

**Report of the Group Management Board  
2006  
V12/02**

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## Review of 2006

### The global economy in 2006

The global economy accelerated in 2006 with growth of 3.9% versus 3.4% in 2005, but this figure masks contrasting situations. Economic growth was very strong in the first quarter with excellent performances in the three main zones (US, Japan and euro zone). It then slowed gradually under the effect of the US slowdown as from the second quarter and subsequent slowing in Japan and Europe, with just a few exceptions such as Spain and the United Kingdom, in the third quarter. The rest of the world – which accounts for 20% of global GDP – continued to post growth rates considerably above the global average, notably central and Eastern Europe (6.2% versus 5.9% in 2005), and Asia excluding Japan (8.6% versus 8.2% in 2005), powered by China. Against this background, world trade grew by more than 9% a year in volume, after growth of nearly 8% in 2005 and 10% in 2004. For the fifth consecutive year commodity prices, including oil, posted a general rise, as did the prices of property and financial assets. With the exception of some commodity producing emerging countries, inflation remained under control, without this preventing most central banks from continuing with monetary tightening. Lastly, the major imbalances in the world economy persisted. The main imbalance is the growing contrast between excessively consumer countries, often consuming on credit, with swelling current account deficits (United States, Spain, United Kingdom and France) and excessively exporter countries such as China, Japan and Germany. The United States - the driver of world trade – maintained robust growth with 3.4% growth in 2006 compared with 3.2% in 2005. This performance was due mainly to the very good first-quarter results and firm resistance of household spending. The fall of the dollar, notably against the euro and the Canadian dollar, reduced the negative impact of external trade on GDP. However, corporate investment gradually declined and investment in housing underwent a severe adjustment after several years of steady growth.

In Japan, the radical revision of statistics limited the breadth of the economic recovery, placing it at closer to 2% in 2006 (compared with 1.9% in 2005 after a downward revision of 0.8%). These figures confirm the dual nature of the economy, upheld mainly by exports and investment, as well as a favourable foreign exchange situation (depreciation of the yen against the euro and the dollar in 2006). The other sectors of domestic demand are struggling to recover.

After a controlled slowdown in 2005, the UK economy, driven by the services sector, once again accelerated in 2006 with growth of significantly above 2.5%. All components contributed to growth, particularly household demand boosted by a firm labour market, wage increases and a wealth effect from property assets that offset inflationary pressure.

The euro zone surprised with stronger-than-expected growth in 2006 (2.6%). This momentum resulted from the combination of increased consumption in Italy and Germany, stronger growth in exports despite the appreciation of the euro and firm investment in many countries. However, performances were contrasting between the various countries within the euro zone:

- In Germany, the economy continued to recover throughout the year. Household spending gradually joined with strong external demand, boosted by the trend in the labour market and forward-looking purchases in the run up to the hike in the VAT rate on 1 January 2007.
- The French economy experienced ups and downs, stagnating in the third quarter after posting a strong performance in the first half. Household spending continues to be the main support but provides greater support for imports as the domestic industrial sector struggled to meet the increased demand.

▪ In Italy, four years of virtual stagnation came to an end with growth of 1.8%. The greater part of this recovery was recorded in the first half thanks to an upturn in household spending and strong export momentum, which boosted industrial activity.

Spain posted its fifth consecutive year of growth in excess of 3%, at 3.5% in 2006 and positioning it well ahead of its European partners. However, the imbalance increased between still strong internal demand, fuelled by consumption and building, and the deterioration in external accounts.

### **Trend in corporate failures**

Firm global growth has been accompanied by a trend reversal in corporate failures. After rising by 3% in 2005, our Global Index of corporate failures dropped by 9% in 2006 (provisional figure) although in the spring we had forecast a smaller decline of 1%. This trend has been determined mainly by two factors. On the one hand, economic growth was stronger than expected in Europe, notably in Germany and the Scandinavian countries and in a number of emerging Asian countries. The decrease in corporate failures in these countries was logically more pronounced, ranging from 13% in Germany to more than 20% in Norway and South Korea. On the other hand, there were major legal changes in several countries, beginning with the US. The enactment of new US legislation on 17 October 2005 had been preceded by a sharp rise in claims, up 14% overall in 2005. This was followed by an even sharper fall - of around 30% based on the figures for the first three quarters - in bankruptcy procedures. Several other countries (Brazil, Slovakia and Portugal) posted similar trends linked to new legislation. In France, the new safety net inspired by the US chapter 11 procedure had little impact on the statistics (1% of total failures).

In 2007, the economic slowdown is expected to result in a slight increase in the number of corporate failures.

### **Corporate failures of more than €100 million in 2006 (list established at end October)**

Table of the largest business failures in 2006 as at end September or end October 2006 (depending on the country) and identified by Euler Hermes subsidiaries in the following countries: United States, Canada, Japan, Germany, France, United Kingdom, Italy, Spain, the Netherlands, Belgium Finland, Luxembourg, Poland, Switzerland, Denmark, Sweden and Norway.

Rang	Pays	Sociétés	Dernier CA connu en millions €	Activité
1	Etats-Unis	Dana Corporation	7094	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs
2	Pays-Bas	LG Philips Displays Netherlands B.V.	3300	Electronique
3	Pays-Bas	D.T.A. Projecten En Detachering B.V.	2408	Fab. d'ouvrages en métaux (sauf machines et matériel)
4	Etats-Unis	Musicland Group Inc	1648	Autres commerces de détail de produits neufs en magasins spécialisés
5	Etats-Unis	Integrated Electrical Services Inc.	1173	Prod., collecte et distribution d'électricité
6	Japon (*)	Aoyama Kanzai K.K.	998	Activités immobilières
7	Japon (*)	Tokyo Rinkai Fukutoshin Kensetsu K.K.	966	Activités immobilières
8	Espagne	Forum filatélico S.a	840	Commerce de détail de biens d'occasion
9	Etats-Unis	Pliant Corporation	824	Fab. d'articles en matières plastiques
10	Japon (*)	Takeshiba Chiiki Kaihatsu K.K.	799	Activités immobilières
11	Japon (*)	Tokyo Teleport Center Inc.	785	Activités immobilières
12	Allemagne	BenQ Mobile GmbH	776	Fab. d'équipements et appareils de radio, télévision et communication
13	Etats-Unis	Silicon Graphics Inc	608	Fab. de machines de bureau, de machines comptables et de matériel de traitement de l'information
14	France	groupe Eurotunnel	482	Transports par chemin de fer
15	Espagne	Afinsa Bienes Tangibles S.A	453	Commerce de détail de biens d'occasion
16	Etats-Unis	Werner Holding Co. (PA) Inc	420	Fab. d'ouvrages en métaux (sauf machines et matériel)
17	Canada	Nexinnovations Inc.	417	Fab. de machines de bureau, de machines comptables et de matériel de traitement de l'information
18	Japon (*)	K.K. Makoto Kigyo	403	Activités immobilières
19	Etats-Unis	J.L. French Automotive Castings	397	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs
20	Etats-Unis	OCA, Inc.	330	Services fournis à l'ensemble de la collectivité
21	Japon (*)	Shibata Sakae Kosan K.K.	318	Activités immobilières
22	France	groupe EURALCOM	315	Fab. de produits métallurgiques de base
23	Royaume-Uni	Henleys Group Plc	314	Construction de véhicules automobiles
24	Etats-Unis	Oneida Ltd.	298	Fab. d'appareils domestiques
25	Japon (*)	Nihon Gorufu Kaihatsu K.K.	289	Activités sportives et autres activités récréatives
26	France	groupe Manzoni Bouchot	288	Fonderie
27	Japon (*)	K.K. Liberty Estate	266	Activités immobilières
28	Etats-Unis	Global Power Equipment Group Inc	250	Fab. de machines d'usage spécifique
29	Japon (*)	Samutorasuto K.K.	215	Intermédiation financière
30	Royaume-Uni	PRG Powerhouse Ltd	215	Autres commerces de détail de produits neufs en magasins spécialisés
31	France	ISA FRANCE	211	Commerce de gros de matériel de bureau
32	France	CADENCE INNOVATION	201	Fab. d'articles en matières plastiques
33	Allemagne	Georg von Opel GmbH	200	Commerce de véhicules automobiles
34	Royaume-Uni	Hamsard 2353 Ltd (Bee-wise Ltd)	188	Autres commerces de détail de produits neufs en magasins spécialisés
35	Japon (*)	Berunetto K.K.	182	Travaux d'installation
36	Italie	IAR - SILTAL S.P.A.	178	Fab. de machines et de matériel
37	Royaume-Uni	Dew Construction Ltd	176	Construction
38	Allemagne	Heros-Gruppe	170	Activités de services aux entreprises
39	France	LG PHILIPS DISPLAYS FRANCE	169	Fab. de tubes et composants électroniques
40	Allemagne	Nici AG	156	Commerce de gros de produits intermédiaires non agricoles, de déchets et débris
41	France	PHOTO SERVICE	147	Activités de services aux entreprises
42	Suisse	Schmidlin AG Fassadentechnolo	134	Industrie manufacturière
43	Royaume-Uni	Pressac Plc	133	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs
44	France	STE COMMERCIALE DE METAUX ET MIN	126	Commerce de gros de produits intermédiaires non agricoles, de déchets et débris
45	Royaume-Uni	GGs Holdings Ltd (Botes Building Ltd)	121	Construction
46	France	TILLY SABCO	119	Prod., transformation et conservation de viande, de poisson, de fruits, de légumes, d'huiles et de graisses
47	Royaume-Uni	Automotive Products Group Ltd	115	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs
48	Royaume-Uni	Highbury House Communications	114	Edition
49	Royaume-Uni	Golden Wonder Ltd	112	Fab. d'autres produits alimentaires
50	France	FAVRIL ALAIN	111	Autres commerces de détail de produits neufs en magasins spécialisés
51	Italie	"ENIF TECHNOLOGIES S.P.A." O IN FORI	109	Fab. de machines de bureau, de machines comptables et de matériel de traitement de l'information
52	Pays-Bas	Heveco B.V.	109	Fruits et légumes (Commerce de gros)
53	Allemagne	Rinol AG	106	Fab. d'articles en caoutchouc
54	Royaume-Uni	Advanced Fluid Connecdions Plc	106	Activités de Fab.

