

Interim Report

Newly covered business

New cover was granted for export business with an order volume of EUR 8.5bn during the first six months of 2003. This represents a substantial increase of 20.2 % over the same period in 2002, with EUR 7.0bn, especially when measured against the still very sluggish growth of the global economy. The upturn can be largely attributed to export credit guarantees for major plant construction projects.

The number of new applications for cover equalled that in the same period of the previous year, while the volume involved decreased by 8.5 %. Due to the tendency of many investors to await further developments, demand for export guarantees in the second half of 2003 is expected to remain at about the same level as last year.

As in previous years, the **developing countries** together with the threshold countries account for the lion's share of export cover given, 76.6 % (EUR 6.5bn). Guarantees for exports to the **Central and Eastern European countries** continued to rise in the first half of 2003. Totalling EUR 1.4bn (2002: EUR 1.2bn), they account for 16.7 % of newly assumed guarantees. Russia leads the field here, followed by Poland. The volume of cover for the **western industrial countries** went up to EUR 570m (2002: EUR 168m). Their share of new cover thus stood at 6.7 %.

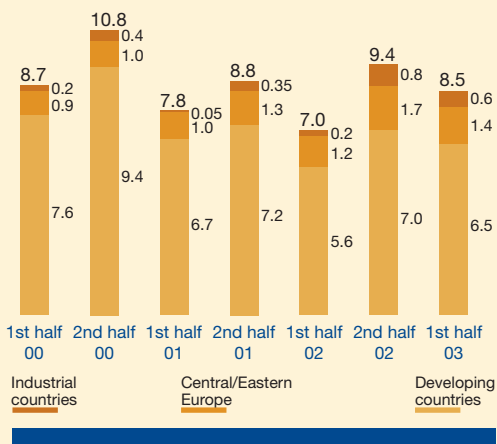
The highest new cover assumed went to **Trinidad and Tobago** (EUR 638m). This is for turnkey projects involving the erection of a facility for the production of methanol and one for ammoniac. Export credit guarantees were granted for both factories as project financing transactions.

Turkey follows in second place (EUR 567m). Cover was predominantly granted under short-term wholeturnover guarantees as well as extended-term guarantees for machinery in all areas of the textile sector and in car-body construction.

New cover for **Brazil** (EUR 555m) was up 10.5 % year-on-year. A large part of this comprised wholeturnover guarantees and projects in the telecommunications sector.

Export credit guarantees for **China** (EUR 547m) declined by 35 %. As in the preceding years, these were mostly major capital goods transac-

Guarantees by country group in billions EUR



tions handled as short-term business with payments falling due within a short period after the delivery of goods or performance of services. The lion's share of cover was given for investments in the energy sector and to modernize steelworks.

Guarantees for **Iran** (EUR 468m) equalled the previous year's figure. In the main, medium and long-term cover was given here for further projects in the petrochemical and steel sectors.

Russia (EUR 369m) follows Israel and South Africa, ranking 8th in the list of the countries with the highest volume of new cover. Due to the sustained record of positive economic developments and good payment experience, Russia was upgraded to the more favourable premium category 4. The Interministerial Committee removed the limitation of cover by means of a ceiling, so that new export credit guarantees are now available without an upper limiting amount for all forms of finance, including project financing and structured finance transactions.

The fact that the **USA** finds mention here is due to the cover given for a cruise ship, amounting to EUR 318m, and **Bulgaria** is represented by a guarantee covering EUR 290m for the modernization of power stations.

Exports to **Argentina** to the tune of EUR 38.2m were insured under wholeturnover policies. The situation in **Venezuela** has not stabilized sufficiently yet, so that no cover is available for new applications.

Breakdown of newly granted cover by horizon of risk

A breakdown of newly granted cover reveals a shift in the first six months of 2003 towards **medium- and long-term guarantees** with credit periods exceeding one year. Guarantees with credit periods exceeding five years doubled. The share of extended-term guarantees in total cover rose by 60 % to just under EUR 2.9bn thus going up from 25.5 % in the previous year to stand at 34 %.

