

Report of the Group Management Board

For the year ended 31 December 2005

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Review of 2005

The global economy in 2005

The year ended 31 December 2005 was marked by a deceleration in activity worldwide (growth of only 3.4% compared with 3.9% in 2004), although the slowdown engendered by the surge in the price of oil and many other commodities remained modest in the end. The US remained the engine of the world economy, leading the slowdown in 2005, just as it had led the upturn in 2003-2004. Asia continued to benefit from US demand, with China gaining market share in global manufacturing. By contrast, the euro zone, other than a few exceptions (Spain, Ireland and Denmark), saw a further decline in the first half of 2005, and the rebound in the second half, boosted by the euro's depreciation, remained limited. The pace of world growth gradually slowed throughout 2005, suggesting that the slowdown will continue into 2006.

The driver of world trade, the United States, decelerated (growth of 3.5%) following the peak reached in 2004 (growth of 4.2%). Even so, it put up better-than-expected resistance to the rise in oil prices and interest rates as a result of four factors: the decline in long interest rates and inflation; relatively weak imports; the continued application of a very accommodating budgetary policy in response to the damage caused by the hurricanes; and the decrease in the household savings rate to around 0%.

In Japan, after fears of a recession surfaced in late 2004, 2005 confirmed the return of strong and balanced growth that reached 2.7% over the year as a whole. The yen's depreciation boosted the competitiveness of the country's exports and curbed deflationary pressures.

In the United Kingdom, the economy slow down in 2005, with GDP growth of only 1.8%, a victim of the tougher monetary policy implemented between late 2003 and early 2004, the lull in the property market (decrease in the wealth effect) and, a more isolated event, the London terrorist attacks in July.

The euro zone experienced a sharp slowdown in the first half, reflecting the significant appreciation in exchange rates since 2001, which took the euro to \$ 1.35 at the start of the year, and very depressed labour markets. Growth accelerated a little during the year, but remained fragile in the fourth quarter. The situation at country level within the euro zone, however, presented a very mixed picture:

- in Germany, growth was erratic throughout 2005. The spurt in the first quarter (up 0.6%) was followed by a virtual stagnation in the second quarter (up 0.3%), a rebound of 0.6% in the third quarter and a further deceleration in the fourth quarter. This performance was achieved on a limited base, with GDP growth being sustained essentially by external demand;
- in France, the economy decelerated sharply in 2005, reflecting an external contribution that remained highly negative and the reduced contribution from stocks. Consumption remained relatively strong (up 2,1%) and constituted the main economic support;
- Italy emerged from the recession, but posted growth of only 0.2%. The improvement in activity was evidenced primarily by higher external demand, with an upturn in European activity and the weaker euro.
- With growth of 3.4% in 2005, Spain experienced an acceleration and significantly outperformed its euro zone partners once again. However, there was an increase in the imbalance between internal demand that remained highly dynamic, fuelled by consumption and construction, and the deterioration in external accounts.

Trends in corporate failures

The slowdown in world growth prompted a reversal of the trend in corporate failures. Following a decline of 5% in 2004, our Global Index of business failures fell by just 2% in 2005. This performance was primarily determined by events in the US, which remained the heavyweight of the world economy. Corporate failures in the euro zone held steady at a high level in 2005, while the UK posted an increase. For newly industrialised countries, economic factors contributed to a decrease in the number of failures (Brazil, South Korea, etc.). However, legislation in such countries is new or in the pipeline, statistics are often incomplete, and the legal framework and accounting systems of companies are often very different to those found in the old industrialised countries. Developments in the legal framework can pave the way for significant rounds of increases (e.g. in Slovakia), and the clean up of large loss-making public corporations could hold some unpleasant surprises for the coming years (e.g. in China).

For 2006, the continued slowdown in the economy is expected to prompt a slight increase in the number of corporate failures, on average, across the world.

Failures of more than €100 million in 2005 (list prepared at end-October)

The world's largest business failures. The list was prepared based on the 10 largest failures in 2005 in the following countries: USA, Canada, Japan, Germany, France, United Kingdom, Italy, Spain, Netherlands, Belgium, Poland, Switzerland, Denmark, Sweden, Norway, Finland and Luxembourg.

Rank	Country	Company	Last known sales (€m)	Sectors
1	USA	Delphi	23,660	Automotive
2	USA	Delta Airlines	12,400	Air transport
3	USA	Northwest Airlines	9,260	Air transport
4	USA	Winn-Dixie Stores Inc.	8,790	Food distribution
5	USA	Collins & Aikman Corp.	3,310	Automotive
6	USA	Tower Automotive Inc.	2,650	Automotive
7	UK	MG Rover	1,928	Automotive
8	CAN	Stelco Inc	1,913	Mining, steelmaking
9	JAP	Shinko Co., Ltd.	1,474	Competitive golf
10	GER	Walter Bau AG	1,120	Construction
11	JAP (*)	Toyohide Kosan KK	1,095	Property
12	USA	Foamex International	1,070	Automotive
13	USA	Meridian Automotive Systems Inc.	830	Automotive
14	GER	Agfa Photo GmbH	700	Photography
15	GER	Ihr Platz GmbH & Co. KG	700	Distribution of beauty products and toiletries
16	JAP (*)	Fuji Excellent Club	699	Competitive golf
17	JAP (*)	Tokyo Fashion Town Corporation	657	Property
18	JAP (*)	Matsumura-gumi Corporation	609	Construction and civil engineering
19	USA	Ultimate Electronics	590	Distribution of electronics
20	UK	Allders Ltd	587	Distribution (department stores)
21	USA	Eagle Picher Holdings Inc.	580	Automotive
22	UK	Food Brokers Ltd	555	Food distribution
23	JAP (*)	Gyaraku KK	504	Competitive golf
24	JAP (*)	Sato Kogyo KK	416	Competitive golf
25	JAP (*)	Yotsuya Kanri KK	383	Property
26	JAP (*)	Time24 Co., Ltd.	365	Property
27	JAP (*)	Rinku Gate Tower Building Co., Ltd.	338	Property
28	CAN	HIP Interactive	308	Trading of electronic products
29	CAN	Heating Oil Partners Income Fund	308	Energy
30	UK	Granville Technology Group Ltd	305	Electronics, IT
31	GER	Beckmann Mineralölhandel GmbH	273	Hydrocarbons trading
32	UK	DD Trading Ltd	268	Telecoms
33	UK	Unique Distribution Ltd	217	Telephony (distribution)
34	SPA	Asia Chip Sa	206	Trading of office equipment
35	GER	TWD Gruppe	196	Textiles manufacturing
36	UK	Texon International Ltd	187	Shoes (manufacture)
37	SPA	Red Elite De Electrodomesticos Sa	158	Manufacture of domestic appliances

38	FRA	Mac Cormik	151	Manufacture and marketing of agricultural equipment
		Centro Asegurador Compañía De Seguros Y		
39	SPA	Reaseguros Sa	150	Insurance
40	UK	Chesterton International Ltd	128	Property (agencies)
41	NET	Benedik Vlees Bv	128	Meat (wholesale)
42	NET	Esha Holding Bv	123	Finance
43	DEN	Tel-Ka Talk A/S	109	IT/Communications
		Bones Realisations Ltd (previously Rathbones		
44	UK	Bakeries Ltd)	103	Bakery
(*) Liabilities				

Euler Hermes' strategy

Euler Hermes' strategy is clearly based on the development of its core business, i.e. Credit Insurance. This strategy is structured around four major axes:

a- A very strong leadership position in the European market

Euler Hermes is the leading player in its market in most European countries. All European subsidiaries are now profit-making and almost all make a contribution to group profit in proportion to their own size.

