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2005

REFERENCE DOCUMENT

Contents

Profile

Helping companies to secure their business growth

Euler Hermes for responsible management

Euler Hermes is the global leader in credit insurance. It provides products and services, including protection from customer non-payment, debt collection and loss indemnification, to companies of all sizes.
Unparalleled risk experience acquired through its coverage of 40 million businesses worldwide enables Euler Hermes to help businesses grow in their home market and in export markets throughout the world. A subsidiary of AGF and a member of the Allianz Group, Euler Hermes has the necessary financial strength to provide long-term support to its clients.

2,008
million euros of turnover.

Rated
AA-
by Standard & Poor's (May 2005).

700
billion euros of business transactions protected.

Key Figures 2005

2,008 M€

CONSOLIDATED TURNOVER IN 2005

67.6%

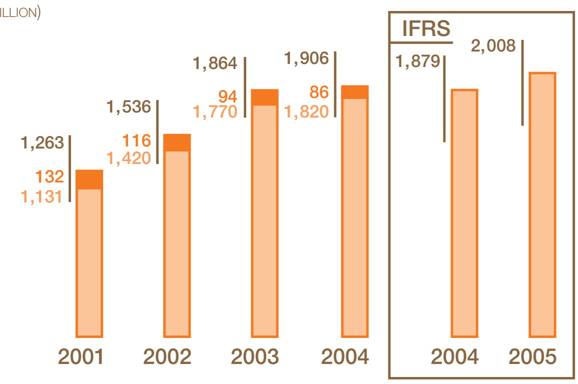
NET COMBINED RATIO IN 2005

5,399

EMPLOYEES WORLDWIDE

CONSOLIDATED TURNOVER

(€MILLION)

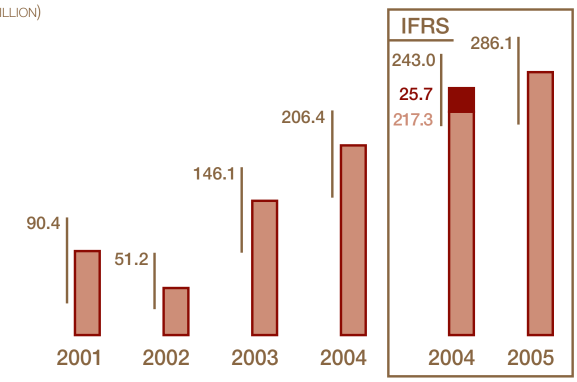


Factoring Credit Insurance

Turnover increased by 6.9% (6.8% pro forma at constant exchange rates) despite weak economic growth in Europe. This growth reflects the group's efforts to develop new business and increase the loyalty of its existing clients. Turnover in new markets grew on average by 33.2% (31.1% pro forma).

NET INCOME, GROUP SHARE

(€MILLION)



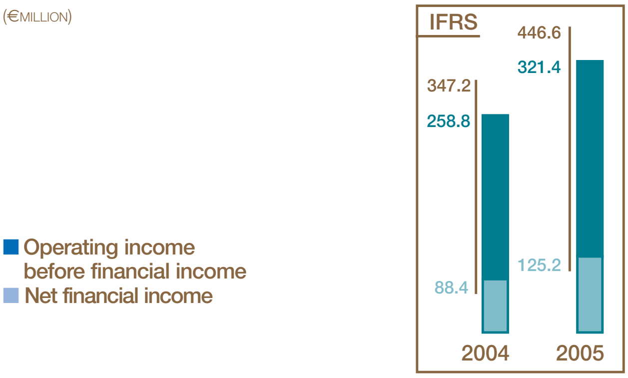
Net result of discontinued activities
Results excluding discontinued activities

A strict underwriting policy and rigorous cost control combined with a broader offer and improved service quality made a significant contribution to the 18% increase in net income, group share. Excluding the factoring activity sold in 2004, net income increased by 31.7%.

