

# Interim Report

Demand for state insurance to cover credit business against the risks involved in export climbed steeply in the first half of 2006. Besides the United States, Russia, Saudi Arabia and Turkey are the most important markets. Due to the early repayment of debt under rescheduling agreements, unusually high surpluses will be transferred to the Federal budget accounts in 2006 too.

## Development of newly covered business

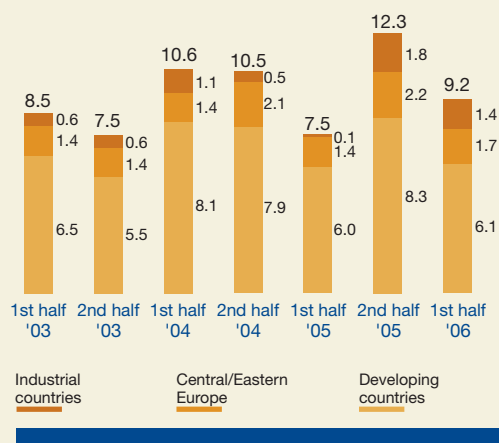
The Federal Government assumed new cover for export business with an order volume of 9.2 billion EUR during the first six months of 2006. This substantial increase of 23.6 % over the same period in the previous year reflects the continuing demand for the goods exported by Germany, and includes a number of major transactions. The trend points towards demand for cover remaining at a similar level in the second half.

As in previous years, the lion's share of cover given, 6.1 billion EUR, went to the **developing countries** together with the threshold countries. This represents 65.9 % of new cover. Export credit guarantees for exports to the **Central and Eastern European countries** continue to post a positive development; they went up by 26.7 % to 1.7 billion EUR. Their share of newly assumed guarantees is thus 18.8 %. Due to single large-scale projects, the share of cover for the **western industrial countries** rose to 15.3 % (1.4 billion EUR). In the comparable period of the preceding year, cover volume had only been 110 million EUR.

As in other recent years, the development of business in the individual markets is heavily dependent on a small number of major projects and the point in time that contracts for them are concluded, as well as the time when cover becomes effective. Major fluctuations from year to year are not therefore indicators for overall changes in export streams. A not inconsiderable number of further large-scale projects are in the preparation stage.

The **United States** head the list of the countries with the highest volume of newly assumed export credit guarantees, with 937 million EUR. This sum relates to a number of major projects, among them a cruise liner and a steel mill.

Guarantees by country group in billions EUR





New cover granted for business with **Russia** rose by more than a third to reach 878 million EUR. High-volume guarantees were given for the expansion of a waste incineration plant, a letter sorting centre and in the chemical and steel sectors. In transactions with a smaller volume, banks were involved as guarantors in the majority of cases, while cover in larger-scale business continues to be granted on the basis of the buyer's creditworthiness ("corporate risk").

the economy were covered here. Large export transactions included equipment for the production of corrugated cardboard and cardboard containers as well as Airbus aircraft.

In business with **Iran** (450 million EUR), the volume of cover declined in comparison to 2005 by 20 %. Export credit guarantees were given under a structured finance construction for a plant to manufacture foam rubber as well as for exports in the chemical sector. 55 % of cover volume was for transactions on short credit terms.

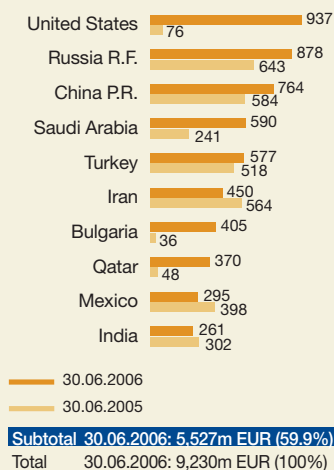
The Federal Government assumed guarantees for a steam power station for **Bulgaria** to the tune of 368 million EUR. Constructional works guarantees on short payment terms for the building of an orbital motorway for 261 million EUR and for Airbus aircraft were covered for **Qatar**. After export credit guarantees had been granted in the preceding year for large-scale individual projects in **Mexico** and **India**, cover there is predominantly for short-term business in the first half of 2006.