In addition, Euler Hermes pays close attention to opportunities to consolidate its position in the European market. In 2005, the group bought out minority holdings in EH Belgium and EH Netherlands.

b- Substantial sources of growth, especially in the US and emerging markets

The US subsidiary, one of the group's largest subsidiaries and the leading player in a very large industrial market, posted strong growth, with a 19.4% increase in turnover in 2005. The group also consolidated its top-tier position in Eastern Europe and expanded further in new markets, drawing notably on its preferential links with Allianz:

- In Asia, Euler Hermes signed three partnership agreements in 2005, two in China (one with Sinasure, the other with Allianz Guangzhou) and one in India with Allianz Bajaj.
- In Russia, the group signed a partnership agreement with Rosno, an Allianz subsidiary.
- In Latin America, development continued with substantial growth in turnover.

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 will be used by all subsidiaries (except for a few small entities) as from 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 the long-term development of all subsidiaries.

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

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

- high service quality (shorter response times, etc.);
- development of a range of highly comprehensive policies including policies adapted to companies of all sizes, from small businesses to multinationals (World Policy);
- a highly efficient debt collection policy (Euler Hermes is one of the world's leading players in collection);
- further innovations with regard to the product offer, making ever-increasing use of the Internet.

Key events of the period

The following significant events occurred in 2005:

Changes in the share capital and in share ownership

The Shareholders' General Meeting of 22 April 2005 decided to distribute a dividend of €2.50 per share with a choice between payment in cash or payment in shares at a price of €54.40 per share. This distribution led to the creation of 1,661,023 new shares, with an increase of €532 thousand in the share capital and additional paid-in capital of €89,828 thousand. On this occasion, AGF reinvested all the dividends due to it in shares. At 31 December 2005, AGF owned 68.58% of the share capital of Euler Hermes.

During 2005, some 63,548 new shares were created by the exercise of options under the 1997, 1998, 1999 and 2003 stock option plans. At 31 December 2005, Euler Hermes' share capital was composed of 44,830,244 shares.

On 16 March 2005, Swiss Re advised that its shareholding had fallen below the 5% threshold to 1,441,581 shares, representing 3.34% of the shares in issue on that date.

Changes in Standard & Poor's rating of Euler Hermes

On 30 May 2005, Standard & Poor's Paris upgraded the financial strength and counterparty ratings for the main companies in the Euler Hermes group from A+ to AA-. This ratings upgrade was the direct consequence of the significant improvement in profitability and strength displayed by the Euler Hermes group in the preceding two years.

Minority buyout at Euler Hermes Belgium

In April 2005, Euler Hermes finalised the purchase of the shares held by L'Office National du Ducroire and L'Office du Ducroire Luxembourgeois in its Belgian subsidiary. Euler Hermes now owns 100% of the share capital.

Failure of Walter Bau

The bankruptcy of the German company Walter Bau constituted the largest claim in 2005, with the cost before reinsurance estimated at €23,1 million, mainly concerning the Bonding activity. After reinsurance, the impact on the consolidated financial statements is put at €7,6 million.

Creation of a reinsurance company in Switzerland

On 22 November 2005, the Euler Hermes group created Euler Hermes Reinsurance A.G., registered in the Zurich trade and companies registry and with share capital of €66.6 million including €1.7 millions of “organisational” funds. This company will pave the way for an increase in the intra-group retention rate while pooling risks.

Presentation of the consolidated financial statements

In 2005, the financial statements were prepared in accordance with IFRS for the first time. The figures for 2004 are presented on a pro forma basis, prepared in accordance with the IFRS used in 2005.

Post-balance sheet events

There were no major post-balance sheet events.

Business activity

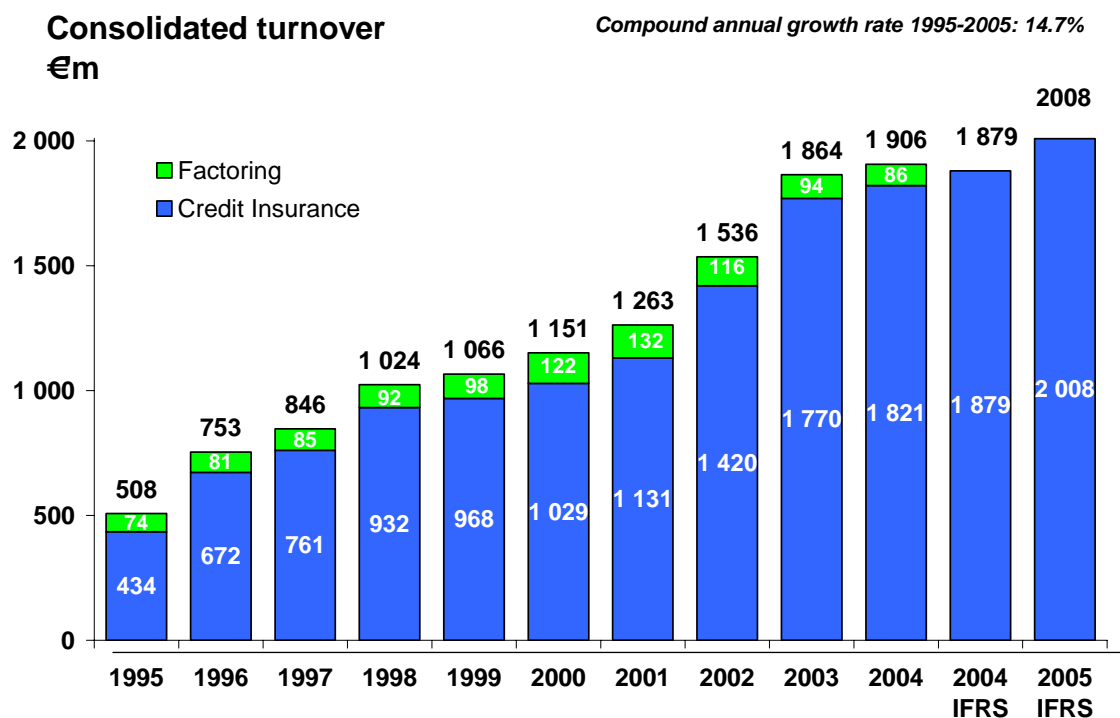
Consolidated turnover for the year came to **€2,007.9** million, representing an increase of **6.9%** compared with the IFRS figure for 2004 (**€1,879.1** million).

After taking into account changes in the consolidation scope and exchange rates, turnover increased by **6.8%**.

In 2004, reported turnover included that from the factoring business. As Eurofactor was sold in 2004, the IFRS turnover does not include Eurofactor's contribution to turnover.

Eurofactor’s overall results are reported in the “Net income after tax from discontinued activities” heading in the income statement.

