

Interim Report

The Federal Export Guarantee scheme posted a strong result for the first half-year of 2004. Demand for state insurance to cover credit business against the risks of exporting to particularly risk-prone markets climbed steeply, going up more than 25 % year-on-year. China, Iran, Turkey and Russia are the most important markets here. Due in particular to a continuing high level of recoveries under rescheduling agreements, substantial surpluses will be transferred to the Federal budget accounts in this year too.

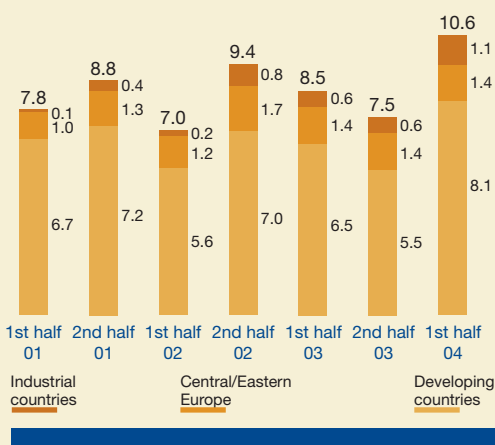
Newly covered business

New cover was assumed for export business with an order volume of 10.6bn EUR during the first six months of 2004. This substantial increase of

25.2 % over the same period in 2003, with 8.5bn EUR, reflects the recovery of the global economy as well as the upturn in Eastern Asia and the USA. If the positive trend in global economic development is maintained, demand for export guarantees can be expected to surpass last year's figure by a considerable margin in the second half of 2004 too.

As in previous years, 76,0 % of cover given went to the **developing countries** and the threshold countries, which accounted for the lion's share with 8.1bn EUR. Guarantees for exports to the Central and Eastern European countries remained at the previous year's level in the first half of 2004, 1.4bn EUR. Their share of newly assumed guarantees is thus 13.0 %. The volume of guarantees for the **western industrial countries** rose from 570m EUR to 1.1bn EUR, giving them a share of 10.9 % of total cover.

Guarantees by country group
in billions EUR



The highest volume of new cover assumed went to **China** (1.4bn EUR). Cover for China thus already exceeds the figure for the entire preceding year. The majority of export guarantees were given for investments to modernize steelworks, the construction of a paper manufacturing plant, factories for the stretching of industrial foils and packaging facilities. These capital goods transactions were almost exclusively handled as short-term business with payments falling due within a short period after the delivery of goods or performance of services. This clearly reflects the high liquidity in the Chinese market.

Iran follows in second place, (1bn EUR). Here, too, the guarantees already exceed the value of those given in the whole of the previous year. Many offers of cover in principle issued in 2003 were realized here. They mainly relate to medium and long-term projects in the energy and petrochemical sectors. Structured finance constructions play an important role in Iran.

For Turkey, too, (713m EUR), cover went up by 25.9 %. Besides short-term commercial business, transactions on extended credit terms included a turnkey project for a gas and steam turbine power station, a plywood factory and deliveries of machinery to virtually every sector of the economy. Due to the positive economic development of the country, the OECD upgraded Turkey to premium category 5.

Russia, with cover of 562m EUR, rose to occupy 4th place in the league of countries with the highest volume of new cover. Guarantees were mostly given for technologically advanced medical equipment and information systems. Banks were recognized as guarantors in many cases and cover was also given on the basis of the buyer's creditworthiness ("corporate risk").

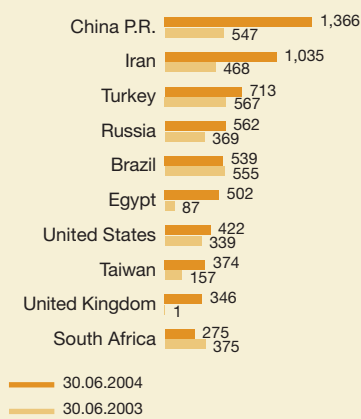
New cover for Brazil (539m EUR) remained steady at almost last year's level (-2.9 %). A large part of this comprised short-term trading transactions.

