

# Interim Report

Demand for state insurance to cover credit business against the risks involved in export remained at about the long-term mean in the first half of 2007; the very high level reached one year earlier was not attained. Russia and China are the most important markets. The Federal export credit guarantee scheme once again wrote black figures; the surpluses will be transferred to the Federal budget accounts.

## Development of newly covered business

The Federal Government assumed cover for export business with an order volume of 7.3 billion EUR during the first six months of 2007. This represents a drop of 20.9 % over the same period in the previous year, which was marked by cover given for a number of major transactions. A rise in cover volume is expected for the second half of 2007.

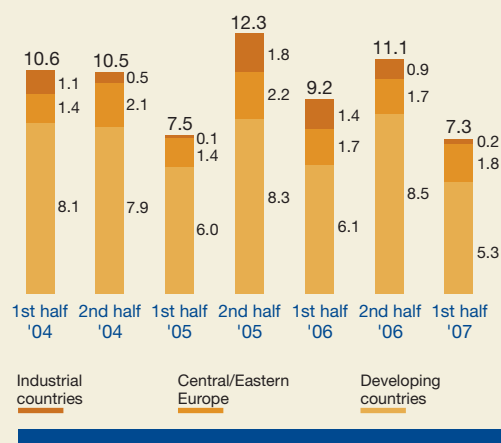
Once again the lion's share of cover given, 5.3 billion EUR or 72.9 %, went to the **developing countries** together with the emerging markets. Export credit guarantees for exports to the **Central and Eastern European countries** continue, as a result of cover for Russia, to post a positive development; they went up by 3.7 % to 1.8 billion EUR, bringing their share of new cover up to 24.7 %. The share of cover for the **western industrial countries** dropped steeply to 177 million EUR, 2.4 % after 15.3 % in the

comparable period of the preceding year, which had been due to single large-scale projects.

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. Several large-scale projects are in the preparation stage as of the end of the first half-year 2007.

**Russia** tops the list of the countries with the highest new cover, with 1.265 billion EUR. This is

Guarantees by country group in billion EUR





up 44 % over the previous year's figure. High-volume guarantees were given almost exclusively for the steel sector and for aircraft business. In transactions with a smaller volume, banks are normally required 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").

Export credit guarantees for **China** increased by 6.8 % to 816 million EUR. For China, too, large export credit guarantees were predominantly given for the expansion and modernization of steelworks. 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 99.5 % of the volume here was accounted for by short-term business.

Covered exports to **Turkey** went down by 14.3 % to 495 million EUR. Both short-term commercial business and medium and long-term guarantees for deliveries of machinery and equipment to virtually every sector of the economy were covered here. Large export transactions included the delivery of rescue vehicles and switching substations.

In business with **Iran** (387 million EUR), the volume of cover declined by 14 % year-on-year. About one third of cover volume was for transactions on short credit terms. Export credit guarantees for the **Ukraine** (269 million EUR) went up by 76 % due to some major projects in the vehicle construction and chemical sectors.

Cover for **Brazil** was down 4.4 %, exports here being covered in large part (80 %) on short payment terms – mainly under wholeturnover policies. **Mexico** posted a drop in cover by 16.7 % to 246 million EUR. In **India**, the volume of cover (218 million EUR) went down by 16.4 %. The majority of capital goods transactions here too, (93.2 %), were handled as short-term business.

Several major projects in the mobile telephony sector for **Pakistan** (186 million EUR) received cover, while the Federal Government granted export credit guarantees for a cable-stayed bridge and a cement works in **Vietnam** (168 million EUR).

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

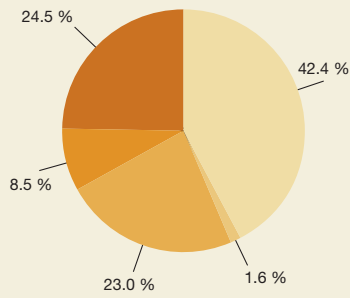
In the first six months of 2007, **medium and long-term guarantees** with credit periods exceeding one year fell by 37.9 % to 2.4 billion EUR (2006: 3.9 billion EUR). Due to the lack of major projects submitted for cover, the majority of this decrease is accounted for by export credit guarantees with a credit period of more than 5 years, which reached 1.8 billion EUR after 3.2 billion EUR one year earlier. The share of medium and long-term guarantees in total cover went down from 42 % in the same period of the previous year to 33 %.

Export credit guarantees under structured finance constructions were granted to the tune of 9.2 million EUR (2006: 157.2 million EUR). There was no cover granted for project finance deals, a number of such schemes are currently in preparation. In the previous year export credit guarantees totalling 605.5 million EUR had been given for this type of business. Newly granted guarantees for aircraft totalled 410 million EUR (compared with 526 million EUR in the same period one year before).

**Short-term cover** declined by 8.7 % to 4.9 billion EUR (2006: 5.4 billion EUR). Its share of new business rose to 67 % after 58 % in 2006.