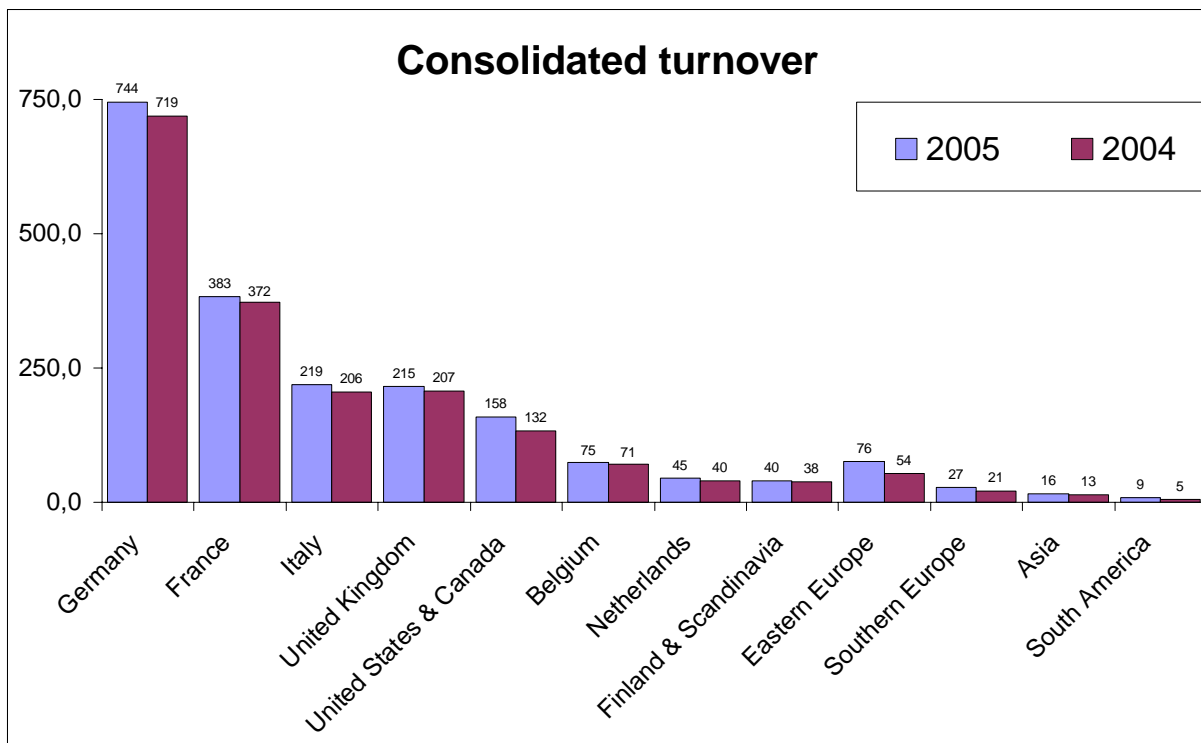
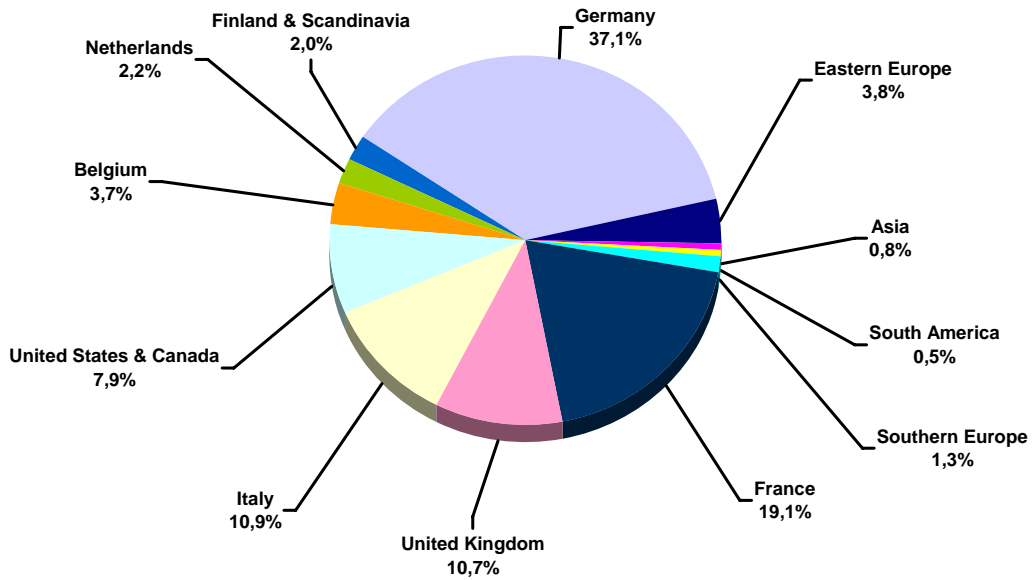
Furthermore, as part of the transition to IFRS, the definition of turnover has been widened to include ordinary income from the business conducted on behalf of the German State.



The growth in turnover was essentially due to the following factors:

- An improvement in the loyalty rate among policyholders, reflecting the ever-stronger service quality offered by Euler Hermes.
- An increase in the number of new policyholders, especially in Germany, France, Italy, Benelux countries and the US. This increase was fuelled by greater demand from companies wishing to outsource risks on trade receivables. At the same time, the upgrading of Euler Hermes’ rating from A+ to AA- by Standard & Poor’s reflects Euler Hermes’ financial strength and reassures its clients.
- Euler Hermes also benefited, in certain sectors, from the better-than-expected sales growth posted by its policyholders, resulting in an increase in earned premiums for 2005.

Analysis of turnover by country



2005 saw all geographic regions contribute to the growth in turnover, with:

- Very dynamic growth in turnover in the US and the Netherlands, up 19.4% and 11.8% respectively;
- Strong growth in new markets, with an increase of 33.2% compared with the previous year, particularly in Eastern Europe (up 40.4%);
- Buoyant growth in Europe (up 4.2%) despite only modest growth in the European economies.

Breakdown of turnover between credit insurance and other activities

€000	2005	2004	% change
Credit insurance	1 747 044	1 623 186	7,6%
Other	260 905	255 943	1,9%
Total	2 007 949	1 879 129	6,9%

Credit insurance

Turnover for the credit insurance business comprises premiums on direct business received in respect of policies underwritten by the group's insurance companies, premiums accepted and administrative fees and monitoring charges on credit limits, recovery expenses and other sundry fees charged to the group's clients.

Others

The other activities of the Euler Hermes group comprise guarantees, protection against the risk of employee fraud (so-called fidelity insurance, these last two activities being exercised mostly in Germany), insurance covering consumer loans to individuals (so-called retail insurance, conducted mainly in Germany and Belgium) and revenues from the business conducted on behalf of the German State.

With growth of 7.6%, credit insurance, Euler Hermes' core business, was the group's growth engine in 2005.

The modest growth in other activities was due mainly to the non-renewal of certain reinsurance agreements in the guarantees sector. As such, the direct guarantees activities (excluding acceptances) and the so-called fidelity activity posted growth of over 5% compared with last year.

Consolidated net income

Following the transition to IFRS, under which the concept of non-underwriting costs was eliminated, the ratio definitions were revised. The loss ratio is defined as the Insurance service expense compared with earned premiums. The cost ratio is defined as contract acquisition expense, administration expense, other ordinary operating income and expense less premium related revenues compared with earned premiums.

Earned premiums

Gross earned premiums came to **€1,689.5** million, an increase of **7.1%** compared with the IFRS figure for 2004.

The reinsurance rate declined by **2.8** points in 2005, due mainly to lower reinsurance rates at Euler Hermes Kreditversicherungs-AG (down **10** points), Euler Hermes Credit Insurance Belgium (down **5** points) and Euler Hermes ACI (down **3** points).

€'000	2005	2004	% change
Gross earned premiums	1 689 461	1 578 105	7,1%
Outwards reinsurance	(698 947)	(697 252)	0,2%
Net earned premiums	990 514	880 853	12,4%
Reinsurance rate	41,4%	44,2%	

Cost of claims

€000	2005	2004	% change
Gross cost of claims (including claims handling expenses)	(689 709)	(608 462)	13,4%
Claims ceded to reinsurance	218 977	203 917	7,4%
Net cost of claims	(470 732)	(404 545)	16,4%
Gross loss ratio	40,8%	38,6%	
Net loss ratio	47,5%	45,9%	

In an environment where corporate failures remained high, the cost of claims before taking into account reinsurance increased by **13.4%** to **€689.7** million.

This increase was due to a combination of different factors:

- Strong growth in activity;
- A reduction in the liquidation surplus for prior years compared with last year due to a smaller decrease in corporate failures than last year;
- A higher number of large claims than the previous year.

After taking into account reinsurance, and given the higher retention rate, the cost of claims came to **€470.7** million, an increase of **16.4%**.

The loss ratio after taking into account reinsurance came to **47.5%**, an increase of **1.6** points compared with 2004.