Export credit guarantees for Egypt included turnkey projects for two fertilizer factories with a volume of some 400m EUR.

Among the guarantees for exports to the industrialized world the USA and the UK, each with a cruise liner, take a prominent place as does Taiwan, where a guarantee was assumed for the delivery of a public transport system.

Cover for Argentina developed positively. Exports to the tune of 63.6m EUR were insured in the form of short-term trading transactions (2003: 38.2m EUR).

Guarantees as at 30.06.2004 in millions EUR



Subtotal 30.06.2004: 6.134m EUR (57.9%)
 Total 30.06.2004: 10,588m EUR (100%)

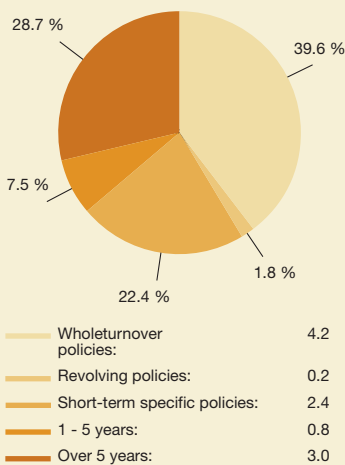
Breakdown of newly granted cover by horizon of risk

A breakdown of newly granted cover reveals a shift in the first six months of 2004 towards medium- and long-term guarantees with credit periods exceeding one year. The share of total cover accounted for by medium-and long-term guarantees rose by 33.2 % to just under 3.8bn EUR, representing an increase from the previous year's 34.0% to 36.2 % for the same period. The growth in guarantees with credit periods exceeding five years was particularly noticeable: they went up by 38.9 % to 3.0bn EUR.

Cover for structured finance constructions was granted to the tune of 188.1m EUR (2003: 364.1m EUR). Exports under project financing transactions received cover of 164.6m EUR (2003: 744.9m EUR). Newly granted guarantees for aircraft have more than doubled compared with the same period one year before, from 232m EUR to 496m EUR.

Short-term cover rose by 21.0 % to 6.8bn EUR. It accounts for 63.8 % of new business after 66 % one year before.

Guarantees by horizon of risk as at 30.06.2004 in billions EUR



The typical form of insurance for short-term commercial trading business by means of a wholeturnover policy posted a further rise of 6.8 % over the previous year's already high level, climbing to 4.2bn EUR. Revolving cover went down again (from 193m to 187m EUR). Short-term specific policies increased by 62.5 %, reaching 2.4bn EUR after 1.5bn EUR in 2003.

The consistently high level of applications from small and medium-sized companies shows the extensive use of export credit guarantees by the **small business sector**. In addition to this, many companies from this sector are involved in major export transactions as subcontractors.

The wholeturnover policy light, introduced as part of the Federal Government's foreign trade and investment initiative and especially tailored to the needs of small and medium-sized enterprises, continues to develop very satisfactorily. Up to 30.06.2004, a total of 200 policies had been concluded, of which more than half were taken out by new customers.

Total outstanding risk

The actual maximum **outstanding risk of the Federal Government from claims** under all policies underwritten went up by 3.2 % during the first half of 2004 and stood at 53.6bn EUR (including interest) as per 30.06.2004.

Revenues

The **premiums and fees** received during the first half-year dropped by 15.3 % year-on-year over 2003, totalling only 239.7m EUR. There had however been considerable influences from non-recurring factors in the previous year.

Recoveries from already indemnified commercial claims more than doubled compared with 2003, rising to 57.0m EUR (after 24.6m EUR). Recoveries for political claims **and capital repayment under rescheduling agreements** went up to

386.6m EUR (2003: 362m EUR). Russia accounts for the largest share here, 191.6m EUR, followed by Brazil, Poland and Algeria.

Interest received – almost entirely under rescheduling agreements – increased by 10.8 % to 635.3m EUR. Russia is responsible for the highest share here, 371.8m EUR, followed by Nigeria (96.4m EUR), Brazil (46.6m) and Poland (45.8m EUR).