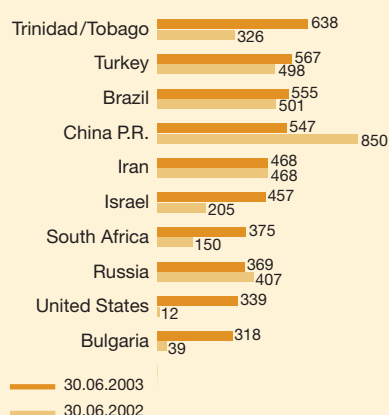
Cover for structured finance constructions was granted to the tune of EUR 364.1m (2002: EUR 243.6m). Exports under project financing transactions received cover of EUR 744.9m (2002: EUR 44.4m), of which EUR 635m were for Trinidad and Tobago. Newly granted guarantees for aircraft, at EUR 232, are slightly up on the same period one year before (EUR 225m).

Short-term cover rose by 6.6 % to EUR 5.6bn. It accounts for 66 % of new business after 74.5 % one year before.

While wholeturnover policies remained at the previous year's high level with EUR 3.9bn, short-term specific policies went up to just under EUR 1.5bn after EUR 1.1bn in 2002. Revolving cover dropped once again (from EUR 263m to EUR 193m).

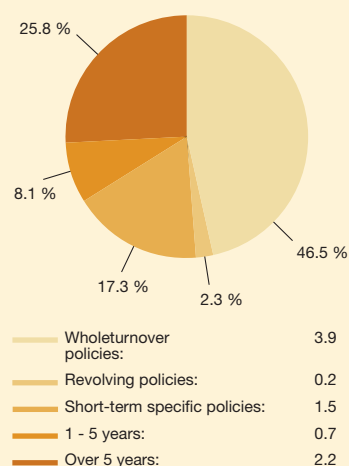
The level of applications from small and medium-sized companies remains consistently high and demonstrates that the benefits of export guarantee cover are especially felt by the **small business sector**. In addition to this, it is particularly in major export transactions that many companies from this sector are involved as subcontractors. Demand for the small business wholeturnover policy (APG-light) introduced as part of the Federal Government's drive to promote exports is also high. With 100 policies already concluded, of which more than half were taken out by new customers, this new underwriting tool is proving a great success.

Guarantees as at 30.06.2003 in millions EUR



Subtotal 30.06.2003: 4.633m EUR (54.8%)
 Total 30.06.2003: 8.460m EUR (100%)

Guarantees by horizon of risk as at 30.06.2003 in billions EUR



Total outstanding risk

The actual maximum **outstanding risk of the Federal Government from claims** from all policies underwritten went up by 1.1 % during the first half of 2003 and stood at EUR 51.9bn (including interest) as per 30.06.2003.

Revenues

The **premiums and fees** received during the first half-year, EUR 283m, rose by 33.3 % year-on-year over 2002. This reflects the increase of guarantees in the long-term segment.

Recoveries from already indemnified claims were EUR 29.0m. The higher volume in the previous year (EUR 277m) had been largely due to a single payment of EUR 266m for ship deliveries to Russia. **Capital repayment under rescheduling agreements** rose to EUR 357.6m (2002: EUR 255.9m). Russia accounts for the largest share here, EUR 157.6m, followed by Brazil, Nigeria and Algeria.

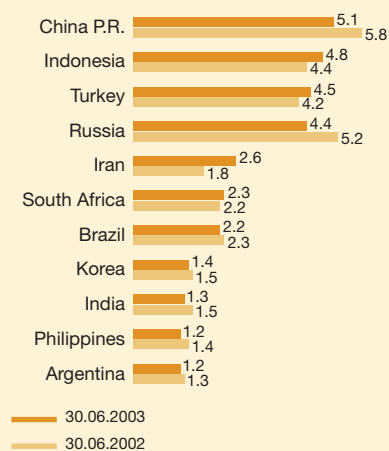
Interest received – almost entirely under rescheduling agreements – went down by 6.1 % to EUR 573.3m. The former Soviet Union is responsible for the highest amount here, EUR 380m, with Brazil and Poland next.