Cost of claims for the current year

€000	2005	2004	% change
Gross cost of claims for the current year	(939 369)	(927 997)	1,2%
Ceded cost of claims relating to the current year	329 552	360 323	-8,5%
Net cost of claims relating to the present year	(609 817)	(567 675)	7,4%

The cost of claims relating to 2005 before taking into account reinsurance posted a modest increase of 1.2% compared with 2004. This remarkable performance was achieved despite the occurrence of some large claims and was the result of the convergence in terms of underwriting and monitoring of risks that arises from entities being included in the IRP model.

After taking into account reinsurance, the cost for the year increased by 7.4% compared with the previous year, i.e. 5% less than the growth in net premiums.

Cost of claims for the previous year

€000	2005	2004	% change
Gross cost of claims for previous years	330 240	393 094	-16,0%
Ceded cost of claims relating to previous years	(141 939)	(187 637)	-24,4%
Net cost of claims relating to previous years	188 300	205 456	-8,4%

The amount of liquidation surpluses relating to prior years before reinsurance decreased by 16% compared with the previous year.

Given the sharp increase in internal retention since 2004, liquidation surpluses after adjusting for reinsurance declined by 8.4% to €188 million.

€000	2005	2004	% change
Net cost of claims relating to the current year	(609 817)	(567 675)	7,4%
Net cost of claims relating to previous years	188 300	205 456	-8,4%
Participation in profits	(49 216)	(42 326)	16,3%
Net cost of claims	(470 732)	(404 545)	16,4%

Operating expenses

Gross operating expenses increased by €13.2 million, of which €9 million related to the exceptional impairment write-down recognised on the building own used in Hamburg. Excluding this write-down, operating expenses came to €4.2 million, an increase of 1% compared with gross operating expenses in 2004.

Following a renegotiation of reinsurance commission rates, particularly in Germany, Italy and the UK, the nominal amount of commissions paid by reinsurers increased by 10.7% compared with 2004 despite the higher retention rate.

As such, thanks to the combined effect of cost control and the improvement in reinsurance terms, the net expense ratio came to **20.0%**, a decline of **3.5** points compared with the 2004 net expense ratio.

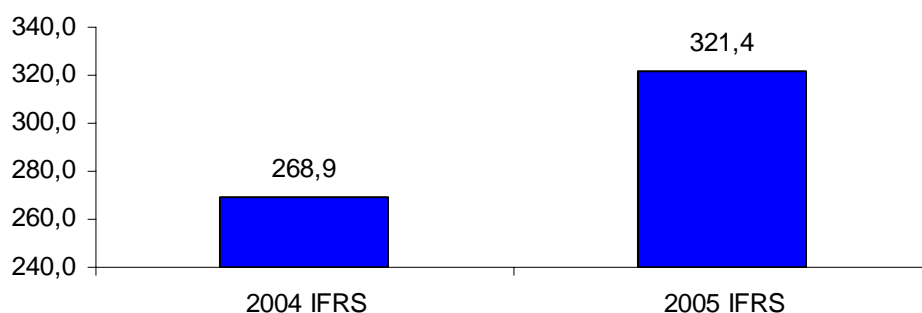
€'000	2005	2004	% change
Contract acquisition expenses	(284 002)	(276 922)	2,6%
Administration expenses	(188 138)	(181 616)	3,6%
Other ordinary income and expenses	(274 747)	(257 728)	6,6%
Premium-related income	318 488	301 024	5,8%
Total operating expenses before reinsurance	(428 399)	(415 241)	3,2%
Reinsurance commission	230 048	207 867	10,7%
Total operating expenses after reinsurance	(198 351)	(207 374)	-4,4%
Gross expense ratio	25,4%	26,3%	
Net expense ratio	20,0%	23,5%	

Ordinary operating income before financial income and impairment of portfolio assets.

Ordinary operating income increased strongly, to **€321.4** million: the increase in net earned premiums combined with a decrease in net operating expenses amply offset a rise in the cost of claims.

€'000	2005	2004	% change
Net earned premiums	990 514	880 853	12,4%
Net cost of claims	(470 732)	(404 545)	16,4%
Net operating expenses	(198 351)	(207 374)	-4,4%
Ordinary operating income before net financial income and impairment of portfolio assets	321 431	268 934	19,5%

Ordinary operating income before net financial income and impairment of portfolio assets (€m)

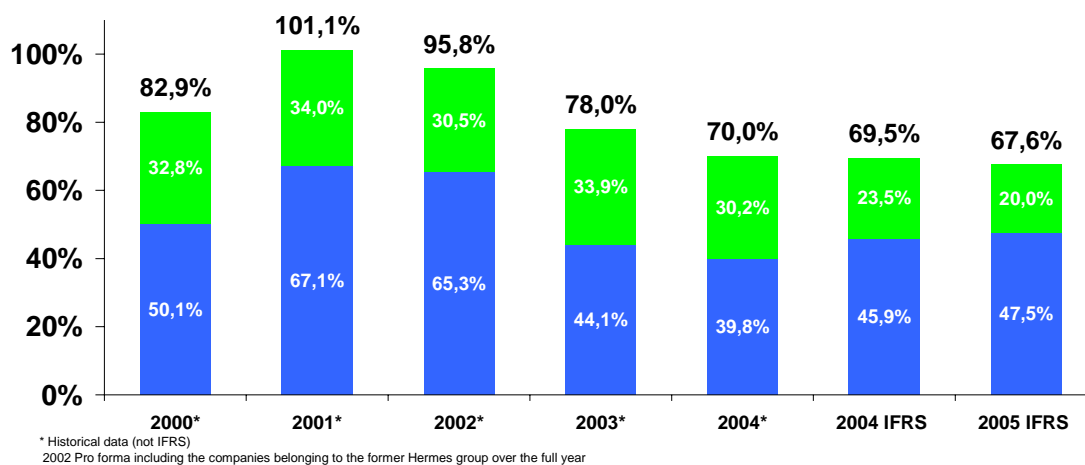


Net combined ratio

The combined ratio net of reinsurance came to **67.6%** in 2005, down by 1.9 points relative to the 2004 pro forma combined ratio.

Combined ratio net of reinsurance as a % of earned premiums

■ Loss ratio ■ Expense ratio



The definitions of the expense and loss ratios have been modified as the result of adoption of IFRS. The changes consist of the inclusion of non-technical charges in the expense ratio and the inclusion of the claims handling cost in the loss ratio (the claims handling cost was previously included in the expense ratio).

The impact of these changes on the 2004 combined ratio is of 2% (-4% on the net expense ratio and 6% on the net loss ratio).

Financial market trends

The main financial markets posted positive performances for 2005 despite further rises in oil prices, fears of renewed inflation and a steady rise in US intervention rates.

Stronger-than-expected corporate earnings were the main reasons for the market gains. Performances in local currencies ranged from 3% in the US markets to 42% for the Japanese market, with the world index posting a gain of 9.5% and the Eurostoxx index recording a 23% gain.

These good performances were achieved despite a steady tightening in US monetary policy. The US central bank raised interest rates eight times during the year ended, bringing lead rates up from 2.25% to 4.25%.

The change at the head of the US central bank, with Mr Bernanke taking over from Mr Greenspan on 1 February 2006, was well received by investors.

The European central bank raised its intervention rates to 2.25% at the beginning of December.

In the bond markets, the yield differential between long rates in the euro zone and the US continued to widen. Ten-year rates were 3.30% (3.68% at the beginning of the year) in the euro zone compared with 4.39% in the US (4.22% on 1 January 2005).

In the foreign exchange markets, the dollar halted its downward trend. Upheld by the repatriation of the earnings of US companies for tax reasons (Homeland Investment Act) and high yields on cash placements, the US dollar strengthened by 15% against the euro and the Japanese yen.

Commodity prices rose again in 2005, with the price of oil rising by 40% to \$ 61 (after peaking at \$ 70 in August) while the CRB commodities index rose by 24%.

Financial income

Against this background, financial income rose to **€125.9 million**, up **39.7%** compared with 2004.