1893	1917	1918	1927	1929	1989	1992	1996
Creation of ACI in the USA	Creation of Hermes Kreditversicherung in Germany	Creation of Trade Indemnity in the United Kingdom	Creation of SFAC in France and SIAC in Italy	Creation of COBAC in Belgium	Formation of the holding. Cie financière SFAC. Creation of the Royal Nederlansche Kredietverzekering in the Netherlands	First co-operation agreement between SFAC and Hermes	AGF acquires majority shareholding of SFAC, then re-named Euler. Allianz acquires majority shareholding of Hermes

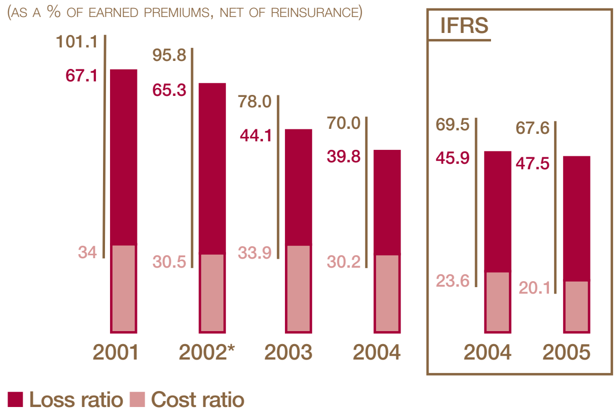
Key Figures 2005

Operating income
(€million)



Following the adoption of IFRS, the distinction between underwriting results and non-underwriting results is no longer made and the concept of "Underwriting result" has been replaced by "Operating income". Operating income increased by 28.6% thanks to growth in turnover, a contained claims experience and tight control of overheads. The growth in financial income also contributed to this increase, which was achieved against a difficult macroeconomic background.

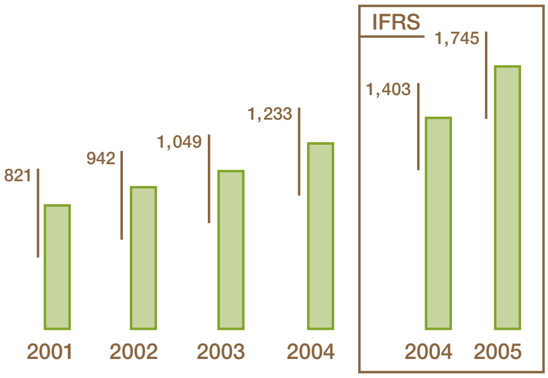
Net combined ratio
(as a % of earned premiums, net of reinsurance)



The 1.9 point improvement in the net combined ratio was achieved thanks to a fall in the expense ratio brought about by tighter cost control and better reinsurance conditions. The net loss ratio rose slightly however, due to a reduction in outwards reinsurance and run-off.

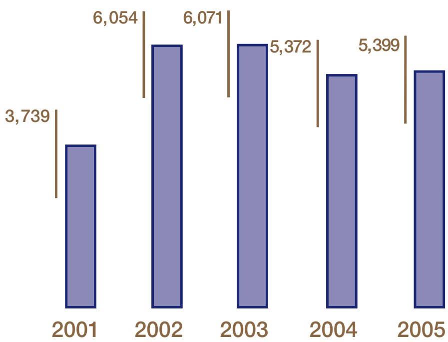
** Pro forma including companies from the ex-Hermes group for the full year.*

Shareholders' equity
(€million)



Thanks mainly to the increase in the group's share of net income, return on equity rose to 18.4%, up by 1.1 point compared with 2004 IFRS, excluding the factoring activity sold in 2004.

Number of employees*
at 31 December



The number of employees was up slightly at 31 December 2005.

** Employees of associated companies (at equity) included at 100%.*

1998 Allianz acquires The majority shareholding in AGF

1999 International co-operation agreement between Euler and Hermes

2000 Flotation of Euler on the Paris stock exchange

2002 Euler acquires Hermes

2003 The group and all its subsidiaries adopt the name Euler Hermes

2004 Sales of the 49.09% stake in Eurofactor to Crédit Agricole. Further expansion of operations worldwide (Finland, Greece, Portugal, Morocco)

2005 New presence in Russia, the Baltic States, India and Turkey

Report of the Group Management Board

Contents

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.