## **Euler Hermes' strategy**

Euler Hermes' strategy is clearly focused on the development of its core credit insurance business.

This strategy is structured around four major axes:

### **a- Very strong leadership in the European market**

Euler Hermes is the market leader in most European countries. All the European insurance subsidiaries are profitable and contribute to net group income proportionally to their size.

In addition, Euler Hermes pays close attention to any opportunity to consolidate its position in the European market. In this respect, in 2006 the group acquired Allianz's credit insurance activity in Ireland.

### **b- Significant new sources of growth, notably in the United States and in emerging markets**

The US subsidiary continued to record growth with revenues up by 9.7% in 2006.

The group also consolidated its position as market leader in Eastern Europe and pursued its development in new markets:

- In Asia Pacific, Euler Hermes acquired Lumley Trade Credit's credit insurance activities in Australia and New Zealand.
- In the Middle East, the group now operates in Dubai in partnership with Allianz.
- In Latin America, expansion continued with significant growth in turnover and the launch of a credit insurance offer in Argentina.

### **c- A growth strategy that draws on a common infrastructure and integrated processes.**

The IRP application (Information, Risk and Policy management), developed in-house, facilitates the extensive use of detailed information across the world and has been used by all subsidiaries (except for a few small entities) since April 2006.

Each group company is responsible for underwriting decisions relating to its geographical area of competence.

Also, the sharing of Best Practices throughout the group provides essential support for profitable growth at all subsidiaries. In this respect, in 2006 Euler Hermes started to harmonise debt collection methods at global level so as to extend local best practices throughout the group.

### **d- Strong sales and marketing development thanks to the ever greater attention paid to clients' needs**

Euler Hermes constantly seeks to improve client satisfaction and loyalty by:

- providing top quality service (shorter response time, justification of acceptance decisions, etc.);
- developing a very comprehensive range of policies adapted to companies of all sizes, from very small businesses to multinationals (World Policy) ;
- A highly efficient debt collection policy that makes Euler Hermes a global leader in the sector
- A structured approach to innovation at the service of our clients.

### **Key events of the period**

The following significant events occurred in 2006:

### **Changes in the share capital and in share ownership**

The Shareholders' General Meeting of 22 May 2006 decided to distribute a dividend of €3.50 per share. At 31 December 2006, AGF owned 30,744,048 shares out of a total of 44,951,118 shares, corresponding to 68.39% of the share capital of Euler Hermes.

During 2006, 120,874 new shares were created by the exercise of options under the 1997, 1998, 1999, 2003 and 2004 stock option plans. At 31 December 2006, Euler Hermes' share capital was composed of 44,951,118 shares, including 1,411,359 shares held in treasury stock.

As the result of exercise of stock options, the share capital and premiums increased by respectively €8 thousand and €3,073 thousand.

### **Ongoing international expansion**

Euler Hermes has acquired the credit insurance activities of Lumley General Insurance in Australia and New Zealand. The portfolio of insurance policies totals AUD7 million, i.e. €4 million.

On 27 October 2006, Euler Hermes UK acquired Allianz Corporate Ireland's credit insurance portfolio for GBP6.9 million, (€10.3 million).

Euler Hermes has developed an activity in Argentina with the launch of Euler Hermes Argentina on 1 January 2007. Euler Hermes Argentina will operate as a service company in close association with AGF Argentina.

### **Increased retention rate**

The premium retention rate is the ratio of premiums after reinsurance to premiums before reinsurance. This rate rose from 58% in 2005 to 67% at end-December 2006. Earned premiums net of reinsurance increased by 18% year on year, of which 14.9% is attributable to the increase in the retention rate.

## **Simplification of the capital structure**

As part of the group's strategy of simplifying its organisation and reducing the related costs, several measures were implemented to simplify the structure in 2006. The most significant moves included the elimination of an intermediate holding company in Germany and the transfer to Euler Hermes SA of the holding in the Dutch insurance company Euler Hermes Kredietverzekering NV, which had previously been majority owned by the German and Belgian subsidiaries.

## **Post balance sheet events**

### **Allianz buyout of AGF minority shareholders**

Allianz intends to make an offer to buyout AGF's minority shareholders before the end of February. AGF shareholders will be offered €7.5 and 0.25 Allianz shares for each AGF share. AGF has no plans to, and does not consider itself under any obligation to make an offer for Euler Hermes, of which it owns 68.39% of the capital and which is not an essential asset for AGF with regard to French financial market regulations (AMF regulations). Allianz SE has confirmed to AGF that it does not intend to make an offer for this company.

### **Acquisition of US debt collection agency, United Mercantile Agencies (UMA)**

On 23 January 2007, Euler Hermes ACI acquired United Mercantile Agencies, one of the leading trade debt collection and receivables management companies in the US. The company will change its name to Euler Hermes UMA and will add around USD10 million to Euler Hermes ACI's service turnover.

## **Business activity**

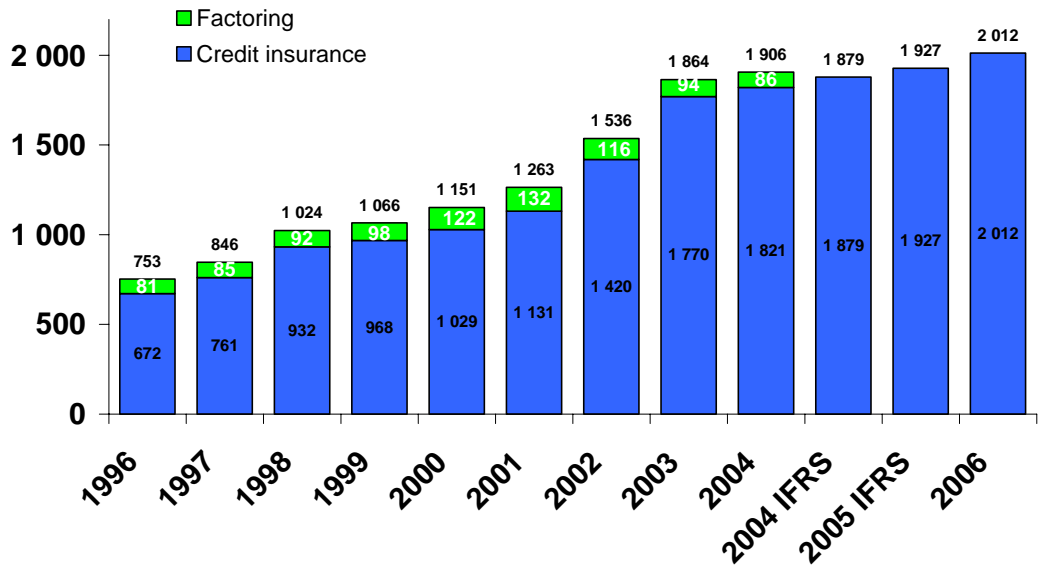
In application of International Financial Reporting Standards (IFRS), the presentation of turnover underwent a change in 2006: the refunds granted to policy holders are now deducted from premiums whereas they had previously been recognised under insurance services expense for the year. Reported turnover for 2005 came to €2007.9 million and the amount of refunds reclassified for the year came to €80.6m compared with €81.3m in 2006.

Turnover in 2006 came to €2,011.9m, up by 4.4% compared with pro forma turnover for 2005 (€1,927.3m).

After taking into account changes in the consolidation scope and in exchange rates, turnover increased by **3.6%**. All backward looking analyses are based on pro forma 2005 figures.