The growth in financial income is in part due to an increase in ordinary revenues linked to increased investment volumes, and in part to capital gains, notably on the equities portfolio.

Indeed, given the strong rally in the equity markets the group decided to sell some of its equities investments so as to keep the group's exposure to the equity markets at under 17% of the investment portfolio, or 15.7% of the portfolio including cash.

Capital gains realised during the year came to €35.4 million in 2005 compared with €8.3 million in 2004.

€'000	2005	2004	% change
Income from investment properties	9 559	10 198	-6,3%
Income from equity investments	9 728	7 541	29,0%
Income from bond investments	73 908	70 413	5,0%
Other investment income	8 482	4 844	75,1%
Investment expenses	(11 165)	(11 221)	-0,5%
Net investment income	90 512	81 775	10,7%
Realised gains and losses net of impairment	35 410	8 345	324,3%
Net financial income	125 922	90 119	39,7%

At end 2005, the group's investment portfolio was up by 10.4% to €2,923.7 million. Including cash, investments totalled €3,145.3 million at the end of 2005 compared with €2,751.1 million at the end of 2004. This €394.2 million increase can be explained by market gains (€93.2 million) and by reinvestment of cash flows on ordinary activities after financing operations (€301 million).

Given the gains realised (€35.4 million), unrealised gains and revaluation reserves increased by €57.8 million to €240.3 million or 8.2% of the investment portfolio.

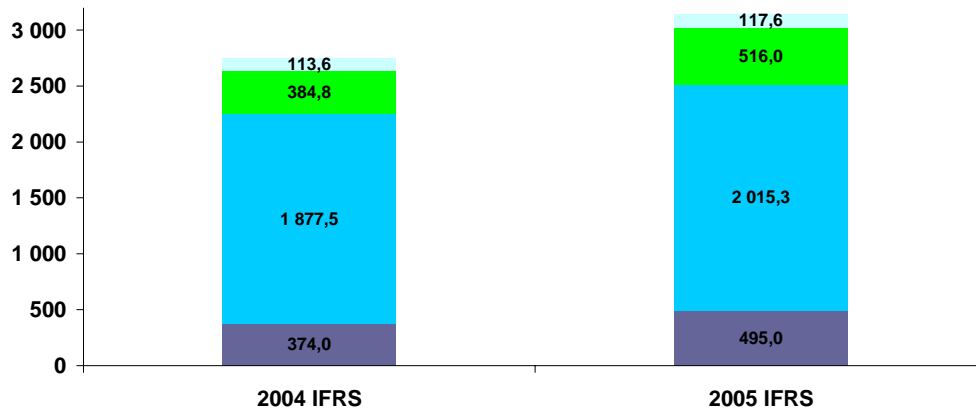
The economic performance, net of expenses, of the investment portfolio over the period came to 6.7%.

€'000	31/12/2005					31/12/2004				
	Amortised cost	Revaluation reserve	Net book value	Market value	Unrealised capital gains and losses	Amortised cost	Revaluation reserve	Net book value	Market value	Unrealised capital gains and losses
- Shares:	339 671	155 289	494 960	494 960	-	275 895	98 065	373 960	373 960	-
- Bonds:	1 953 911	60 926	2 014 838	2 015 316	479	1 811 216	65 168	1 876 384	1 877 533	1 149
- Loans and other financial investments	294 363	-	294 363	294 363	-	282 058	-	282 058	282 058	-
Total financial investments	2 587 945	216 215	2 804 160	2 804 639	479	2 369 169	163 233	2 532 402	2 533 550	1 149
- Derivatives:	1 419	-	1 419	1 419	-	1 271	-	1 271	1 271	-
- Investment properties:	94 049	-	94 049	117 614	23 565	96 448	-	96 448	113 633	17 185
Total investments	2 683 413	216 215	2 899 628	2 923 672	24 044	2 466 888	163 233	2 630 121	2 648 454	18 334
- Cash and cash equivalents	221 678	-	221 678	221 678	-	102 698	-	102 698	102 698	-
Total investments and cash	2 905 091	216 215	3 121 306	3 145 350	24 044	2 569 585	163 233	2 732 818	2 751 152	18 334

Investment portfolio

€m - Market value as at 31/12/2005

- Derivatives
- Investment property
- Loans, other investments and cash
- Bonds
- Shares



Ordinary operating income

After including financial income net of expenses and impairment of the portfolio securities and similar, ordinary operating income from the credit insurance activity came to **€446.6** million versus **€357.4** million in 2004.

€'000	2005	2004	% change
Ordinary operating income before net financial income and impairment of portfolio assets	321 431	268 934	19,5%
Net financial income	125 921	90 120	39,7%
Impairment of portfolio assets	(708)	(1 676)	-57,8%
Ordinary operating income	446 644	357 379	25,0%

Résultat opérationnel

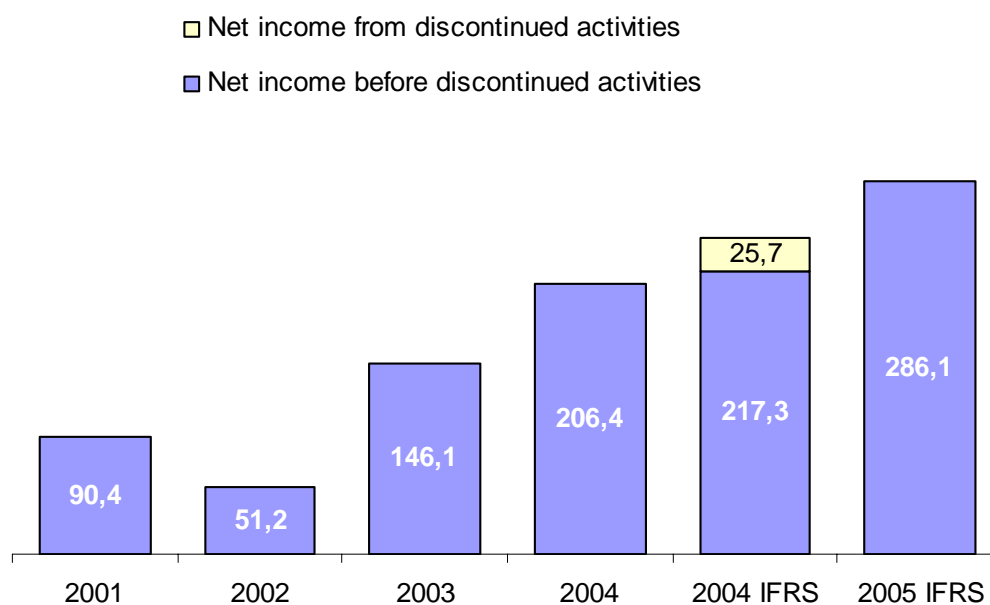
€'000	2005	2004	% change
Turnover	2 007 949	1 879 129	6,9%
Net financial income	125 921	90 120	39,7%
Insurance services expense	(689 709)	(608 462)	13,4%
Net reinsurance income or expense	(249 922)	(285 467)	-12,5%
Contract acquisition costs	(284 002)	(276 922)	2,6%
Impairment of portfolio securities and similar	(708)	(1 676)	-57,8%
Administration expense	(188 138)	(181 616)	3,6%
Other ordinary operating income and expense	(274 747)	(257 728)	6,6%
Ordinary operating income	446 644	357 379	25,0%
Other operating income and expense	-	(10 166)	
Operating income	446 644	347 212	28,6%

Consolidated net income

Consolidated net income was up by 17.7% compared with 2004. Stripping out the impact of activities sold in 2004 (Eurofactor), the growth in earnings was 31.7%.

€'000	2005	2004	% change
Operating income	446 644	347 212	29%
Financing expenses	(10 121)	(21 999)	-54%
Income from companies accounted for by the equity met	8 056	5 349	51%
Corporation tax	(158 394)	(110 679)	43%
Minority interests	(109)	(2 613)	-96%
Net income from discontinued activities	-	25 713	-100%
Net income, group share	286 076	242 984	18%
Earning per share	6,74	5,97	13%

Net income, group share in €m



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 and Switzerland.

