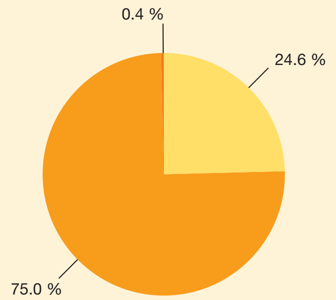
Payments under exchange rate claims dropped once again by more than 60 % to EUR 1.2m as a consequence of the minimal amount of old cover remaining.

Revenues as at 30.06.2002
in millions EUR



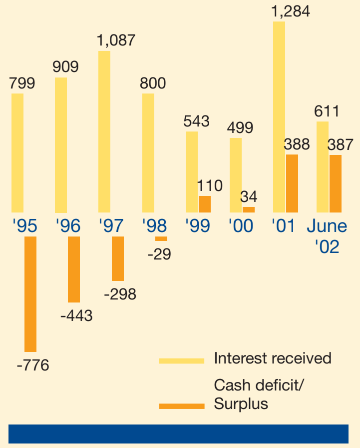
Payments recovered under rescheduling agreements:	255.9
Premiums/fees earned:	212.3
Interest received:	610.6
Recoveries:	277
Total: 1,355.8m EUR	

Expenses as at 30.06.2002
in millions EUR



Political risk claims	81.6
Commercial risk claims	249.0
Exchange rate risk claims	1.2
Total: 331.8m EUR	

Financial result as at
30.06.2002 in millions EUR



Financial result

Overall, the first half of 2002 ended, viewed simply in terms of the arithmetic, with a positive balance amounting to EUR 387.4m, which contributes to the depletion of the deficit accumulated between 1982 and 1998. After all the factors influencing revenues and expenses have been considered, a positive financial result in the amount of the profit for the first half-year is expected for the full business year 2002.

The interest amounts of EUR 610.6m received predominantly in respect of rescheduling agreements have been transferred to the Federal budget accounts. For methodical reasons these sums are not included in the result of the scheme however, since the refinancing costs also incurred by the Federal Government in respect of claims payments are likewise not included when calculating the result.

Primary responsibility for decisions on the granting of export guarantee cover is taken by the Federal Ministry of Economics and Technology.

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The Federal Government has delegated responsibility for the operation of the export guarantee scheme to a consortium comprising HERMES Kreditversicherungs-AG in Hamburg, as lead partner, and PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg. For further details or if you would like advice concerning the options available and the practical operation of the Federal Government export guarantee scheme, please contact HERMES Head Office, your local HERMES regional sales office or visit our website.

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