

Interim Report

The volume of export credit guarantees at the end of the first six months of 2005 is in line with the long-term average and, due to the drop in demand, has fallen short of last year's record result. Once again Russia, China, Iran and Turkey are the most important markets. With the sole exception of Russia, however, there was a steep fall in the volume of cover for these countries. As a result of early repayments under rescheduling agreements, the financial result has improved again. The surplus will be transferred to the Federal budget accounts.

Newly covered business

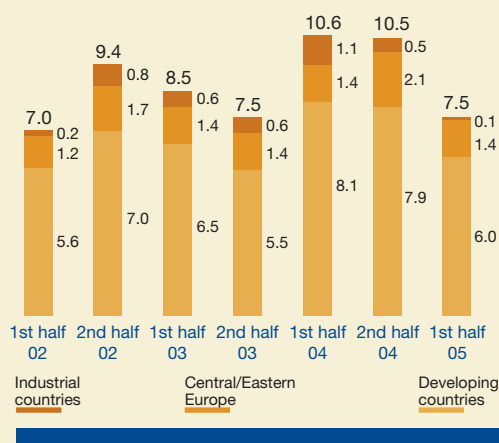
The Federal Government granted cover for exports with an order volume of 7.5 billion EUR in the first half of 2005. This represents a decline of 29.5 % over the same period of the preceding year, in which a particularly high level of demand for guarantees for business with China and Iran as well as for shipping transactions, among other factors, had led to a massive rise in export guarantee cover. The trend in demand for cover is expected to be maintained in the second half-year.

The **developing countries** together with the threshold countries accounted for 80.2 % of guarantee volume. With 6.0 billion EUR, they once again have the lion's share. Export credit guarantees for exports to the **Central and Eastern European countries** equalled the previous year's figure with 1.4 billion EUR and continue to show a positive development. Their share of new

cover is 18.3 %. The **western industrialized** countries, at 110 million EUR, make up 1.5 % of total cover. The volume of guarantees in the comparable period of the preceding year was 1.1 billion EUR, due to a small number of major projects.

Russia tops the list of countries with the highest new cover with 643 million EUR and an increase of 14.5 %. Substantial guarantees were given for business in the steel, chemicals and energy sectors and for the expansion of the mobile telephone network. Bank guarantees were accepted as security in the majority of these transactions, while major transactions are also increasingly being insured on the basis of corporate risk, the financial strength of the buyer.

Guarantees by country group
in billions EUR





China holds second place with cover to the tune of 584 million EUR. After the previous year's record figure, this is a decrease of 60 %. Large guarantees were assumed for investments to modernize steelworks as well as for Airbus aircraft. As in the preceding years, capital goods transactions are carried out almost exclusively on short payment terms.

In **Mexico**, a cement producing plant with an order value of 114 million EUR was insured by means of Hermes guarantees.

The largest single export credit guarantee in the first half-year went to a turnkey project to construct a methanol plant in **Oman** with a volume of 316 million EUR, which is structured as a project financing transaction.

The volume of covered business to **Iran** (564 million EUR) went down by 45 %; there are, however, many projects in preparation. Export credit guarantees were mainly given for medium- and long-term transactions in the petrochemical sector and for cement and glass production.

In **India** (302 million EUR) cover was given for, among other things, facilities for the manufacture of polyester thread and equipment for the reconstruction of a steel rolling mill.

The increase in cover volume for **Vietnam** to 222 million EUR is largely due to the assumption of export credit guarantees for a cement factory.

Exports to **Argentina** were mostly covered on short payment terms as trade receivables with private buyers to the tune of 80.1 million EUR (2004: 63.6 million EUR).

Insured exports to **Turkey** declined by 37 %, reaching 518 million EUR. Both short-term trade transactions and extended-term machine deliveries were covered, as well as equipment for virtually every sector of the economy.

Brazil attracted export guarantee cover of 450 million EUR, a reduction of 16.5 %. In addition to trade business on short payment terms, guarantees were given for the expansion of a steelworks with an order volume of 104 million EUR.

Breakdown of newly granted cover by horizon of risk

Medium- and long-term guarantees with credit periods exceeding one year fell by 34.7 % in the first half of the year, totalling 2.5 billion EUR. Of this sum, guarantees with a credit period exceeding five years account for 2.0 billion EUR. The share of total cover accounted for by medium- and long-term guarantees dropped from the previous year's 36.2 % to 33.5 %.

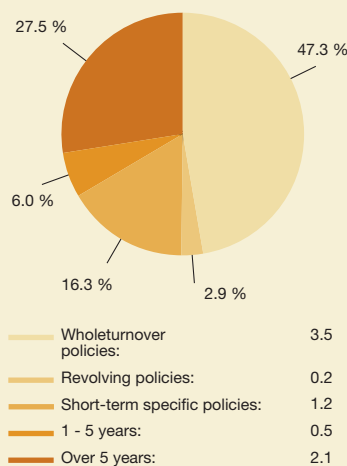
Export credit guarantees for business under project financing transactions rose to 339.8 million EUR after 164.6 million EUR in 2004. Cover for structured finance constructions was granted to the tune of 61.7 million EUR (2004: 188.1 EUR). Newly granted guarantees for aircraft stood at 211 million EUR (2004: 496 million EUR). Many projects are in the pipeline, however.

Guarantees as at 30.06.2005 in millions EUR



Subtotal 30.06.2005: 4,247m EUR (56.9%)
 Total 30.06.2005: 7,467m EUR (100%)

Guarantees by horizon of risk as at 30.06.2005 in billions EUR



Short-term cover decreased by 26.5 % to 5.0 billion EUR. It accounts for 66.5 % of new business after 63.8 % one year before.