€'000			
	2005	2004	
Earned premiums	677 338	645 665	4,9%
Premium-related revenues	145 874	133 410	9,3%
Turnover	823 212	779 075	5,7%
Net financial income	45 962	23 920	92,1%
Total revenues from ordinary activities	869 173	802 995	8,2%
Insurance services expense	(242 362)	(250 245)	-3,2%
Reinsurance and retrocession expense	(141 780)	(169 128)	-16,2%
Other expenses	(311 045)	(272 002)	14,4%
Total other expenses	(695 187)	(691 375)	0,6%
Ordinary operating income	173 986	111 620	55,9%
<i>Net combined ratio</i>	<i>58,2%</i>	<i>65,6%</i>	

Growth in turnover at the German subsidiaries was robust in 2005 despite the sluggish economic environment. This dynamic momentum was explained in part by a 4.9% increase in earned premiums and by the development of fee-based services for policyholders.

The cost of claims dropped by 3.2% compared with the previous year thanks to a rigorous underwriting policy.

The policy of increasing the retention rate and better reinsurance conditions enabled the group to reduce the cost of reinsurance by 16%.

Operating expenses rose by 14.4% during the year. This substantial increase was due in part to exceptional expenses such as the partial write off of a building (€9 million) and the costs of implementing the IRP software (€12 million).

Taking the above elements into account, operating income increased by 56%, up from €111.6 million in 2004 to €174.0 million in 2005. Germany is now the largest contributor to group operating income, accounting for 38.9% of the total.

France

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

€'000

	2005	2004	
Earned premiums	372 557	358 941	3,8%
Premium-related revenues	75 288	73 997	1,7%
Turnover	447 845	432 938	3,4%
Net financial income	49 601	37 686	31,6%
Total revenues from ordinary activities	497 446	470 624	5,7%
Insurance services expense	(188 302)	(145 116)	29,8%
Reinsurance and retrocession expense	(15 752)	(20 117)	-21,7%
Other expenses	(170 134)	(161 771)	5,2%
Total other expenses	(374 188)	(327 004)	14,4%
Ordinary operating income	123 258	143 620	-14,2%
<i>Net combined ratio</i>	76,2%	64,3%	

In a sluggish economic environment, the credit insurance business in France posted solid growth of 3.8% while insurance related services business recorded slower growth at 1.7%.

Other operating income and expenses increased by 5.1% and was penalised by the rise in commissions paid on reinsurance activities to other group companies.

The increase in claims and a decrease in the liquidation surplus led to an increase of 29.8% in insurance expense. The decrease in liquidation surpluses also reduced the cost of outwards reinsurance.

As the increase in turnover was insufficient to offset the rise in the cost of claims, operating income dropped by 14.2% in 2005. This was also reflected in a deterioration in the combined ratio which rose from 64.3% in 2004 to 76.2% in 2005.

Italy

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

€'000

	2005	2004	
Earned premiums	182 116	171 014	6,5%
Premium-related revenues	43 855	40 848	7,4%
Turnover	225 971	211 862	6,7%
Net financial income	7 125	5 719	24,6%
Total revenues from ordinary activities	233 096	217 581	7,1%
Insurance services expense	(71 195)	(57 321)	24,2%
Reinsurance and retrocession expense	(37 531)	(43 028)	-12,8%
Other expenses	(101 116)	(91 220)	10,8%
Total other expenses	(209 842)	(191 569)	9,5%
Ordinary operating income	23 254	26 012	-10,6%
<i>Net combined ratio</i>	84,6%	77,9%	

Italy posted a 6.7% increase in turnover in 2005 with strong growth in both premiums (6.5%) and in fee-based services (7.4%).

However, the 24.2% increase in cost of claims and a 10.8% increase in operating expense (linked partly to an exceptional provision of €5 million for premium cancellation) weighed on operating income, which dropped by 10.6% in 2005.

The net combined ratio came to 84.6% in 2005 versus 77.9% in 2004.

United Kingdom

This segment comprises the activities carried out by the subsidiaries located in the United Kingdom.

<i>€'000</i>	2005	2004	
Earned premiums	203 392	195 809	3,9%
Premium-related revenues	25 938	24 005	8,1%
Turnover	229 330	219 814	4,3%
Net financial income	13 457	10 540	27,7%
Total revenues from ordinary activities	242 788	230 354	5,4%
Insurance services expense	(67 495)	(43 145)	56,4%
Reinsurance and retrocession expense	(29 803)	(33 698)	-11,6%
Other expenses	(96 763)	(108 372)	-10,7%
Total other expenses	(194 061)	(185 215)	4,8%
Ordinary operating income	48 726	45 138	7,9%
<i>Net combined ratio</i>	69,6%	69,6%	

Turnover in the UK grew by 4.3% thanks notably to increases in premiums and in insurance-related income.

The sharp increase in the cost of claims is linked in part to a fall in liquidation surpluses from previous years and to a deterioration in the claims experience.

Nonetheless operating income grew by 7.9% in 2005 thanks to improved reinsurance conditions, a higher retention rate and a sharp reduction in operating expenses following the restructuring carried out in 2004.

The net combined ratio remained stable at 69.6% in 2005.

United States

This segment comprises the direct insurance activities carried out in the US and Mexico, the reinsurance activities and those carried out by EH ACI through its branch in Canada.

€'000

	2005	2004	
Earned premiums	149 056	121 837	22,3%
Premium-related revenues	20 579	16 109	27,7%
Turnover	169 635	137 946	23,0%
Net financial income	6 141	9 139	-32,8%
Total revenues from ordinary activities	175 776	147 085	19,5%
Insurance services expense	(44 472)	(48 196)	-7,7%
Reinsurance and retrocession expense	(23 945)	(16 894)	41,7%
Other expenses	(61 411)	(55 486)	10,7%
Total other expenses	(129 828)	(120 575)	7,7%
Ordinary operating income	45 948	26 510	73,3%
<i>Net combined ratio</i>	52,3%	72,6%	

The US activities posted a 23% increase in turnover (19.8% at constant exchange rates) compared with the previous year, with Canada and the US making equal contributions to growth.

This sale momentum reflects:

- The strengthening of the sales structure since 2004,
- Robust growth in our policyholders' turnover, which is the basis for calculating the premiums.

At the same time, the moderate increase in operating expenses compared with turnover growth enabled the US to post a 73.3% increase in operating income to €46 million.

The net combined ratio came to 52.3% in 2005 compared with 72.6% in 2004.

Benelux countries

The Benelux segment comprises the Belgian and Dutch activities.

€'000

	2005	2004	
Earned premiums	101 467	91 676	10,7%
Premium-related revenues	22 225	23 799	-6,6%
Turnover	123 692	115 474	7,1%
Net financial income	3 240	3 444	-5,9%
Total revenues from ordinary activities	126 932	118 919	6,7%
Insurance services expense	(53 702)	(62 417)	-14,0%
Reinsurance and retrocession expense	(17 405)	(6 831)	154,8%
Other expenses	(38 320)	(41 512)	-7,7%
Total other expenses	(109 427)	(110 759)	-1,2%
Ordinary operating income	17 505	8 159	114,5%
<i>Net combined ratio</i>	74,3%	90,0%	

Turnover rose by 7.1% in Belgium and the Netherlands, with 10.7% growth in earned premiums. The decrease in ancillary income in the Benelux segment was attributable to the Retail activity, where income from insurance-related services declined by €2.5 million over the period.

At the same time, the claims evolution was very positive, with a 14% decrease in the cost of claims relative to 2004. This positive trend was partly offset by higher volumes of outwards reinsurance, linked mainly to liquidation surpluses in the retail activity.