### Breakdown of newly granted cover by horizon of risk

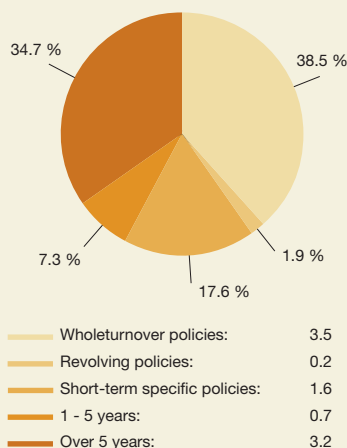
In the first six months of 2006, **medium- and long-term guarantees** with credit periods exceeding one year went up by 55.1 % to reach just under 3.9 billion EUR. Of this, 3.2 billion EUR is accounted for by export credit guarantees with a credit period of more than 5 years (2005: 2.1 billion EUR). The share of medium- and long-term guarantees in total cover rose from 33.5 % in the same period of the previous year to 42 %.

Export credit guarantees under project financing schemes increased to 605.5 million EUR after 339.8 million EUR in 2005. Cover for structured finance constructions was granted to the tune of 157.2 million EUR (2005: 61.7 million EUR). Newly granted guarantees for aircraft went up to 526 million EUR (compared with 211 million EUR in the same period one year before).

### Guarantees as at 30.06.2006 in millions EUR



### Guarantees by horizon of risk as at 30.06.2006 in billions EUR



**China** takes third place with guarantees for 764 million EUR, an increase over the same period year-on-year of 30.7 %. Large export credit guarantees were given for the expansion and modernization of steel-works. As in previous years, 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, so that 96.2 % of the volume here was accounted for by short-term business.

Cover on **Saudi Arabia** (590 million EUR) included an export credit guarantee with a volume of 388 million EUR under a project financing scheme for a steam turbine power station incorporating a sea water desalination plant.

Covered exports to **Turkey** went up by 11.4 % to 577 million EUR. Both short-term commercial business and medium- and long-term guarantees for deliveries of machinery and equipment to virtually every sector of

**Short-term cover** rose by 7.8 % to 5.4 billion EUR. It accounts for 58 % of new business after 66.5 % one year before.

The predominant form of cover for short-term commercial trading business is the wholeturnover policy; with a slight increase of 0.5 %, these equalled the previous year's level (3.5 billion EUR). Transactions covered by revolving guarantees went down by 16.4 % to 179 million EUR. Short-term specific policies, in contrast, increased by 33.2 %, reaching 1.6 billion EUR after 1.2 billion EUR in 2005. The high volume here is a result of projects in China, Qatar and Iran.

Since the introduction of the Federal counter-guarantee in January 2006, applications to the tune of some 120 million EUR have been received for this form of cover.

## Total outstanding risk

The actual maximum **outstanding risk of the Federal Government from claims** under all policies underwritten went up by 5 billion EUR (9.5 %) during the first half-year and stood at 57.7 billion EUR (including interest) as per 30.06.2006.

## Revenues

The **premiums and fees** received during the first half-year increased by 54.4 % year-on-year over 2005, totalling 360.1 million EUR.

**Recoveries** from already indemnified commercial claims rose year-on-year by nearly one third to 99.7 million EUR (2005: 75.6 million EUR).

**Recoveries** from political claims and **capital repayment under rescheduling agreements** decreased by 22.4 % to 951.2 million EUR despite early repayments from Brazil (381.5 million EUR and Nigeria (370.5 million EUR). They had risen to 1,225 million EUR in the previous year due to early repayments under rescheduling agreements by Poland to the tune of 800 million EUR. Due to these special factors from early repayments, the

results of 2005 and 2006 are not comparable with those of earlier years (2004: 386.6 million EUR). An agreement was reached with Russia in June 2006 covering the early repayment of all outstanding amounts under re-scheduling agreements.