The typical form of insurance for short-term commercial trading business by means of a wholeturnover policy stood at 3.5 billion EUR, 15.8 % down on the very high level of the previous year. Revolving cover went up from 187 million to 213 million EUR. Short-term specific policies declined by 48.7 %, reaching 1.2 billion EUR after 2.4 billion EUR in 2004. The previous year's high level had been due almost exclusively to the brisk demand for exports to China.

The wholeturnover policy light, especially tailored to the needs of small and medium-sized enterprises, continues to develop very satisfactorily. As of 30.06.2005, a total of 935 wholeturnover policies had been concluded, of which 333 were in the light version.

Total outstanding risk

The actual maximum **outstanding risk** of the Federal Government from claims under all policies underwritten went down by 1.6 % during the first half of 2005 and stood at 52.7 billion EUR (including interest) as per 30.06.2005.

Revenues

The **premiums and fees** received during the first half-year dropped by 2.7 % year-on-year over 2004 to 233.3 million EUR.

Recoveries from already indemnified commercial claims rose year-on-year by one third to 75.6 million EUR (2004: 57.0 million EUR).

Recoveries for political claims and capital repayment under **rescheduling agreements** went up, due to early repayment of capital of 799.9 million EUR on rescheduling agreements by Poland, to 1,225.0 million EUR. This non-recurring item means that this year's results are not comparable

with the previous year's figure of 386.6 million EUR. Russia accounts for the second largest amount, 209.4 million EUR, followed by Brazil with 107.3 million EUR.

Interest received, too – almost entirely under rescheduling agreements – was influenced by the early repayments from Poland, going up by 56.5 % to 994.4 million EUR. Poland was responsible for the largest share here, 464.9 million EUR, followed by Russia with 358.5 million EUR, Nigeria (59.4 million EUR) and Brazil (39.7 million EUR).

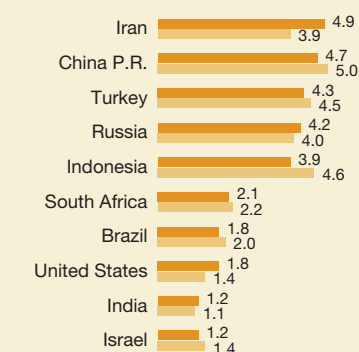
Expenses

Payments for **political claims** more than halved (- 57.4 %) to 25.5 million EUR (2004: EUR 59.8 million EUR). The highest claims payments were for Argentina, with EUR 25.1 million (2004: 38.3 million EUR).

Payments for **commercial claims**, too, dropped by 15.2 % to 169.8 million EUR. The highest claims payments were for Argentina to the tune of 39.9 million EUR. A further 27.6 million EUR was paid out for claims in Indonesia, 22.1 million EUR in Brazil and 19.7 million EUR in India.

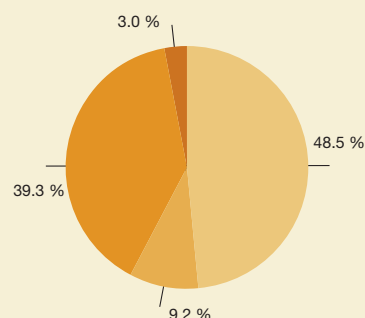
Still existing old claims under **exchange rate cover** were indemnified in the amount of 2.7 million EUR.

Total outstanding risk of the Federal Government as at 30.06.2005 in billions EUR



Subtotal 30.06.2005: 30.1bn EUR (57.1%)
Total 30.06.2005: 52.7bn EUR (100%)

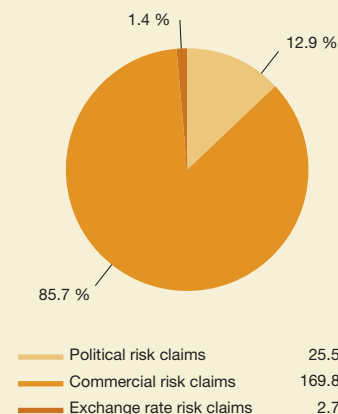
Revenues as at 30.06.2005 in millions EUR



Payments recovered under rescheduling agreements:	1,225.0
Premiums/fees earned:	233.3
Interest received:	994.4
Recoveries:	75.6

Total: 2,528.3m EUR

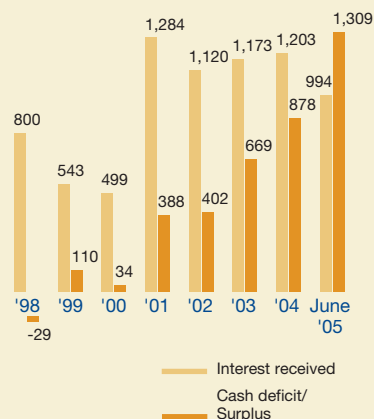
Expenses as at 30.06.2005 in millions EUR



Political risk claims	25.5
Commercial risk claims	169.8
Exchange rate risk claims	2.7

Total: 198.0m EUR

Financial result as at
30.06.2005 in millions EUR



Financial result

Due to early repayments from Poland, the first half of 2005 ended with a positive balance of 1,308.5 million EUR (2004: 394.8 million EUR). Due to the early repayments set to be made by Russia in the second half, the full business year 2005 will end with an extraordinary one-off result for the Federal budget, which will make a further contribution to reducing the deficit accumulated between 1982 and 1998.

The interest amounts of 994.4 million EUR received predominantly in respect of rescheduling agreements have also 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 **PricewaterhouseCoopers 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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