### Consolidated Turnover Meuros

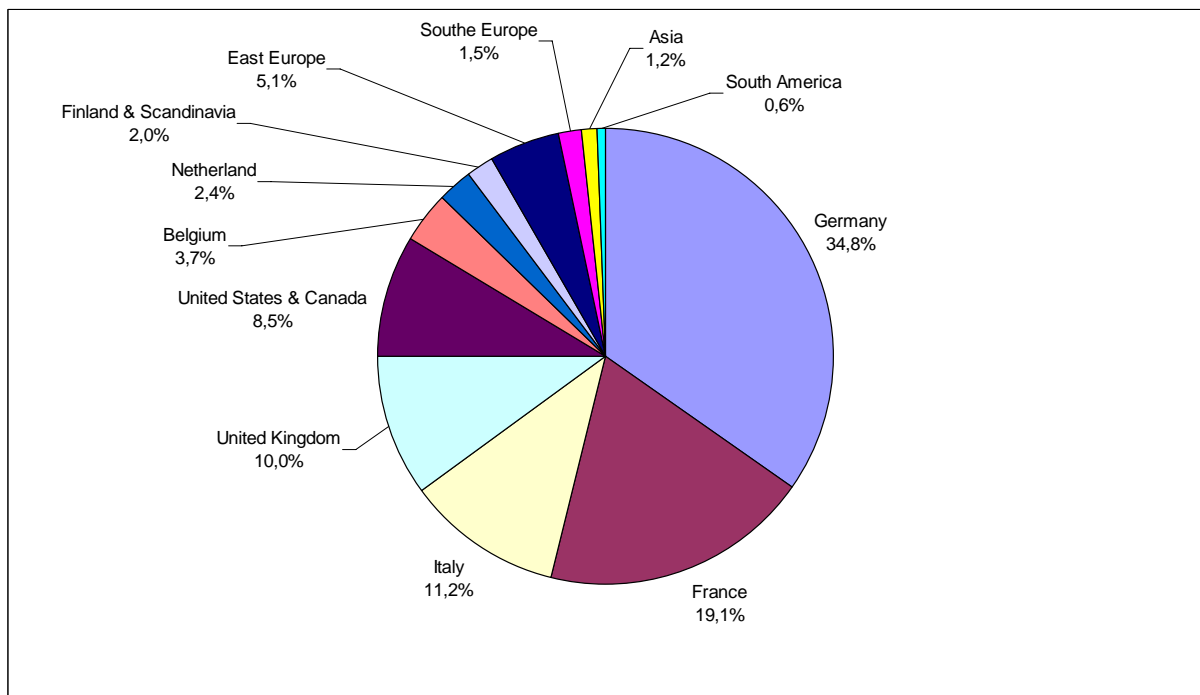
CAGR 1996-2006 : 10,3%

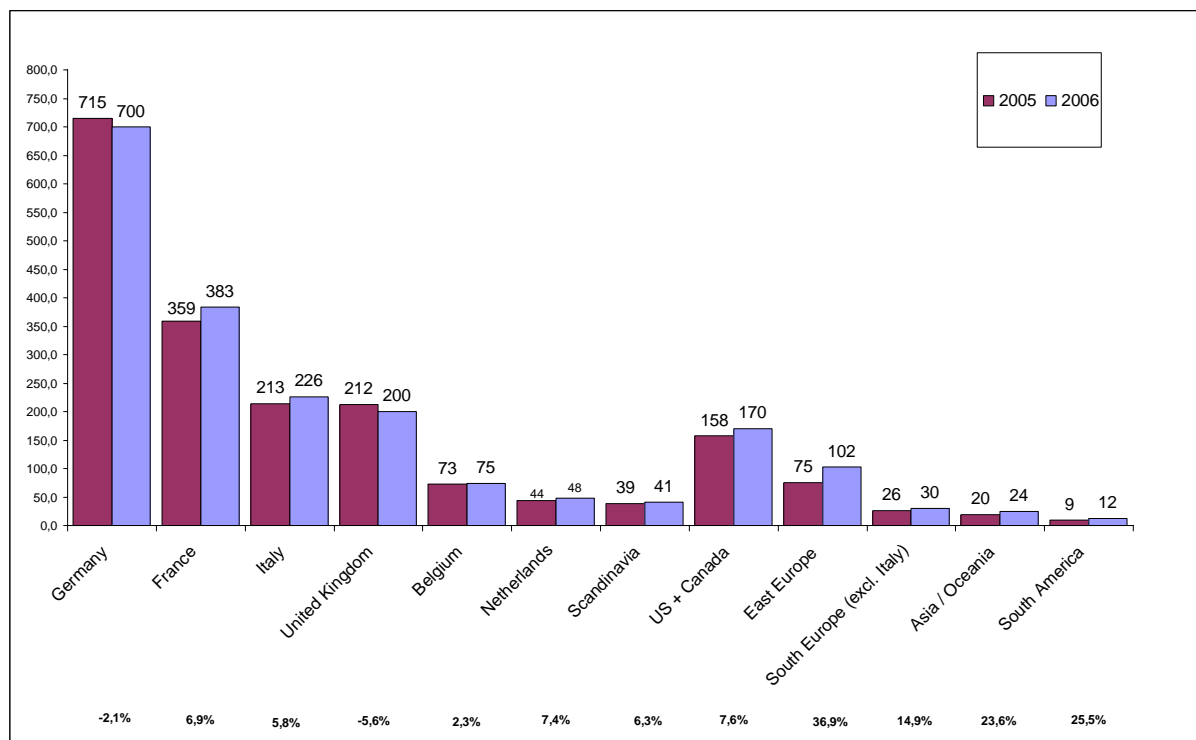


Historical data up to 2004, pro forma figures for 2005.

- The growth in turnover reflected a sales momentum differentiated by geographic zone and type of activity.

### Analysis of turnover by country





The chart above shows 2005 pro forma turnover and after adjustment for changes in consolidation scope and exchange rates.

Growth in turnover slowed slightly in 2006 compared with 2005. This slowdown was attributable to reduced contributions from Germany and the United Kingdom.

Germany aside, the euro zone's contribution to turnover increased by 6.1%, exceeding the economic growth rate.

The decline in Germany's contribution to turnover is attributable primarily to the sharp drop in premiums accepted from external insurance companies, this activity now being focused on its key partners in international development following the termination of non-strategic local contracts. Excluding accepted premiums, growth in direct premiums came to 0.5% following strong pressure on premium rates on renewal of 2006 contracts in view of the exceptionally low claims rate over the past two years.

Business in the UK came under increased pressure on premium rates in a highly competitive market, as a consequence of the extremely low claims rate over the past two years. In addition, over the past ten years or so, the United Kingdom has undergone a "disindustrialisation" of its economic activity in favour of financial activities and services, resulting in lower demand for credit insurance products.

The US contribution to turnover continued to grow strongly, up by 7.5% (9.7% excluding the currency effect) in a market where penetration of credit insurance products is lower than in Europe and which offers significant opportunities for Euler Hermes.

Lastly, momentum remained strong in new markets, which now account for more than half the growth in group turnover, with growth of 43.3% (25.6% after changes in the consolidation scope and exchange rates).

## Breakdown of turnover between premiums and service activities

in million of euros	2006	2005 <sup>(1)</sup>	Variation in amount	Variation in %
Premium	1 658,8	1 608,9	49,9	3,1%
Other Revenues	353,0	318,5	34,6	10,9%
<b>Total Credit insurance Turnover</b>	<b>2 011,8</b>	<b>1 927,4</b>	<b>84,5</b>	<b>4,4%</b>

<sup>(1)</sup> proforma

Premiums grew at a slower pace than overall turnover, which was boosted by growth in service revenues. Service revenues increased by 10.9% and benefited from Euler Hermes' decision to consolidate 100% of the service company, Bürgel Wirtschaftsinformationen GmbH & Co. KG.

After adjusting for changes in the consolidation scope (mainly the full consolidation of Bürgel Wirtschaftsinformationen GmbH & Co. KG) and exchange rates, growth in turnover from service activities came to 5.5%.

## Net income, group share

The definition of the various ratios has changed as the result of the reclassification under earned premiums of refunds granted to policyholders, previously booked to insurance services expense (claims) for the year. The loss ratio is defined as the cost of claims relative to earned premiums after deduction of policyholder refunds. The expense ratio is defined as the sum of the contract acquisitions expense, administration expense, other income and underwriting expenses after deduction of insurance related services as a ratio of earned premiums, after deduction of refunds. Other non-technical income and expense is excluded from the expense ratio (with the exception of operating buildings)-

## Earned premiums

Gross earned premiums increased by **3.1%** to €1,658.8 million.

The outward reinsurance rate continued to decrease, down by **8.4** percentage points in 2006 as the result of Euler Hermes' strategy of increasing retention.

In thousand of euros	2006	2005 <sup>(1)</sup>	Variation %
Gross earned premiums	1 658 774	1 608 881	3,1%
Ceded premiums	-548 509	-667 583	-17,8%
<b>Net earned premiums</b>	<b>1 110 266</b>	<b>941 298</b>	<b>18,0%</b>
Cession rate	33,1%	41,5%	

<sup>(1)</sup> proforma

Net earned premiums increased by 18.0%, of which 14.9% resulted directly from increased retention.

## Cost of claims

in thousand of euros	2006	2005 <sup>(1)</sup>	Variation %
Gross claims costs	-692 668	-609 129	13,7%
Ceded claims costs	146 673	187 613	-21,8%
<b>Net claims costs</b>	<b>-545 995</b>	<b>-421 516</b>	<b>29,5%</b>
Gross claims ratio	41,8%	37,9%	-
Net claims ratio	49,2%	44,8%	-

<sup>(1)</sup> proforma

The gross cost of claims increased by 13.7% in 2006, i.e. by €84 million. This situation is explained mainly by the sharp fall in liquidation surpluses on prior years (down by 29.7% or €98 million), which was partly offset by a slight fall in gross cost of claims for the year (down €14 million).

Claims ceded to reinsurers decreased by 21.8% (€41 million), reflecting the higher retention rate for the year – an impact of €109 million – partly offset by reduced quota-share cession of prior year liquidation surpluses (€68 million).

Consequently, 2006 featured a sharp rise in the cost of claims, up by **29.5%** to **€546 million**. This increase is for two thirds attributable to lower liquidation surpluses net of reinsurance in 2006 and for one third to the higher retention rate.

The loss ratio after reinsurance came to **49.2%**, up by **4,4** points relative to 2005.