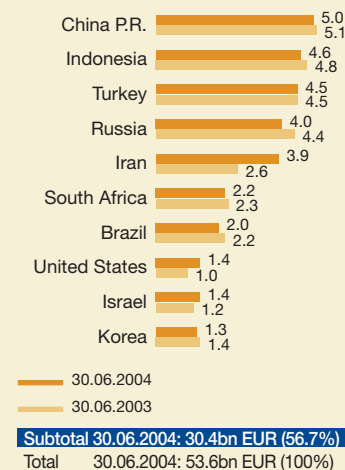
Expenses

Payments for **political claims** rose by 6.2 % to 59.8m EUR (2003: EUR 56.3m EUR). The highest claims payments were for Argentina, with EUR 38.3m (2003: 28.3m EUR). The next highest sums were paid out for Zimbabwe (12.8m EUR) and Pakistan (6.8m EUR).

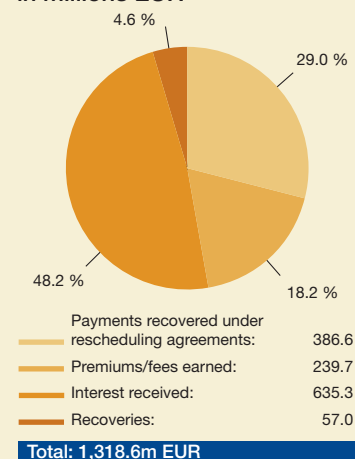
Payments for **commercial claims** dropped slightly by 1.8 % to 200.3m EUR. Major claims in Indonesia were indemnified to the tune of 55.5m EUR. A further 20.9m EUR were paid out for claims in India, 20.3m EUR in Brazil, 15.3m EUR in Mexico, 12.8m EUR in Singapore and 12.7m EUR in Argentina.

Still existing old claims under **exchange rate cover** were indemnified in the amount of 1.3m EUR.

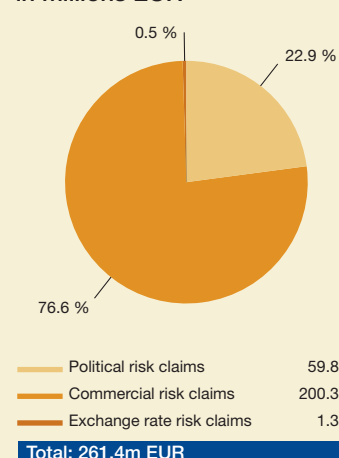
Total outstanding risk of the Federal Government as at 30.06.2004 in billions EUR



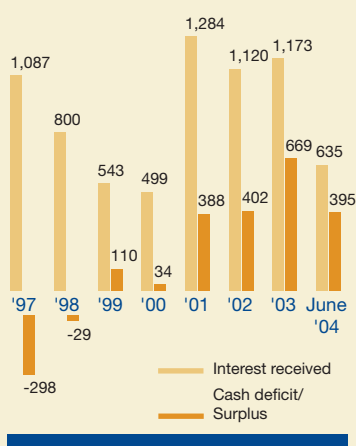
Revenues as at 30.06.2004 in millions EUR



Expenses as at 30.06.2004 in millions EUR



**Financial result as at
30.06.2004 in millions EUR**



Financial result

Overall, the first half of 2004 ended with a positive balance of 394.8m EUR, 3.1 % up on the previous year's figure. After all the factors influencing revenues and expenses have been considered, a clearly positive financial result is once again expected for the full business year 2004, which will make a further contribution to reducing the deficit accumulated between 1982 and 1998.

The **interest** amounts of 635.3m EUR 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 Labour.

Federal Ministry of Economics and Labour
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Internet: <http://www.bmwa.de>

The Federal Government has delegated responsibility for the operation of the export credit guarantees to a consortium comprising **Euler 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 credit guarantee scheme, please contact Euler Hermes Head Office, your local regional sales office or visit our website.



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