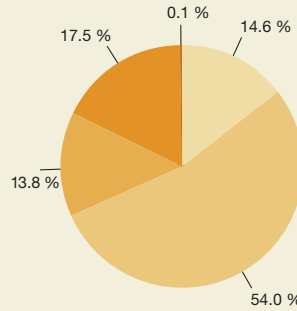
The predominant form of cover for short-term commercial trading business is the wholeturnover policy; at 3.1 billion EUR, this was down by 13 % on the previous year's level (3.6 billion EUR). Transactions covered by revolving guarantees, at a low level, went down by a third to 119 million EUR. Short-term specific policies once again increased (3.9 %), reaching 1.7 billion EUR after 1.6 billion EUR in 2006. The high volume here is mostly a result of export credit guarantees for China and Russia.

**Guarantees by horizon of risk as at 30.06.2007 in billion EUR**



Wholeturnover policies:	3.1
Revolving policies:	0.1
Short-term specific policies:	1.7
1 - 5 years:	0.6
Over 5 years:	1.8

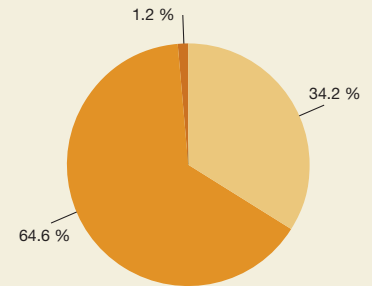
**Revenues as at 30.06.2007 in million EUR**



Payments recovered under rescheduling agreements:	59.1
Premiums/fees earned:	218.8
Interest received:	56.2
Recoveries:	70.7
Exchange gains:	0.6

**Total: 405.4m EUR**

**Expenses as at 30.06.2007 in million EUR**



Political risk claims:	37.2
Commercial risk claims:	70.4
Exchange rate risk claims:	1.3

**Total: 108.9m EUR**

## Total outstanding risk

The actual maximum **outstanding risk of the Federal Government** from all policies underwritten almost equalled the previous year's figure, only dipping slightly by 1.3 % to stand at 57.0 billion EUR (including interest) as per 30.06.2007.

## Revenues

The **premiums and fees** received during the first half-year decreased by 39.2 % year-on-year over 2006, totalling 218.8 million EUR.

**Recoveries** under already indemnified commercial claims went down by 29.1 % to 70.7 million EUR (first half 2006: 99.7 million EUR).

Recoveries from political claims and **capital repayment under rescheduling agreements** totalled 59.1 million EUR. The majority of this, 14.6 million EUR, was from the Ukraine. Due to early repayments from Brazil and Nigeria, recoveries of 951.2 million EUR were posted during the first half of 2006. Due to these special factors from early repayments, the results of 2005 and 2006 are not comparable with current recovery levels. The final discharge of debts under several major rescheduling agreements which took place in these two years has significantly reduced the outstanding amounts due to the Federal Government.

The early repayment of these debts also affected the **interest received**. This dropped to 56.2 million EUR after reaching an all-time record of 1,402 million EUR in the comparable period of the previous year. Egypt is responsible for the highest share here, 14.0 million EUR, followed by Serbia and Montenegro, Pakistan and Gabon, which each account for some 7.0 million EUR.

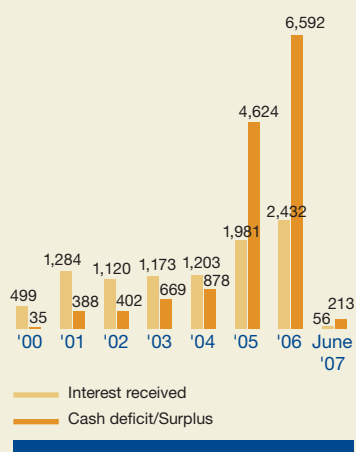
## Expenses

Payments for **political claims** went down from 61.2 million EUR to 37.2 million EUR. The highest claims payments were once again for Argentina, with 22 million EUR (2006: 47.7 million EUR).

Payments for **commercial claims** declined by 8.5 % to 70.4 million EUR (2006: 76.9 million EUR). The highest payments were for claims in Indonesia (14.5 million EUR) and Brazil (8.2 million EUR). Further payments related to China (7.6 million EUR) and India (7.4 million EUR).

Still existing old **claims under exchange rate cover** were indemnified in the amount of 1.3 million EUR (2006: 1.2 million EUR).

**Financial result as at  
30.06.2007 in million EUR**



## Financial result

The first half of 2007 ended with a positive balance of 213.2 million EUR (2006: 1,243.4 million EUR). 2006 had seen a record result for the Federal Government due to early repayments under rescheduling agreements, which is however non-recurring. This led to the depletion of the deficit accumulated between 1982 and 1998.

The interest of 56.2 million EUR (2006: 1,402 million EUR) received – predominantly in respect of rescheduling agreements – was also 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 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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