## Cost of claims for the year

In thousand of euros	2006	2005 <sup>(1)</sup>	Variation %
Gross claims costs current attachement year	-924 665	-939 369	-1,6%
Ceded claims costs current attachement year	220 865	329 552	-33,0%
<b>Net claim costs current attachement year</b>	<b>-703 800</b>	<b>-609 817</b>	<b>15,4%</b>
<b>Cession rate current attachement year</b>	<b>24%</b>	<b>35%</b>	

<sup>(1)</sup> proforma

Like in 2006, Euler Hermes benefited in 2006 from the favourable trend in claims for the year. Claims fell by 1.6% compared with a 3.1% increase in earned premiums, thank in particular to the good performance of Germany, which posted a marked decrease in the gross cost of claims.

The claims cession rate decreased by 11 points due to the increase in retention. The stronger increase in the claims retention rate relative to the premium cession rate (8%) is largely explained by the fact that claims for the year fell sharply in Germany where the cession rate is the highest with the group.

After taking reinsurance into account, the cost of claims for the year increased by 15.4% relative to 2005, i.e. 2.6 points less than growth in net premiums.

## Liquidation surpluses

In thousand of euros	2006	2005 <sup>(1)</sup>	Variation %
Gross claims costs previous attachement year	231 997	330 240	-29,7%
Ceded claims costs previous attachement year	-74 190	-141 939	-47,7%
<b>Net claims costs previous attachement year</b>	<b>157 806</b>	<b>188 300</b>	<b>-16,2%</b>
<i>Cession rate previous attachement year</i>	<i>32%</i>	<i>43%</i>	

<sup>(1)</sup> proforma

Prior year liquidation surpluses decreased by 29.7% compared with 2005. This decrease is explained by the development of 2005 loss curves in 2006 closer to those estimated at the end of 2005. The ratio of gross liquidation surpluses to gross premiums was 14,0% compared with 20.5% at end-2005.

Liquidation surpluses ceded in 2006 decreased by 48% due to the overall increase in the retention rate since 2002. At constant cession rates, liquidation surpluses would have come to €100 million compared with their actual level of €74 million.

Despite the sharp fall in gross liquidation surpluses, the global rise in retention enabled the group to limit the decrease in net liquidation surpluses to 16.2% in 2006.

The general increase in retention in recent years and reduced prior year liquidation surpluses are the main reasons for the strong increase in net cost of claims (29.5%). Accordingly, the loss ratio, net of reinsurance deteriorated in 2006, rising from 44.8% to 49.2%.

In thousand of euros	2006	2005 <sup>(1)</sup>	Variation %
<b>Net claim costs current attachement year</b>	<b>-703 800</b>	<b>-609 817</b>	15,4%
<b>Net claims costs previous attachement year</b>	<b>157 806</b>	<b>188 300</b>	<b>-16,2%</b>
<b>Claims costs</b>	<b>-545 994</b>	<b>-421 516</b>	29,5%

<sup>(1)</sup> proforma

## Operating expenses

Gross operating expenses remained stable in 2006, compared with 4.4% growth in turnover. This good performance is directly attributable to stable acquisition expense and a very small increase in administration expenses. This was achieved thanks to the group's constant efforts in terms of productivity and to economies of scale generated by shared tools. Other ordinary income and expense increased significantly, largely as the result of the production costs of premium-related service activities, which grew at a similar rate.

Reinsurance commissions on proportional cession fell by 6.9% while ceded premiums decreased by 17.8%. This good performance is linked to an improvement in commission rates granted by reinsurers on proportional cessions. Also, the low claims bonus clauses contained in the group's reinsurance contracts helped offset the fall in commissions, particularly in Germany.

Controlled growth in gross expenses and better reinsurance terms kept growth in net operating expense to 8.7%, while at the same time net earned premiums increased by 18.0%, resulting in an improvement in the expense ratio (18.1% versus 19.7% in 2005).

<i>In thousand of euros</i>	<b>2006</b>	<b>2005<sup>(1)</sup></b>	Variation %
Contract acquisition expenses	-284 027	-284 002	0,0%
Administration expenses	-193 879	-189 029	2,6%
Other ordinary income and charges	-290 470	-260 644	11,4%
Premium-related income	353 045	318 488	10,9%
<b>Total expenses before re-insurance</b>	<b>-415 331</b>	<b>-415 187</b>	<b>0,0%</b>
Reinsurance commission	214 093	230 048	-6,9%
<b>Total expenses after reinsurance</b>	<b>-201 238</b>	<b>-185 140</b>	<b>8,7%</b>
<sup>(1)</sup> proforma			
Gross expense ratio	25,0%	25,8%	
Net expense ratio	18,1%	19,7%	

### Ordinary operating income before financial income

Ordinary operating income before financial income increased by 6.9% to €340.1 million. This increase, lower than that of net premiums, is explained by the higher cost of claims and net operating expense, already described in detail above.

<i>In thousand of Euros</i>	<b>2006</b>	<b>2005<sup>(1)</sup></b>	Variation %
Net earned premium	1 110 266	941 298	18,0%
Net claims costs	-545 994	-421 516	29,5%
Net expenses	-201 238	-185 140	8,7%
Net non technical expenses without service activities	-22 924	-16 370	40,0%
<b>Operating income before financial income</b>	<b>340 110</b>	<b>318 273</b>	<b>6,9%</b>
<b>Ratio combiné*</b>	<b>67,3%</b>	<b>64,4%</b>	

<sup>(1)</sup> proforma

### Net combined ratio

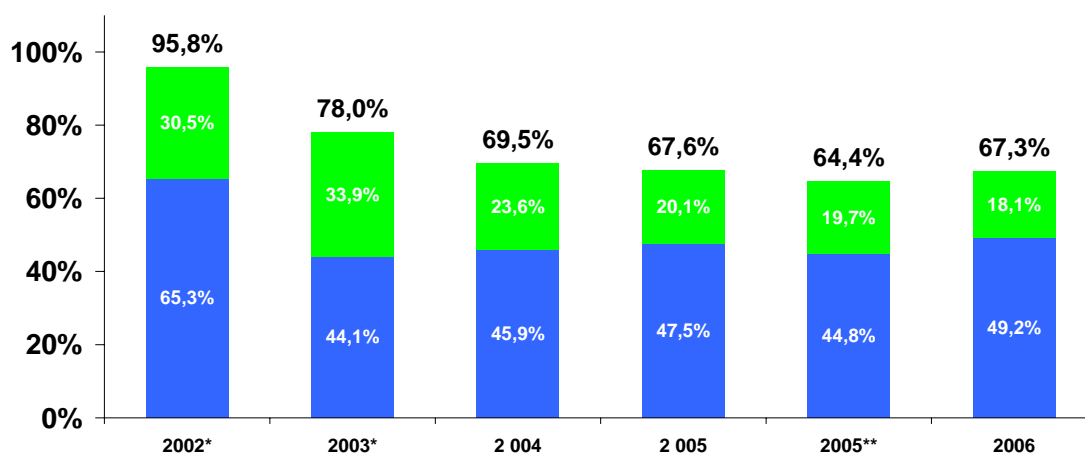
The net combined ratio after reinsurance came to **67.3%** for 2006, up by **2.9** points compared with the combined ratio in 2005, calculated using the same method.

This increase, following on 2005 which had been very favourable in terms of liquidation surpluses, reflects two contrasting trends:

- The return to a loss ratio of close to 50%, due mainly to lower liquidation surpluses.
- The ongoing improvement in group productivity, linked to group integration and the improvement in reinsurance terms reflecting Euler Hermes' good risk control

### Net combined ratio after reinsurance in % of net earned premium

■ Loss ratio      ■ Cost ratio



\* historical datas  
\*\*new definition (rebates deducted from premium, non technical expense excluded)  
2002 Pro forma, one year figures included for all Hermes subsidiaries

The definitions of expense and loss ratios have changed with regard to 2005. The changes relate to the exclusion from the expense ratio of non-technical expense, the exclusion from the loss ratio of refunds and the inclusion of refunds under premiums, the denominator for both ratios.

The impact of these changes on the net combined ratio for 2005 is a negative 3.2 points (-0,4 point on the net expense ratio, -2,7 points on the net loss ratio).

### Financial market trends

The markets have rallied significantly since the beginning of 2006. In the US, the Dow Jones index has reached a record high, completely wiping out the losses generated by the bursting of the Internet bubble in 2000.

The markets have benefited from a combination of favourable factors: much stronger-than-expected earnings growth (+13.3% for Euro Stoxx and 14.8 % for the S&P 500), a record volume of mergers and acquisitions, which has bolstered the financial markets, and the fall in energy prices since the end of the summer. All in all, market gains in local currencies range from 5.4 % for the Nikkei in Tokyo to + 34.5% for the Madrid Ibex, with 16.3% for the New York Dow Jones index and 20.3% for the Euro Stoxx index.

Both in Europe and the US, 2006 was marked by tougher monetary policies. The Federal Reserve raised its intervention rate to 5.25% while the European Central Bank raised interest rates six times, bringing the refinancing rate to 3.5%.

These moves resulted in tension in the bond markets; 10-year rates stand at 3.98% in the euro zone, corresponding to an increase of 68 basis points, and 4.70% in the US corresponding to an increase of 30 basis points.

The dollar experienced a trend reversal relative to 2005 in the foreign exchange markets, weakening by 11.5% against the euro over the year.

Commodity prices posted contrasting trends, after rising sharply to more than \$80 per barrel at the end of July, oil prices dropped back to \$61.1 per barrel at the end of the year, falling back to their level at the beginning of 2006.

## Financial income

Against this background, financial income rose by **16.7%** to **€149.8** million.

The increase in financial income resulted partly from an increase in ordinary income generated by growth in investment and from the realisation of capital gains, notably on the equities portfolio.

