

Paris, 13 March 2008

"How global food distributors are stepping up their strategic repositioning to boost their margins abroad in a fragile sector

A report by Euler Hermes, the world's leading credit insurer

In their report entitled "What are the strategies available for food distributors to protect their threatened margins? » economic and sector experts from Euler Hermes, the world's leading credit insurer, review the status of the sector as well as its international outlook. In the past year, food distributors have stepped up their strategic repositioning in order to improve margins abroad, by consolidating their market share in countries where they are the market leader.

1. Globalization as an essential requirement for distributors in spite of continuing low profitability

▪ **Distributors still mostly operate within their domestic region**

Euler Hermes observes that the growth rate of global groups abroad is still twice that of their overall growth. However, geographic diversification is insignificant: in fact, distributors still mostly operate within their domestic area. According to **Annie Girac, a Euler Hermes SFAC sector consultant**, "We have found that none of the companies involved is truly global. Most of them derive over 80% of their turnover within their domestic region, be it Europe, North America, Latin America or Asia".

▪ **Profitability abroad remains insufficient**

As an example, Tesco's estimated consolidated operating margin for 2007 is 5.8% whereas the non-domestic operating margin is 5.3%. This is even more striking in the case of Wal Mart, with a 5.9% estimated consolidated operating margin for 2007 as compared to a 3.1% non-domestic operating margin.

"Metro is the only company with a non-domestic operating margin that is far higher than its estimated consolidated operating margin for 2007", notes Annie Girac.

▪ **Globalization and its risks: the Wal-Mart case**

Wal-Mart suffered setbacks in its attempts to set up operations outside the American continent: it decided to exit Germany in 2006 after suffering structural losses for nearly 10 years. In Japan, Wal Mart will be posting this year a loss for the sixth year since taking on the Japanese market in 2002.

▪ **Distributors are focusing on key countries: the Carrefour case**

Distributors are streamlining their debt in order to give themselves breathing space. Ahold's gearing, after radical restructuring, fell from 460% in 2002 to 70% in 2007 (estimated). In the same period, Carrefour reduced its gearing from 128% to 64% and Casino from 104% to 71%.

Carrefour exited countries where its market share is small (from 1 to 5%), such as Switzerland or Portugal, in 2007 (€1.2 billion assets sales) to finance growth and strategic acquisitions in target countries (investments amounting to €1.5 billion), such as Brazil with the purchase of Atacadao.

As Annie Girac comments, "In 2007 distributors' asset portfolios stepped up restructuring in order to boost margins and reallocate financial resources to key countries".

2. Local concentration is not finished

▪ **The concentration process is more or less advanced in mature countries**

On a European level, concentration is already well under way, as the three main distributors hold a 48.7% market share in Spain (El Cortes Inglés, Carrefour, Mercadona), 45.8% in France (Carrefour, Leclerc, Intermarché) and 45.3% in Germany (Edeka, Rewe, Metro Group). In the United States, the three major distributors (Wal-Mart, Kroger and Sears), only hold 23.9% of the market.

▪ **Emerging market countries have potential for growth, subject to certain limitations**

Emerging market countries have a high growth potential as their concentration rate is low: the five main distributors only hold a 3.1% market share in India, 5.7% in China, 10.7% in Russia and up to 30.1% in Mexico.

Nevertheless, there are barriers to entry (obligation to have a local partner, etc.) and there are emerging leaders within local groups.

3. Brand capitalisation

- **Displaying the brand in the various store formats**

The advantages of a strong single brand include: sales as a mass phenomenon, increased brand recognition, an increase in traffic as well as economies of scale for advertising (TV) or marketing costs. Tesco is a prime example of this strategy based on exploiting the brand with its various formats of branded stores: Tesco Extra, Tesco Metro, Tesco Express. During 2008, Carrefour is expected also to place its Champion network under the Carrefour banner.

- **Developing Distributor Brands**

Distributor brands represented an increased proportion of the product mix to improve distributors' profitability and more importantly to set themselves apart from other brands. In France for instance, distributor brands' market share in terms of sales grew by 10 points from 2000 to 2007, up to 34%. In Spain, that share increased from 22% to 35% over the same period.

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000 employees in 51 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and **posted a consolidated income premium of 2.1 billion euros in 2007.**

Euler Hermes, subsidiary of AGF and a member of the Allianz group, is listed on Euronext Paris. The group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

www.eulerhermes.com

Press Contact:

Anne-Laure Guignard – Euler Hermes SFAC – +33 (0)1 4070 5400 – anne-laure.guignard@eulerhermes.com

Samuel Beauchef, Group Press Relations - +33 (0)1 4070 5619 – samuel.beauchef@eulerhermes.com

These assessments are, as always, subject to the disclaimer provided below. Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The group assumes no obligation to update any forward-looking information contained herein.