Other income and expenses benefited from the rise in penalty interest collected in the context of the retail activity.

The net combined ratio improved significantly, dropping to 74.3% compared with 90.0% in 2004.

Other countries

This segment comprises the independent companies belonging to International Development Centres (IDC). These include the activities carried out by companies located in Northern Europe (Finland, Sweden, Denmark and Norway), Eastern Europe (Hungary, Poland and Czech Republic) and in Spain, Greece, Morocco and South America.

	€'000	
	2005	2004
Earned premiums	88 765	64 074
Premium-related revenues	35 944	26 793
Turnover	124 709	90 866
Net financial income	4 506	3 197
Total revenues from ordinary activities	129 216	94 064
Insurance services expense	(53 888)	(30 102)
Reinsurance and retrocession expense	(5 121)	(12 418)
Other expenses	(56 358)	(43 411)
Total other expenses	(115 367)	(85 930)
Ordinary operating income	13 849	8 134
<i>Net combined ratio</i>	<i>48,8%</i>	<i>68,6%</i>

These developing companies posted robust growth in turnover in 2005 with an increase of 37.2%.

Despite an increase in the cost of claims, turnover growth was accompanied by a strong 70.3% increase in operating income thanks to a relatively modest rise in operating expenses.

The net combined ratio came to 48.8% in 2005 versus 68.6% in 2004.

Consolidated shareholders' equity and adjusted capital

Consolidated shareholders' equity

At 31 December 2005, the group share of consolidated shareholders' equity amounted to **€1,744.9** million compared with **€1,402.7** million at the end of the preceding year. The main movements during the year were as follows.

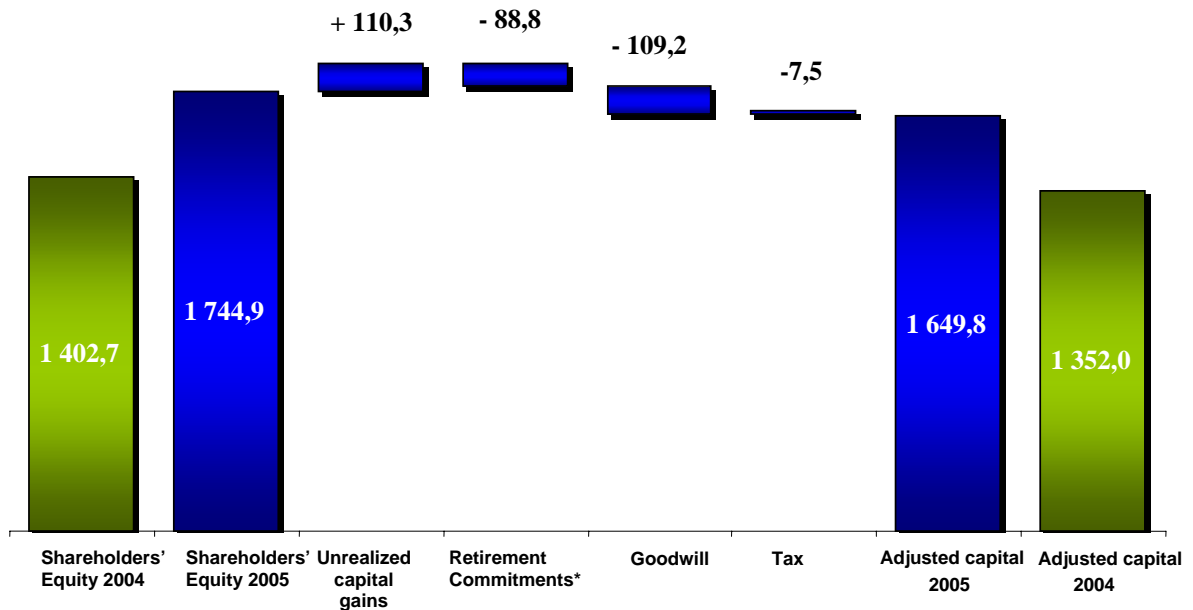
€000	Capital	Premiums and reserves	Income for the year	Revaluation reserves	Translation differences	Treasury shares	Minority interests	Total
Consolidated shareholders' equity at 31 December 2004	13 794	1 120 524	242 983	103 702	(10 880)	(92 290)	24 883	1 402 716
Increase in capital	552	91 073	-	-	-	-	-	91 625
Translation differences	-	-	-	-	34 901	-	30	34 931
Dividends paid	-	(103 621)	-	-	-	-	(233)	(103 854)
Change in the capitalisation reserve	-	-	-	-	-	-	-	-
Revaluation gain (loss) taken to capital	-	-	-	38 000	-	-	(692)	37 308
Cash flow hedges	-	-	-	760	-	-	-	760
Treasury shares	-	-	-	-	-	9 318	-	9 318
Other changes	-	245 144	(242 983)	-	-	-	(16 228)	(14 067)
Net income, group share	-	-	286 076	-	-	-	109	286 185
Consolidated shareholders' equity at 31 December 2005	14 346	1 353 120	286 076	142 462	24 021	(82 972)	7 869	1 744 922

Adjusted capital

The group's adjusted capital after tax corresponds to consolidated shareholders' equity adjusted for the following items:

- Unrealised capital gains on property and financial assets net of tax,
- IAS 19 corridor commitments net of tax,
- Goodwill on acquisitions.

Adjusted capital after tax 31/12/2005
€s



*Gains and losses on retirement commitments not recorded in the financial statement.

Group adjusted capital after tax amounted to **€1,649.8** million compared with **€1,352.0** million at end-2004, an increase of **22.0%**. This is attributable to:

- the increase in shareholders' equity following the higher level of net income, group share in 2005 compared with 2004,
- in contrast, unrealised capital gains decreased by 21% due to a downward revision of capital gains on buildings for own use in Germany,
- retirement obligations increased by 48% due mainly to a downward revision in the discount rate,
- A slight increase in goodwill on acquisitions.

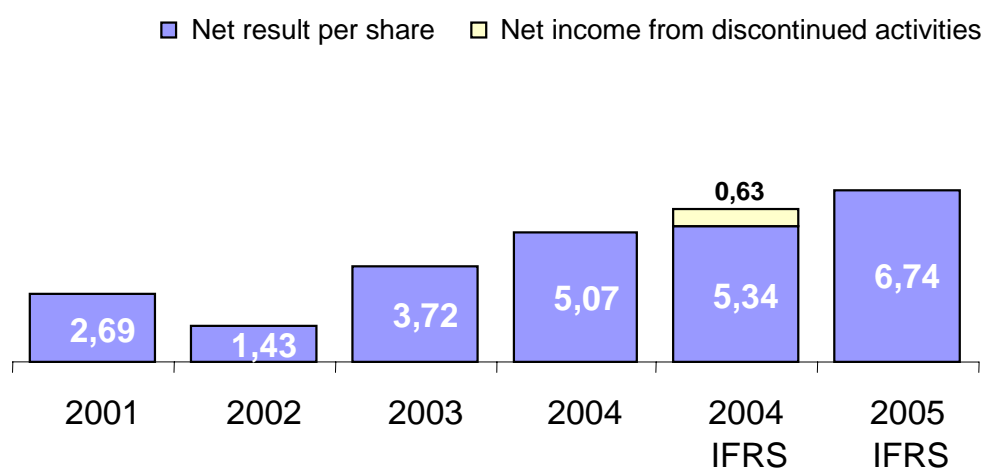
Creation of shareholder value

Earnings per share

Earnings per share before dilution came to €6.74 in 2005 compared with €5.97 in 2004, corresponding to an increase of 12.9%.