Given the strong rally in the equity markets, the group decided to make disposals in order to maintain the group's exposure to the equity markets at less than 20% of the investment portfolio, i.e. 18.6% of the portfolio including cash. These disposals generated significant gains.

Gains on disposals amounted to €55.0 million in 2006 compared with €37.9 million in 2005.

<i>In thousand of euros</i>	2006	2005 <sup>(1)</sup>	variation %
<b>Income from investment property</b>	<b>9 626</b>	<b>9 559</b>	<b>0,7%</b>
<i>Income from securities - Bonds</i>	66 680	65 141	2,4%
<i>Income from securities - equities</i>	10 225	9 728	5,1%
<b>Income from securities</b>	<b>76 905</b>	<b>74 869</b>	<b>2,7%</b>
Incomes from other financial investments	19 160	19 160	0,0%
Other financial incomes	2 572	2 572	0,0%
Other financial incomes	30 130	33 183	-9,2%
<b>Investments income</b>	<b>116 661</b>	<b>117 611</b>	<b>-0,8%</b>
<b>Investment expense</b>	<b>(16 784)</b>	<b>(24 649)</b>	<b>-31,9%</b>
<b>Net gains and losses on sales of investments less impairment and amortisation</b>	<b>55 035</b>	<b>37 895</b>	<b>45,2%</b>
<b>Change in impairment of investments</b>	<b>(5 110)</b>	<b>(2 485)</b>	<b>105,6%</b>
<b>Net financial income (excluding financing expense)</b>	<b>149 802</b>	<b>128 372</b>	<b>16,7%</b>

<sup>(1)</sup> proforma

At end-December 2006, the market value of the group's investment portfolio was €3,014.1 million, 4.4% more than at 31 December 2005. Including cash, investments came to €3,349.0 million at end-December 2006 compared with €3,107.0 million at end December 2005. The €242.0 million increase is attributable to market gains for €42.8 million) and to a net increase in investments for the remainder.

Despite the capital gains realised (€55.0 million), unrealised capital gains and revaluation reserves remained virtually stable (down by 3%, or €7.1 million) at €233.1 million, corresponding to 7.0% of the investment portfolio.

The economic performance net of investment portfolio expense for 2006 came to 4.45%.

*In thousand of euros*

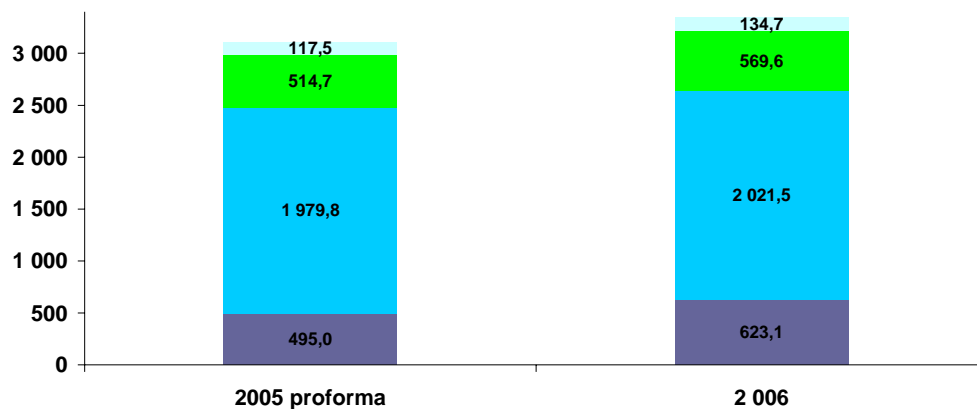
	2006					2005 <sup>(1)</sup>				
	Amortised cost	Unrealised gain reserv	Net book value	Market value	unrealised gains and losses	Amortised cost	unrealised gain reserv	Net book value	Valeur de marché	unrealised gains and losses
- Shares :	443 806	179 341	623 147	623 147	-	339 671	155 289	494 960	494 960	-
- Bonds :	2 013 812	7 568	2 021 380	2 021 534	154	1 918 377	60 926	1 979 303	1 979 782	479
- Loans and other investments :	234 651	-	234 651	234 651	-	293 025	-	293 025	293 025	-
<b>Total financial investments</b>	<b>2 692 269</b>	<b>186 909</b>	<b>2 879 178</b>	<b>2 879 332</b>	<b>154</b>	<b>2 551 073</b>	<b>216 215</b>	<b>2 767 288</b>	<b>2 767 767</b>	<b>479</b>
Build third party use	-	-	88 655	134 724	46 069	-	-	93 971	117 536	23 565
Cash	-	-	334 964	334 964	-	-	-	221 678	221 678	-
<b>Total</b>			<b>3 302 797</b>	<b>3 349 020</b>	<b>46 223</b>			<b>3 082 937</b>	<b>3 106 981</b>	<b>24 044</b>

<sup>(1)</sup> proforma

### Investment portfolio

Meuros - Market value as at 31/12/2006

- Investment property
- Loans, other investments and cash
- Bonds
- shares



## Ordinary operating income

After including net financial income, ordinary operating income amounted to **€489.9** million in 2006 compared with **€446.6** million the previous year.

<i>In Thousand of Euros</i>	<b>2006</b>	<b>2005<sup>(1)</sup></b>	Variation %
Ordinary operating income before financial income net of charges and impairment of portfolio	340 110	318 273	6,9%
Financial income net of expenses	149 802	128 372	16,7%
<b>Ordinary operating income</b>	<b>489 911</b>	<b>446 645</b>	<b>9,7%</b>

<sup>(1)</sup> proforma

## Net income, group share

Net income, group share increased by 14.0% relative to 2005.

<i>In Thousand of Euros</i>	<b>2006</b>	<b>2005<sup>(1)</sup></b>	Variation %
<b>Ordinary operating income</b>	<b>489 911</b>	<b>446 644</b>	<b>9,7%</b>
Financing expenses	-11 489	-10 121	13,5%
Income from companies accounted for by equity method	8 547	8 056	6,1%
Corporation tax	-156 734	-158 394	-1,0%
Minority interests	-4 181	-109	N/S
<b>Consolidated net income</b>	<b>326 054</b>	<b>286 076</b>	<b>14,0%</b>

<sup>(1)</sup> proforma

## Performance of group's main geographic segments

The Euler Hermes group segments its activities by geographic area based on the location of the insurance assets and liabilities.

### Germany

The activities in Germany comprise the direct insurance and reinsurance activities carried out by the German companies in their home market and through foreign branches located in Asia, the Baltic countries and Switzerland.

*In thousand of euros*

	<b>2006</b>	<b>2005<sup>(1)</sup></b>	
Earned premiums	627 293	636 099	-1,4%
Premium-related revenues	168 713	145 873	15,7%
<b>Turnover</b>	<b>796 006</b>	<b>781 972</b>	<b>1,8%</b>
Net financial income	49 158	48 412	1,5%
<b>Total revenues from ordinary activities</b>	<b>845 165</b>	<b>830 384</b>	<b>1,8%</b>
Insurance services expense	(207 513)	(201 123)	3,2%
Reinsurance and retrocession expense	(92 841)	(141 780)	-34,5%
Other expenses	(315 284)	(313 495)	0,6%
<b>Total other expenses</b>	<b>(615 638)</b>	<b>(656 398)</b>	<b>-6,2%</b>
<b>Ordinary operating income</b>	<b>229 527</b>	<b>173 986</b>	<b>31,9%</b>
<sup>(1)</sup> proforma			
<i>Net combined ratio</i>	<i>32,4%</i>	<i>49,5%</i>	

Growth in turnover at the German subsidiaries remained sluggish in 2006 (1.8%) in better than expected economic conditions. The small growth in turnover was attributable mainly to the full consolidation for the first time of the service company Bürgel Wirtschaftsinformationen GmbH & Co. KG, which had been consolidated by the equity method in 2005. The 1.4% decrease in earned premiums is for the main part explained by the decrease in inward reinsurance contracts accepted.

Insurance service expense increased by 3.2% in 2006 even though earned premiums declined by 1.4% relative to 2005. This increase resulted from opposing trends: a sharp fall in claims for the year offset by a significant reduction in liquidation surpluses relating to prior years.

The policy of increasing the retention rate and improved reinsurance terms and conditions enabled the group to achieve a significant 34.5% reduction in the share of underwriting income ceded to reinsurers, thus giving a strong boost to operating income.

Operating expense rose by 0.6% relative to the previous year. This very small increase was the result of drastic cost control and a slight reduction in staff numbers.

The fall in the net combined ratio is due primarily to low growth in operating expense combined with better reinsurance terms and conditions. These include notably a significant low claims bonus on the reinsurance treaty, which was not the case in 2005.

On this basis operating income increased by 31.9%, up from €74 million in 2005 to €229.5 million in 2006. Germany thus confirms its role as the largest contributor to group operating income.

## France

This segment comprises all the activities carried out by the French companies in their home market.

*In thousand of euros*

	2006	2005 <sup>(1)</sup>	
Earned premiums	325 428	347 051	-6,2%
Premium-related revenues	76 535	75 288	1,7%
<b>Turnover</b>	<b>401 963</b>	<b>422 339</b>	<b>-4,8%</b>
Net financial income	69 657	48 785	42,8%
<b>Total revenues from ordinary activities</b>	<b>471 620</b>	<b>471 124</b>	<b>0,1%</b>
Insurance services expense	(179 851)	(162 796)	10,5%
Reinsurance and retrocession expense	(4 766)	(15 752)	-69,7%
Other expenses	(154 988)	(169 504)	-8,6%
<b>Total other expenses</b>	<b>(339 605)</b>	<b>(348 052)</b>	<b>-2,4%</b>
<b>Ordinary operating income</b>	<b>132 015</b>	<b>123 073</b>	<b>7,3%</b>
<sup>(1)</sup> proforma			
<i>Net combined ratio</i>	73,3%	71,6%	

France posted a very satisfactory performance with a 7.3% increase in ordinary operating income.

