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Presale: Stichting Sachsen-Anhalt Trust

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Floating-Rate Sukuk Trust Certificates: Rated 'AA-' (prelim)

Profile

Issuer.

Stichting Sachsen-Anhalt Trust is a foundation established by the German State of Saxony-Anhalt (AA-/Stable/A-1+) under the law of the Netherlands.

Periodic distributions rate.

Floating rate

Maturity.

2009

Lead manager.

Citigroup Global Markets Ltd.

Certificate holders' agent.

None

Calculation, fiscal, and paying agent.

Citibank, N.A.

Governing law.

Laws of the Federal Republic of Germany.

This report is based on information available at July 9, 2004, and is posted in conjunction with the planned issuance of Stichting Sachsen-Anhalt Trust's floating-rate Sukuk (trust certificates). Final ratings will be issued on receipt and satisfactory review of all final transaction documentation, including legal opinions. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. If Standard & Poor's does not receive final documentation within a reasonable timeframe, or if documentation departs from materials reviewed, Standard & Poor's reserves the right to withdraw or change its ratings.

Rationale

Standard & Poor's Ratings Services has assigned its preliminary 'AA-' senior unsecured debt rating to Stichting Sachsen-Anhalt Trust's (the Trust) planned issuance of €100 million floating-rate sukuk (trust certificates), maturing in 2009.

The Trust is a special-purpose vehicle established by the German State of Saxony-Anhalt (the State; AA-/Stable/A-1+) under the law of the Netherlands with the single objective of participating in this transaction. Under the transaction, the Trust will issue rated trust certificates, the proceeds of which will allow the Trust to finance an initial head lease payment to Saxony-Anhalt and will ultimately be used for the State's general funding purposes. The transaction allows the State to raise funds on terms compliant with "Shari'ah" (Islamic law).

The preliminary 'AA-' rating on the Trust's floating-rate trust certificates reflects Standard & Poor's assessment that the rating on the sukuk can be equalized with the long-term rating on Saxony-Anhalt for the following reasons:

- All the Trust's claims vis-à-vis Saxony-Anhalt, including the lease rentals payable by the State as sub-lessee to the Trust under the Ijara sub-lease agreement, which will fund the periodic distribution payments on the trust certificates, are unsecured and unconditional obligations of the State, and will rank pari passu with all other unsecured and unsubordinated obligations of the State. The lease rental payments are irrevocable, even for total loss of one or more leased premises;
- The State will make all payments to the Trust for immediate passing on to the holders of trust certificates. If the Trust became insolvent, or insolvency or similar proceedings were opened, the State would have to make all payments directly to the holders of the certificates via the paying agent;
- The dissolution amount payable on the trust certificates upon a dissolution event includes the principal amount of the trust certificates, for which the final rental payment will be used, and all accrued but unpaid periodic distribution amounts on the dissolution date;
- The State treats this transaction in its own accounts like any other capital market debt transaction; and
- The Trust's sole objective is to irrevocably undertake to hold and administer all rights and obligations under its assets on trust for the sole benefit of the certificate holders.

The rationale for this transaction is to diversify the State's investor base in the Islamic world, increase its name recognition among Muslim investors, and document its respect for different religious beliefs.

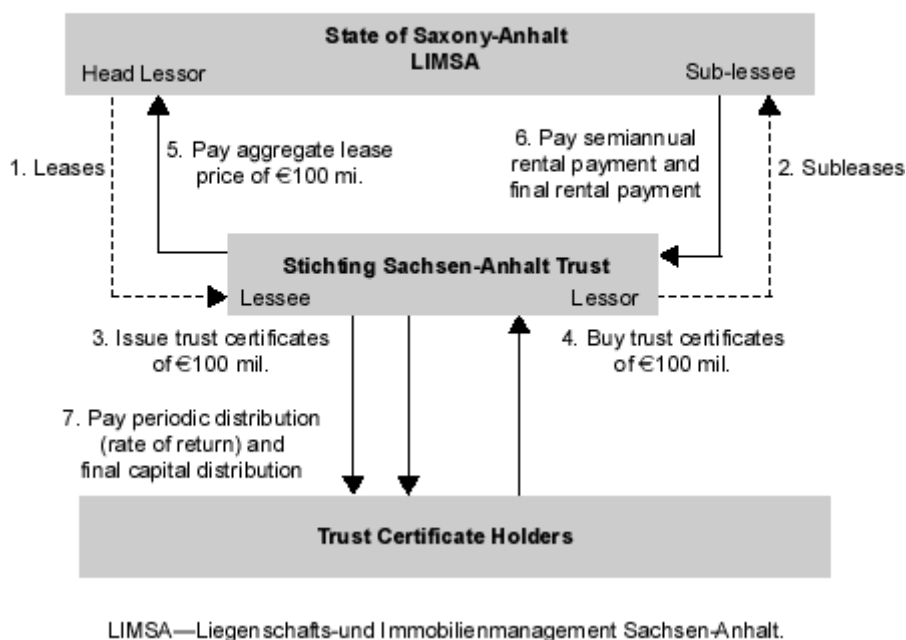
Stichting Sachsen-Anhalt's Sukuk Transaction Structure