Expenses

Payments for **political claims** including those already regulated by **rescheduling agreements** stood at EUR 56.3m (2002: EUR 81.6m). The highest claims payments were for Argentina, with EUR 28.3m, while the next highest sums were paid out for Pakistan (EUR 21.6m) and Turkmenistan (EUR 3.7m).

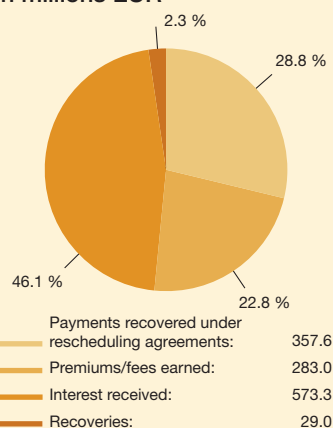
Payments for **commercial claims** dropped by 18.1 % to EUR 203.9m. Despite this decline, they were thus almost four times as high as the amount of political claims. Major claims in respect of buyers in Indonesia of EUR 49.3m were indemnified. A further EUR 22.7m were paid out in respect of Mexico, EUR 22.3m for India, EUR 18.8m for Argentina, EUR 14.1m for Singapore and EUR 11.3m for China.

Total outstanding risk of the Federal Government as at 30.06.2003 in billions EUR



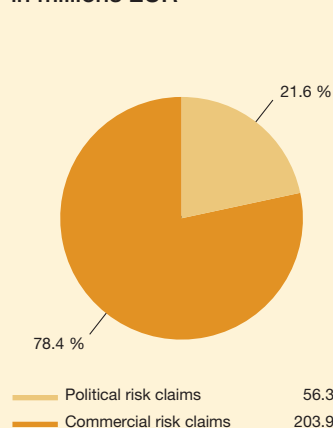
Subtotal 30.06.2003: 31.0bn EUR (59.7%)
Total 30.06.2003: 51.9bn EUR (100%)

Revenues as at 30.06.2003 in millions EUR



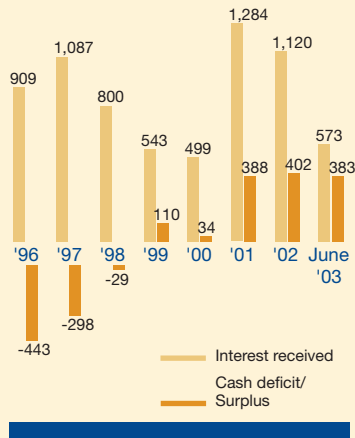
Total: 1,242.9m EUR

Expenses as at 30.06.2003 in millions EUR



Total: 260.2m EUR

**Financial result as at
30.06.2003 in millions EUR**



Financial result

Overall, the first half of 2003 ended, viewed simply in terms of the arithmetic, with a positive balance equalling that of the previous year, at EUR 382.9m. After all the factors influencing revenues and expenses have been considered, a positive financial result is expected for the full business year 2003, which contributes to the depletion of the deficit accumulated between 1982 and 1998.

The **interest amounts** of EUR 573.3m 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.

The leadership function in the Interministerial Committee, which has the underwriting responsibility for Federal Export Credit Guarantees, is exercised by the Federal Ministry of Economics and Labour.

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The Federal Government has appointed a consortium formed by **Euler Hermes Kreditversicherungs-AG**, Hamburg, as lead partner, and **PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft**, Hamburg, to manage the official export credit guarantee scheme. 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 the Head Office of Euler Hermes Kreditversicherungs-AG in Hamburg, one of the branch offices or visit our website.



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