The decline in turnover is explained by the cessation of the inward reinsurance activity from sister companies, which is now centralised with Euler Hermes Reinsurance AG. The negative impact of €11.5 million was partly offset by an increase of €20.4 million in turnover from direct insurance business.

Other ordinary income increased by 0.4%, financial income (mainly capital gains on disposals of equity investments) offset the drop in turnover.

The loss ratio rose by 6.5 points in 2006 compared with the previous year due to lower liquidation surpluses on previous years and a rise in claims for the year, in terms of both frequency and average amounts.

Costs decreased more rapidly than premiums thanks to strict control of expenses and to a sharp fall in acceptance commissions.

## Italy

This segment comprises all the activities carried out by the group's Italian companies.

*In Thousand of Euros*

	<b>2006</b>	<b>2005<sup>(1)</sup></b>	
Earned premiums	186 535	176 074	5,9%
Premium-related revenues	45 918	43 855	4,7%
<b>Turnover</b>	<b>232 453</b>	<b>219 929</b>	<b>5,7%</b>
Net financial income	11 774	7 125	65,2%
<b>Total revenues from ordinary activities</b>	<b>244 227</b>	<b>227 054</b>	<b>7,6%</b>
Insurance services expense	(97 125)	(65 153)	49,1%
Reinsurance and retrocession expense	(15 379)	(37 531)	-59,0%
Other expenses	(103 543)	(101 116)	2,4%
<b>Total other expenses</b>	<b>(216 047)</b>	<b>(203 800)</b>	<b>6,0%</b>
<b>Ordinary operating income</b>	<b>28 180</b>	<b>23 255</b>	<b>21,2%</b>
(1) proforma			
<i>Net combined ratio</i>	<i>84,5%</i>	<i>82,8%</i>	

Sales activity was robust in Italy with 5.7% growth in turnover in 2006. The momentum was strong for both premiums, up 5.9%, and premium-related service revenues, 4.7%. At the same time, operating expense increased 2.5 times more slowly, by 2.4%.

The sharp rise in the cost of claims is linked in part to the deterioration of the claims experience for the year and in part to lower liquidation surpluses relating to previous years. 2005 had been marked by substantial collections in connection with the Parmalat claim, in large part ceded to reinsurers (recorded under "income (loss) from cession and retrocessions").

Operating income nonetheless increased substantially, by 21.2%, thanks to improved reinsurance terms and conditions, a higher retention rate and a strong increase in financial income.

The net combined ratio came to 84.5% in 2006 compared with 82.8% in 2005.

## **United Kingdom**

This segment comprises all the activities carried out by group companies located in the UK.

*In Thousand of Euros*

	<b>2006</b>	<b>2005<sup>(1)</sup></b>	
Earned premiums	186 908	200 001	-6,5%
Premium-related revenues	23 118	25 938	-10,9%
<b>Turnover</b>	<b>210 025</b>	<b>225 939</b>	<b>-7,0%</b>
Net financial income	10 126	13 457	-24,8%
<b>Total revenues from ordinary activities</b>	<b>220 151</b>	<b>239 397</b>	<b>-8,0%</b>
Insurance services expense	(48 956)	(64 104)	-23,6%
Reinsurance and retrocession expense	(26 109)	(29 803)	-12,4%
Other expenses	(87 151)	(96 765)	-9,9%
<b>Total other expenses</b>	<b>(162 216)</b>	<b>(190 672)</b>	<b>-14,9%</b>
<b>Ordinary operating income</b>	<b>57 935</b>	<b>48 724</b>	<b>18,9%</b>
(1) proforma			
<i>Net combined ratio</i>	<i>54,8%</i>	<i>73,4%</i>	

Turnover in the UK declined by 7.0% in 2006.

The 6.5% decline in premiums is in part explained by the transfer to the "Asia" segment of the business managed in the Far East and in part to pressure on premiums linked to the sharp fall in claims (-23.6%). The UK credit insurance market appears to be adjusting prices to a lasting change in the number and severity of corporate failures.

For premium related services, the decrease (10.9%) is attributable to the transfer of the Asian activities and a decrease in revenues from debt collection activities.

Increased retention, a sharp reduction in operating expense following the restructuring carried out in 2004 and better reinsurance terms and conditions ensured an 18.9% increase in operating income.

The net combined ratio also improved significantly, dropping to 54.8% compared with 73.4% in 2005.

## United States

This segment comprises all the direct activities carried out in the United States and Mexico, the reinsurance activities and the business carried out by EH ACI through its Canadian office.

*In thousand of euros*

	<b>2006</b>	<b>2005<sup>(1)</sup></b>	
Earned premiums	160 107	149 056	7,4%
Premium-related revenues	20 647	20 579	0,3%
<b>Turnover</b>	<b>180 754</b>	<b>169 635</b>	<b>6,6%</b>
Net financial income	7 651	6 141	24,6%
<b>Total revenues from ordinary activities</b>	<b>188 405</b>	<b>175 776</b>	<b>7,2%</b>
Insurance services expense	(62 053)	(44 472)	39,5%
Reinsurance and retrocession expense	(19 671)	(23 945)	-17,8%
Other expenses	(64 447)	(61 411)	4,9%
<b>Total other expenses</b>	<b>(146 171)</b>	<b>(129 828)</b>	<b>12,6%</b>
<b>Ordinary operating income</b>	<b>42 234</b>	<b>45 948</b>	<b>-8,1%</b>
<sup>(1)</sup> proforma			
<i>Net combined ratio</i>	<i>60,0%</i>	<i>52,3%</i>	

This segment recorded a 6.6% increase in turnover (8.7% at constant exchange rates) relative to 2005.

The growth in premiums resulted from very dynamic production in the US, where penetration is still low, combined with strong growth in client sales, which is the basis for calculating premiums.

The increase in the loss ratio was linked to lower liquidation surpluses from prior years, which had been positively affected by collections in connection with the K-mart claim and a deterioration in the cost of claims for the year, linked to economic conditions in the US. However, the rise in claims in the US zone should be put into perspective as claims were exceptionally low in 2005. This increase was nonetheless partly offset by a higher retention rate and better reinsurance terms and conditions.

The fall in operating income is explained for 2% by the weakening of the dollar against the euro in 2006.

## Benelux countries

This segment comprises the activities of the Belgian and Dutch subsidiaries.

*In thousand of euros*

	<b>2006</b>	<b>2005<sup>(1)</sup></b>	
Earned premiums	102 323	98 956	3,4%
Premium-related revenues	25 278	22 225	13,7%
<b>Turnover</b>	<b>127 601</b>	<b>121 181</b>	<b>5,3%</b>
Net financial income	25 345	3 240	682,1%
<b>Total revenues from ordinary activities</b>	<b>152 945</b>	<b>124 421</b>	<b>22,9%</b>
Insurance services expense	(54 171)	(51 191)	5,8%
Reinsurance and retrocession expense	(15 424)	(17 405)	-11,4%
Other expenses	(41 960)	(38 320)	9,5%
<b>Total other expenses</b>	<b>(111 555)</b>	<b>(106 916)</b>	<b>4,3%</b>
<b>Ordinary operating income</b>	<b>41 390</b>	<b>17 506</b>	<b>136,4%</b>
<sup>(1)</sup> proforma <i>Net combined ratio</i>	<i>70,7%</i>	<i>76,6%</i>	

Turnover generated in Belgium and the Netherlands increased by 5.3% thanks to a 3.4% increase in premiums, reflecting the zone's economic growth, and to a more substantial rise of 13.7% in premium-related service revenues thanks to increased information sales and the strong performance of the Retail activity.

The loss ratio deteriorated slightly during the year in both Belgium and the Netherlands but this was partly offset by higher retention and better reinsurance terms.

Other operating expense remained under control but posted an increase due to investment in management software for the Retail business.

The very strong increase in financial income was attributable for €21.4 million to the capital gain on the sale to Euler Hermes SA of the stake in the Dutch company previously held by the Belgian subsidiary, eliminated in consolidated accounts.

### **Other countries**

This segment comprises the activity of the group's new reinsurance subsidiary in Switzerland, Euler Hermes Reinsurance AG, and of independent companies that form part of the "IDC" (International Development Centre). These group the activities of the companies located in Northern Europe (Finland, Sweden, Denmark and Norway), in Eastern Europe (Hungary, Poland, and Czech Republic), in Spain, Greece, Morocco and Latin America.

*In thousand of euros*

	<b>2006</b>	<b>2005 <sup>(1)</sup></b>	
Earned premiums	307 815	85 421	260,3%
Premium-related revenues	38 606	35 944	7,4%
<b>Turnover</b>	<b>346 421</b>	<b>121 365</b>	<b>185,4%</b>
Net financial income	9 854	4 506	118,7%
<b>Total revenues from ordinary activities</b>	<b>356 275</b>	<b>125 871</b>	<b>183,0%</b>
Insurance services expense	(175 379)	(50 543)	247,0%
Reinsurance and retrocession expense	(19 465)	(5 121)	280,1%
Other expenses	(143 878)	(56 360)	155,3%
<b>Total other expenses</b>	<b>(338 722)</b>	<b>(112 024)</b>	<b>202,4%</b>
<b>Ordinary operating income</b>	<b>17 553</b>	<b>13 847</b>	<b>26,8%</b>
<sup>(1)</sup> proforma			
<i>Net combined ratio</i>	96,5%	27,3%	

These developing companies recorded very strong growth in 2006 with a 260% increase in turnover. This increase was attributable mainly to quota-share reinsurance cessions by group subsidiaries to Euler Hermes Reinsurance AG. The greater part of this turnover was eliminated at group level in the consolidated accounts.