The issuer, the Trust, is a foundation established by the State of Saxony-Anhalt under the laws of the Netherlands and has solely been incorporated for the purpose of participating in the transactions, including issuing the rated trust certificates and acting as trustee on behalf of the certificate holders.

The Trust will declare in the terms and conditions of the trust certificates the constitution of the trust certificates, and coevally declare that it will undertake to hold and administer all rights and obligations under the trust assets, which are the head lease and sub-lease agreements, on trust for the sole benefit of the trust certificate holders.

In its capacity as trustee, the Trust as lessee will lease defined land and buildings, mainly tax collection offices, from the State as head lessor in an Ijara head lease agreement and subsequently let as lessor the real estate to the State as sub-lessee in a legally robust Ijara sub-lease agreement. The head lease agreement lasts 100 years, but can be terminated at any time depending on prior termination of the sub-lease agreement. The duration of the sub-lease agreement corresponds with the maturity of the trust certificates, i.e. five years.

Chart 1
Stichting Sachsen-Anhalt Trust—Sukuk Transaction Structure



The proceeds from the sale of the trust certificates will be used for an aggregate rent payment to the State as head lessor. The lease rental payments from the State as sub-lessee to the Trust will be used to fund and exactly match the periodic distribution amounts on the trust certificates payable to certificate holders. The lease rental payments will be calculated based on six-month EURIBOR, and a positive or negative margin. The State agrees that it will not pay a lesser amount of the rentals than provided in the sub-lease agreement by virtue of any circumstance. Upon a dissolution event, the lease agreements will be terminated against payment of the final rental payment and all accrued unpaid rentals. The final rental payment will then fund the redemption of the principal of trust certificates.

State of Saxony-Anhalt

The ratings on the State of Saxony-Anhalt, located in Germany are supported by:

- A strong fiscal equalization system in Germany, from which Saxony-Anhalt is a recipient. In addition, as an eastern state, Saxony-Anhalt receives supplementary grants from the German federal government, which are predictable and have recently been extended until 2019. Forty percent of Saxony-Anhalt's 2003 operating revenues stemmed from transfers granted by the central government and peer states. The predetermined transfers from the central government make Saxony-Anhalt less dependent on business cycles than states that depend primarily on tax revenues. Standard & Poor's considers the German equalization system to be one of the most stable and most supportive systems worldwide.
- Excellent liquidity planning with fairly predictable cash flows. Saxony-Anhalt has easy access to short-term liquidity in the money market and from the cash exchange system between German states and the federal government;
- Saxony-Anhalt's economic base. This is weak in a German context but by European comparison it still ranks above Greece, Portugal, and Spain in terms of per capita GDP; and
- The government's commitment to ongoing expenditure control. This should prevent a further weakening in budgetary performance after the effect of the national tax reform and the economic slowdown have been absorbed.

The ratings are constrained by:

- Saxony-Anhalt's demographic development. The state experienced a population loss of more than 10% between 1991 and 2003. Declining population has a negative effect on economic growth, the state's tax base, and on the transfers received from the German revenue equalization system;
- Budgetary performance, which has been weakening since 2001. In 2003, the state posted an operating deficit of 5.6% of operating revenues, while the deficit after capital expenditure reached a

high 16.3% of total revenues. The debt burden rose to a very high 213% of operating revenue at year-end 2003; and

- Low revenue-raising flexibility. About 70% of German tax revenues are shared between the central government, the states, and municipalities according to fixed formulae. Although the states participate in setting tax rates via the Bundesrat (the German upper house of parliament representing the 16 states), an individual state has no rate-setting rights for these taxes.

The stable outlook on Saxony-Anhalt is based on the outstanding stability of German intergovernmental support that was confirmed by the 2001 agreement between the central government and the 16 states to implement only modest alterations to the system in 2005 and to extend until 2019 the transfers that have been granted to the eastern German states since reunification. Standard & Poor's expects Saxony-Anhalt's government to adhere to its policy of expenditure control and to gradually improve budgetary performance after the weak levels reached in recent years.

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