Earning per share (in euros)

Annual growth rate 2000-2005 : 18,8%



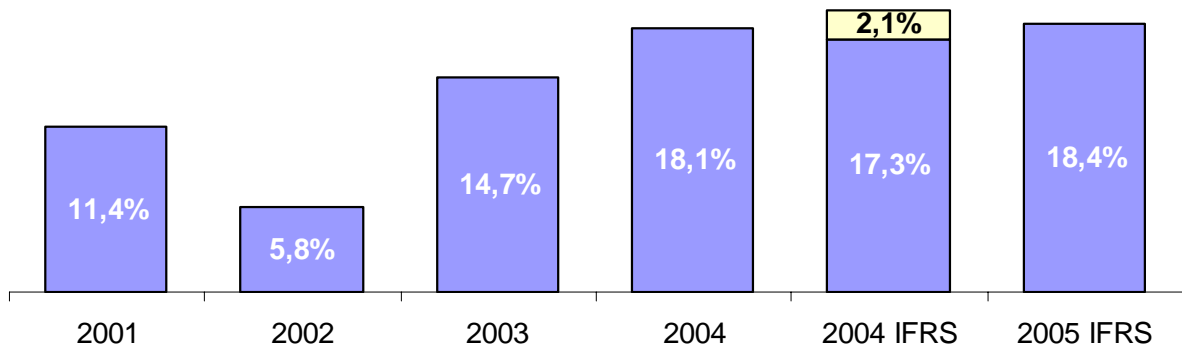
Return on equity

In 2005 accounting return on equity¹ came to **18.4%**, up by 1.1% compared with 2004 at same scope.

¹ The return on equity corresponds to the net income divided by the average of the shareholder's equity group share as at 31.12 N and 31.12 N-1

Return on equity (in %)

- Net income from discontinued activities
- Return on equity without exceptional items



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 does not take into account, exceptional items or goodwill on acquisitions. It 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 a capitalisation model developed by Allianz. There were no changes to the model in 2005. Total capital allocated to the business amounted to **€1,432.9** million in 2005. The return on allocated capital was **20.1%**, corresponding to a **10.4 %** increase in relation to 2004 (return on allocated capital of **18.2%**). This increase 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.

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

€'000	2005	2004
Net income, group share	286 076	242 984
Reversal of actual financial income	(125 921)	(90 120)
Standardised financial income	130 144	110 721
Opportunity cost of surplus capital	(4 526)	(1 605)
Reversal of actual tax	158 394	110 679
Standardised tax	(155 459)	(132 033)
Operating contribution of activity	288 709	240 626
Allocated capital	1 432 948	1 318 863
Return on allocated capital	20,1%	18,2%

Activity of Euler Hermes SA

Euler Hermes SA is the parent company of the Euler Hermes group. It does not carry out any commercial or industrial activities.

Subsidiaries and participating interests

The main changes during the financial year concern:

- the purchase of minority interests in Euler Hermes Belgium for €15 million,
- the creation of a captive reinsurance company in Switzerland,
- the reorganisation of shareholdings within the group so as to bring the ownership structure into line with operating responsibilities. Euler Hermes SA therefore sold its holding in the Spanish subsidiary to the French subsidiary and its holding in the Brazilian subsidiary to the American subsidiary.

Results

Net income for the year amounted to **€99.3** million versus **€50.1** million in 2004. The table below presents the main components of the company's results:

In thousand of euros	2005	2004	Var. 2005 / 2004
Incomes from participating interest (1)	112 712	75 558	49,2%
Other net financial expenses (2)	-14 365	-41 406	-65,3%
Net operating expenses	-9 196	-19 282	-52,3%
Provision for (-) or writeback of (+) depreciation of treasury shares (3)	3 017	22 955	-86,9%
Ordinary income	92 167	37 825	143,7%
Exceptional expenses (4)	1 853	10 297	-82,0%
Corporation tax (5)	5 298	1 952	171,3%
Net income	99 317	50 074	98,3%

- (1) Revenues from participating interests rose by **€37.1** million.
- (2) Other net financial charges comprise interest expenses on Euler Hermes' debt (**€17.6** million in 2005), a provision of **€3.1** million for impairment of Euler Hermes Credit Insurance Belgium's shares and the write back for **€6.1** million of impairment provisions against Euler Hermes UK shares. For 2004 this heading comprised mainly a provision of **€20.8** million for impairment of Euler Hermes Credit Insurance UK shares and interest expenses on Euler Hermes' debt (**€21.7** million).
- (3) There was a decrease in net operating expenses. In 2004, these have comprised mainly non-recurrent charges: additional provision of **€4.6** million linked to the acquisition of Euler Hermes Kreditversicherungs-AG, expenses linked to the disposal of Eurofactor (**€2.2** million), and exceptional amortisation of computer software (**€2.8** million).
- (4) Following the share repurchase programme implemented by Euler Hermes, the company held 3.43% of the capital in treasury stock at 31 December 2005. Treasury shares are recorded at the average share price over the last month in the financial year. The provision was written back in full at the end of the year.
- (5) In 2005, net exceptional income comprised mainly a loss of **€6.1** million on the disposal of shareholdings, the write back of a provision (**€5.2** million) booked for the cost of interest rate swaps linked to AGF loans and the rebilling of costs linked to the sale of the IRP system to Euler Hermes Germany (**€3.2** million).

- (6) Euler Hermes SA is the head of the tax group composed of the French companies in which it has more than 95% control. In 2005, tax integration resulted in a gain of **€7.3** million for the company.

Dividends

On the recommendation of the Group Management Board, the Supervisory Board will propose at the Annual General Meeting that shareholders be paid a dividend of **€3.50** per share in cash

The total dividend to be paid in respect of 2005 amounts to **€151.5** million.

<i>Proposed allocation of income</i>	2005
Source	
Retained earnings from previous year	136 374
Exit tax	4 444
Net income for the year	99 317
	240 135
Allocation	
Allocation to reserves:	
Legal reserve	55
Special reserve for long-term capital gains	-
Proposed dividend: € 3.50 per share (1)	151 522
Retained earnings	88 557
	240 135

- (1) The total dividend corresponds to the dividend per share multiplied by the number of shares excluding treasury stock as these shares do not carry dividends.

The table below provides information on annual dividend payments over the past five years. Over five years, the average annual increase in the dividend per share has been **20.1%**.

	2005 (1)	2004 (2)	2003 (2)	2002 (2)	2001 (2)
Total amount (in €000)	151 522	103 621	72 437	30 831	46 440
Amount per share before tax credit ⁽³⁾	3,50€	2,50€	1,82€	0,80€	1,40€
Tax credit ⁽⁴⁾			0,91€	0,40€	0,70€
Amount per share after tax credit	3,50€	2,50€	2,73€	1,20€	2,10€

(1) Dividend proposed to the shareholders at the General Meeting

(2) Dividend for the year, paid the following year

(3) The dividend per share is calculated based on the total number of shares in issue except treasury shares

(4) At the historical rate, which was 50% for individuals and legal entities benefiting from the parent/subsidiary regime

Outlook

2006 got off to a better start than 2005 in terms of macroeconomic conditions. European growth forecasts are being revised upwards even though they remain very moderate. The US and Asian economies continue to post robust growth even though the US economy is showing signs of slowing.

Thus the growth in our policyholders' business should prompt them to seek higher rates of cover for their trade receivables.

In addition, given the trend in claims in 2005, the cost of claims is expected to be slightly higher in 2006 due to a reduction in liquidation surpluses.

Euler Hermes is nonetheless confident in its capacity to continue to achieve dynamic and profitable growth despite growing competition. Euler Hermes is looking for:

- Dynamic international development in markets that benefit from globalisation, notably Eastern Europe, Asia and South America;
- New product offers to accompany the development of the large multinationals;
- An ever-wider offer of services to policyholders;
- Productivity gains from the sharing of best practices between the various entities;
- Continuing contribution of financial income to operating income;
- Reinsurance conditions adapted to the positive trend in claims experience over the past few years and a high retention rate;
- Acquisition opportunities.

In view of the above elements, Euler Hermes is confident that in 2006 it can consolidate the excellent results achieved in 2005.