The other companies in this segment posted dynamic growth, accounting for more than half of the overall growth recorded by the group.

Cost of claims and operating expense increased by respectively 247% and 155%, linked mainly to the inclusion in 2006 of our reinsurance subsidiary in Switzerland (most of these expenses are eliminated at the consolidated group level).

### **Consolidated shareholders' equity and adjusted capital**

#### **Consolidated shareholders' equity**

At 31 December 2006, consolidated shareholders' equity amounted to **€1,892.4** million compared with **€1,737.1** million at the end of 2005. The table below describes the main changes in capital during the year.

(€'000)

	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Other			Shareholders' equity, group share	Minority interests	Total shareholders' equity
					Translation reserve	Treasury shares	Total other			
<b>Shareholders' equity at 31 December 2005, IFRS</b>	<b>14 346</b>	<b>444 985</b>	<b>1 194 210</b>	<b>142 463</b>	<b>24 021</b>	<b>(82 972)</b>	<b>(58 951)</b>	<b>1 737 053</b>	<b>7 869</b>	<b>1 744 922</b>
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				(18 340)				(18 340)	98	(18 242)
Impact of transferring realised gains and losses to income statement										
Cash flow hedges				787				787		787
Gain / (loss) taken to shareholders' equity										
Impact of transferring realised profits and losses in the year to income statement										
Impact of transfers on the initial amount of hedges										
Impact of translation differences					(13 129)		(13 129)	(13 129)	11	(13 118)
Current and deferred tax taken directly to or transferred to shareholders' equity										
<b>Net income recognised in shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17 553)</b>	<b>(13 129)</b>	<b>-</b>	<b>(13 129)</b>	<b>(30 682)</b>	<b>109</b>	<b>(30 573)</b>
Net income for the year			326 054					326 054	4 181	330 235
<b>Total revenues and losses recognised for the year</b>	<b>-</b>	<b>-</b>	<b>326 054</b>	<b>(17 553)</b>	<b>(13 129)</b>	<b>-</b>	<b>(13 129)</b>	<b>295 372</b>	<b>4 290</b>	<b>299 662</b>
Capital movements	38	3 073					8 259	11 370	47	11 417
Dividend distributions			(151 821)					(151 821)	(1 874)	(153 695)
Shareholders' equity component of share-based payment plans			1 783					1 783	-	1 783
Other movements			(1 371)					(1 371)	8 821	7 450
<b>Shareholders' equity at 31 December 2006, IFRS</b>	<b>14 384</b>	<b>448 058</b>	<b>1 368 855</b>	<b>124 910</b>	<b>10 892</b>	<b>(74 713)</b>	<b>(63 821)</b>	<b>1 892 386</b>	<b>19 153</b>	<b>1 911 539</b>

Available for sale securities have been revalued at fair value against the revaluation reserve without any impact on income. The movement in the revaluation reserve amounted to a negative €17,552 thousand of which €787 thousand linked to the unwinding of the hedging swap subscribed by Euler Hermes SA.

The change in the translation difference for the year relate mainly to the US dollar for nearly €18 million, to sterling for a negative €5.7 million and to the Swiss franc in a positive amount of more than €1.7 million.

120,874 new shares were created as the result of the exercise of stock options in 2006. As the result, the capital and share premium of Euler Hermes SA increased by respectively €38 thousand and €3,073 thousand.

The movement of €1,783 thousand corresponds to personnel expense relating to stock option plans under application of IFRS 2.

The change in minority interests is attributable mainly to the change in the consolidation method of Bürgel Wirtschaftsinformationen GmbH & Co. KG from the equity method to the full consolidation method.

## Adjusted capital

Adjusted capital after tax corresponds to consolidated shareholders' equity restated for the following elements:

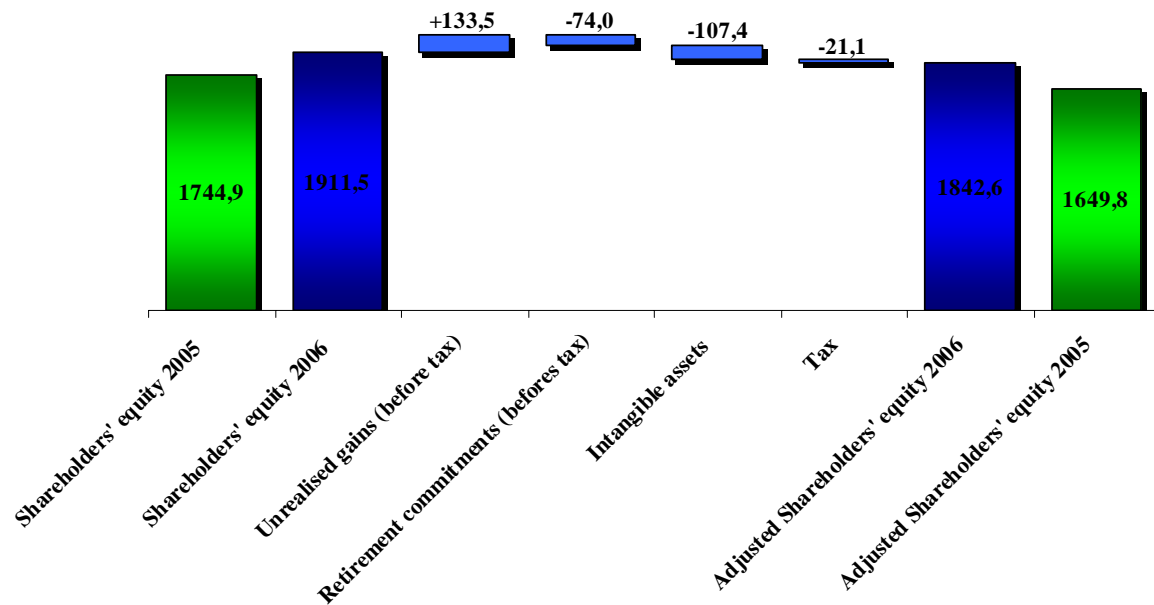
- Unrealised gains on assets not recognised at fair value (mainly property assets for own use),
- Pension commitments (IAS 19 corridor),
- Goodwill
- Tax effect on unrealised capital gains and pension commitments

Adjusted capital after tax amounted to **€1,824.9** million versus **€1,649.8** million at end 2005, corresponding to an increase of 10.6%. This was the result of:

- An increase in shareholders' equity resulting from net income, group share in excess of dividends distributed,
- Unrealised capital gains, up by 21% following the appreciation of property assets in France,
- Non-amortised actuarial differences on retirement commitments decreased by 8.3%,
- Goodwill remained stable relative to 2005 (-1.6%).

### Adjusted capital after tax

In million of euros



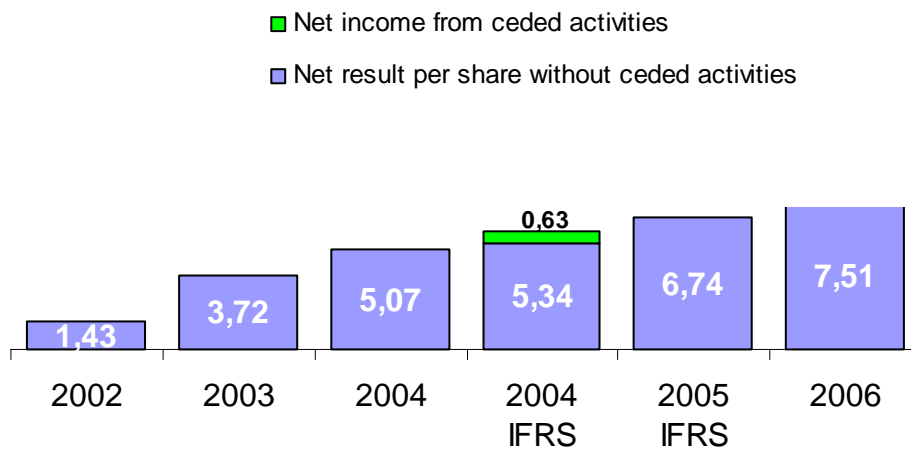
## Creation of shareholder value

### Earnings per share

Earnings per share before dilution came to €7.51 in 2006 compared with €6.74 in 2005, corresponding to an increase of 11.4%.