The early repayment of debts also affected the **interest received** – almost entirely under rescheduling agreements – which increased by 41 % to a total of 1,402 million EUR. Nigeria is responsible for the highest share here, 1,060 million EUR, followed by Russia with 189.6 million EUR and Brazil (59.3 million EUR).

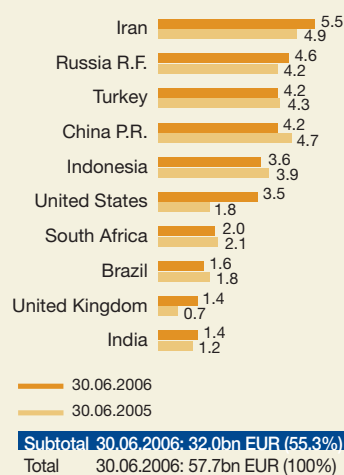
## Expenses

Payments for **political claims** rose from 25.5 million EUR to 61.2 million EUR. The highest claims payments were once again for Argentina, with 47.7 million EUR (2005: 25.1 million EUR).

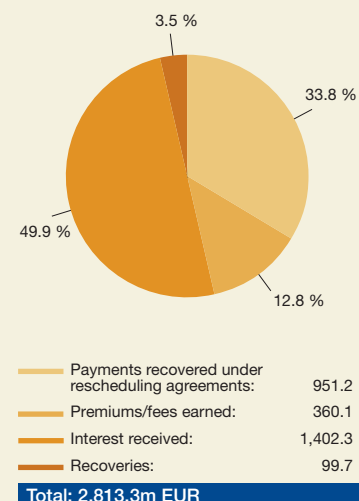
Payments for **commercial claims** declined by 54.7 % to 76.9 million EUR (2005: 169.8 million EUR). The highest claims were in Indonesia (19.3 million EUR) and Argentina (9.0 million EUR). Further claims related to China (8.0 million EUR) and India (6.4 million EUR).

Still existing old **claims under exchange rate cover** were indemnified in the amount of 1.2 million EUR (2005: 2.7 million EUR).

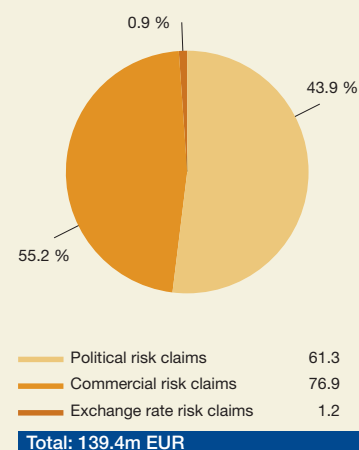
### Total outstanding risk of the Federal Government as at 30.06.2006 in billions EUR



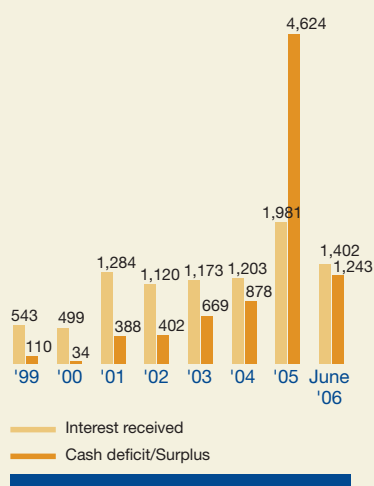
### Revenues as at 30.06.2006 in millions EUR



### Expenses as at 30.06.2006 in millions EUR



**Financial result as at  
30.06.2006 in millions EUR**



## Financial result

Due to the early repayment of debt by Brazil and Nigeria, the first half of 2006 ended with a positive balance of 1,243.4 million EUR (2005: 1,308.5 million EUR). In view of the early repayment of Russian debt due to take place in the second half of the year, the full business year 2006 will once again end with a record result, which is however non-recurring. This will make a further contribution to the depletion of the deficit accumulated between 1982 and 1998.

In addition, interest of 1,402 million EUR – predominantly in respect of rescheduling agreements – was received. 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 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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