### Net result per Euler Hermes share (in euros)

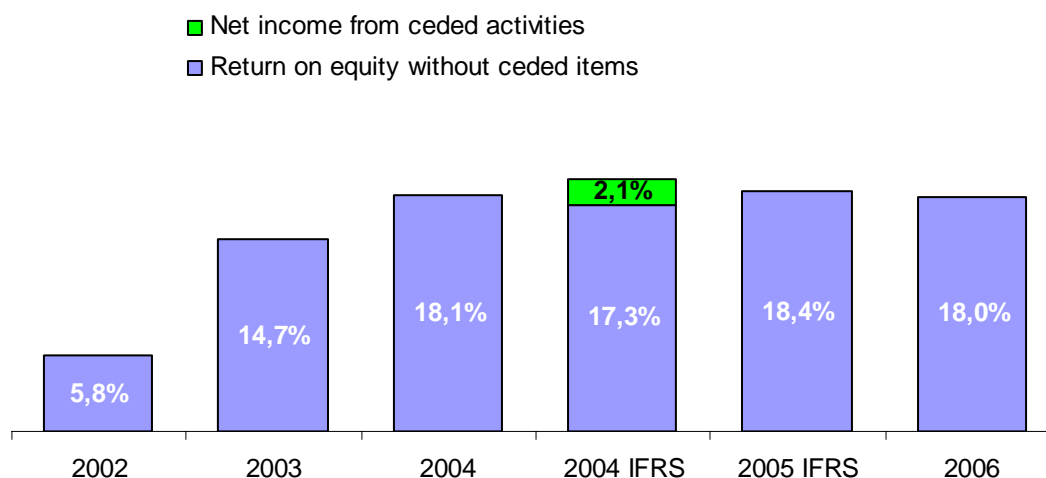
Annual growth rate 2002 - 2006: 51,4%



### Return on equity

Return on equity came to 18.0%, down by 0.4 point relative to 2005 at comparable scope.

### Return on equity (in %)



### Return on allocated capital

As a member of the AGF/Allianz group, Euler Hermes uses the concept of return on allocated capital as an indicator of performance and of the creation of shareholder value. This indicator measures the surplus value created by the company's operations in relation to the cost of the capital allocated to those operations.

The operating contribution of the activity is measured using the method applied in the AGF/Allianz group. This consists of replacing actual results with standardised results so as to determine as accurately as possible the underlying economic performance of the group's businesses. The operating result thus obtained replaces actual financial income with a standardised financial income based on the expected medium-term return on each asset class, independently of market volatility, and takes into account the opportunity cost of surplus capital.

The amount of allocated capital is determined using the S & P capitalisation model. There were no changes to the model in 2006. Total capital allocated to the business amounted to **€1,597.3** million in 2006. The return on allocated capital was 20.4%, corresponding to a small 0.4% increase in relation to 2005 due to a larger increase in the contribution from operating activities than in allocated capital. This increase in the contribution from operating income resulted from:

- the increase in net income, group share before tax and financial income or expense,
- the increase in standardised financial income resulting from the growth in the investment portfolio, linked largely to the increase in the retention rate.
- A decrease in the average tax rate.

The following table sets out the main elements of the calculation of return on allocated capital :

<i>In thousand of euros</i>	<b>2006</b>	<b>2005<sup>(1)</sup></b>	Variation %
Net income, Group share	326 054	286 076	14,0%
Cancellation of actual financial income	-149 802	-128 372	16,7%
Standardised financial income	158 044	130 144	21,4%
Opportunity cost of surplus capital	-7 130	-4 526	57,5%
Cancellation of actual tax	156 734	158 394	-1,0%
Standardised tax	-158 526	-154 601	2,5%
<b>Operating contribution of activity</b>	<b>325 374</b>	<b>287 116</b>	<b>13,3%</b>
Allocated capital	1 597 300	1 432 948	11,5%
<b>Return on allocated capital</b>	<b>20,4%</b>	<b>20,0%</b>	

<sup>(1)</sup> proforma

## Development of the activity of Euler Hermes SA

Euler Hermes SA is the parent company of the Euler Hermes group. It does not conduct any commercial or industrial activities and generates the bulk of its revenues from shareholdings.

## Subsidiaries and participating interests

The main change during the year was the acquisition of 100% of the Dutch company Euler Hermes Kredietverzekering from Euler Hermes Credit Insurance Belgium, Euler Hermes Kreditversicherungs-AG and minority shareholders.

## Comments on the results

Net income for the year came to **€14.23** million compared with **€9.3** million in 2005. The table below shows the main components of the company's income :

<i>In thousand of euros</i>	<b>2006</b>	<b>2005</b>	Variation %
Income from participating interests	217 548	112 712	93,0%
Other net financial expenses	-5 924	-14 365	-58,8%
Net operating expenses	-6 734	-9 196	-26,8%
Provision for (-) or writeback of (+) depreciation of treasury shares	0	3 017	N/A
<b>Ordinary Income</b>	<b>204 890</b>	<b>92 168</b>	<b>122,3%</b>
Exceptional items	3 072	1 853	65,8%
Corporation tax	6 189	5 298	16,8%
<b>Net Income</b>	<b>214 151</b>	<b>99 317</b>	<b>115,6%</b>

- (1) Revenue from participating interests increased by **€104.8** million.
- (2) The main items in this heading comprised interest expenses on loans and financial debt, for **€16.1** million of which **€8.7** to associated companies, variable rate interest income relating to the interest rate swap terminated in 2006 (**€3.6** million) and the writeback of provisions for impairment of Euler Hermes UK shares (**€6.0** million).

At end-2005, this heading comprised mainly the cost of borrowing of Euler Hermes (**€17.6** million at 31 December 2005), the provision for impairment of Euler Hermes Credit Insurance Belgium shares, for **€3.1** million, and the writeback of the provision for impairment of Euler Hermes UK shares, of **€6.1** million at end-December 2005.

The decrease in 2006 relative to 2005 is attributable for **€5** million to the decrease in net interest expenses on borrowings and for **€3.1** million to the impairment of Euler Hermes Credit Insurance Belgium shares recorded in 2005.

- (3) The decrease in net operating expense relative to 2005 is attributable mainly to the increase in other income linked to rebilling of royalties for the IRP system (group information risk and policies management software) for **€3.5** million, partly offset by the increase in personnel expense (**€0,8** million).

(4) In 2006, exceptional items consisted mainly of the repayment by the Italian tax authorities of the tax credit on dividends for 1998 and 1999 for €2.5 million.

(5) Euler Hermes SA also heads up the tax group for French companies that are more than 95%-owned. In 2006, the tax group resulted in a surplus of €4.0 million compared with €7.3 million in 2005.

## Dividends

As proposed by the Group Management Board, the Supervisory Board proposes to the General Meeting that a dividend of €4.00 per share be paid in cash.

The total dividend to be paid in respect of 2006 thus comes to €174.1 million (1).

Proposed allocation of income	2006
<b>Source</b>	
Retained earning from previous year	88 254
Net income for the year	214 151
	<b>302 405</b>
<b>Allocation</b>	
allocation to reserves	
Legal reserve	4
Special reserve for long-term capital gains	0
Proposed dividend : 4,00 euro per action	179 506
Retained earnings	122 896
	<b>302 405</b>

(1) The dividend paid corresponds to the dividend multiplied by the number of shares but excluding treasury shares, which are not entitled to any dividends. The number of treasury shares at 31 December 2006 stood at 1,411,359. The dividend proposed for the approval of the General Meeting takes into account the Treasury shares.

The table below shows the dividends paid for the past five years. The dividend per Euler Hermes share has increased by an average of **35.1%** per annum over the past five years.

	2006 (1)	2005 (2)	2004 (2)	2003 (2)	2002 (2)
Global amount (in thousands of euros)	179 506	151 522	103 621	72 437	30 831
Amount per share before tax credit <sup>(3)</sup>	4,00 €	3,50€	2,50€	1,82€	0,80€
Tax credit <sup>(4)</sup>		-	-	0,91€	0,40€
Amount per share after tax	4,00 €	3,50€	2,50€	2,73€	1,20€

<sup>(1)</sup> Dividend proposed to the shareholders at General Meeting.

<sup>(2)</sup> Dividend for the year, paid the following year.

<sup>(3)</sup> The dividend per share is calculated based on the number of shares in issue.

<sup>(4)</sup> At the historical rate, which was 50% for physical persons and legal entities benefiting from the parent/subsidiary regime

## Outlook

Despite robust growth in Asia, the economy slowed in the second half of 2006 in the United States, Japan and Europe,. We are expecting these zones to record growth of around 2% in 2007. Against this backdrop, the strong growth in international trade of recent years is likely to slow somewhat in 2007.

The low claims recorded in recent years are likely to keep premium rates under pressure.

Slower growth in the global economy and relatively stable premium rates point to moderate growth in earned premiums in 2007.

However, the full effect of the retention policy implemented in recent years should enable the group to keep growth in earned premiums at a significantly higher rate than growth in turnover.

In addition, given the trend in claims in 2006, the cost of claims is expected to increase slightly in 2007. Liquidation surpluses relating to prior years are likely to decrease further. The loss ratio in some countries, including the United States and Germany, which is currently at particularly low levels will undoubtedly undergo a gradual adjustment.

The group will continue to harmonise tools so as to improve service quality, maintain its competitive edge and keep costs under control, thus ensuring added value for its clients. Reinsurance terms are expected to continue to reflect the positive trend in claims of the past few years.

Barring any major financial or economic crisis, the group is confident that financial income will continue to make a significant contribution to operating income.

Euler Hermes intends to pursue its international expansion by investing particularly in new economic powers (China and India, but also Russia) and in regional leaders, such as Turkey, Brazil and Argentina, in order to support its clients in their development.

Credit insurance is a business based on economies of scale and Euler Hermes has proved its capacity to anticipate change in international trade so as to offer quality service. As well as significant internal investment, the group will continue to examine any acquisition opportunities that arise in the trade receivables financing and management market.

The group has confidence in its strategy and looks to 2007 with optimism.

<sup>1</sup> The "Outlook" section and the Management Board's report in general contain no forward-looking statements as understood by European Regulation 809-2004