Review of 2005

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

Rank	Country	Company	Last known sales (€m)	Sector
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 (*)	Gyarakku 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
39	SPA	Centro Asegurador Compañia De Seguros Y 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
44	UK	Bones Realisations Ltd (previously Rathbones Bakeries Ltd)	103	Bakery

(*) Liabilities.

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.

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 Sinosure, 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 €5.4 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 shareholders' equity capital of €66.6 million including €11.7 millions of organisationel 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 comparative figures, prepared in accordance with the IFRS used in 2005.

Post-balance sheet events

There were no major post-balance sheet events.

There is no major acquisition between the 31.12.2005 and the date of filing of the reference document.

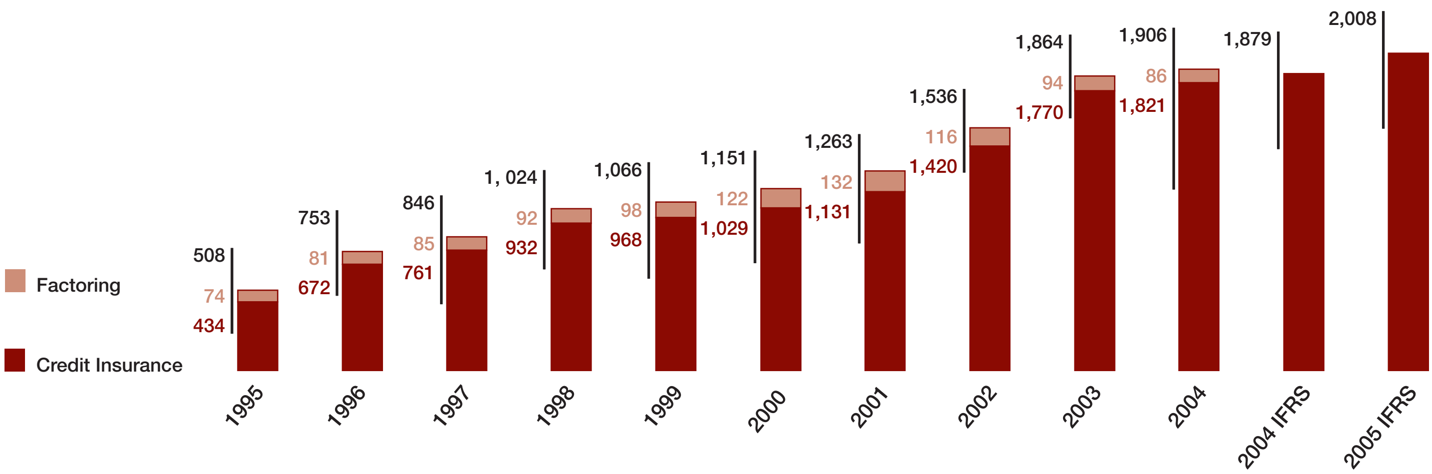
Business activity

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 6.9%.
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 net income for the full year 2004 is 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.

Consolidated turnover Compound annual growth rate 1995-2005: 14.7%

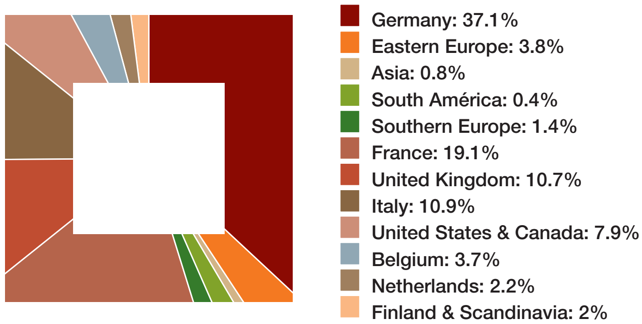
(€'000)



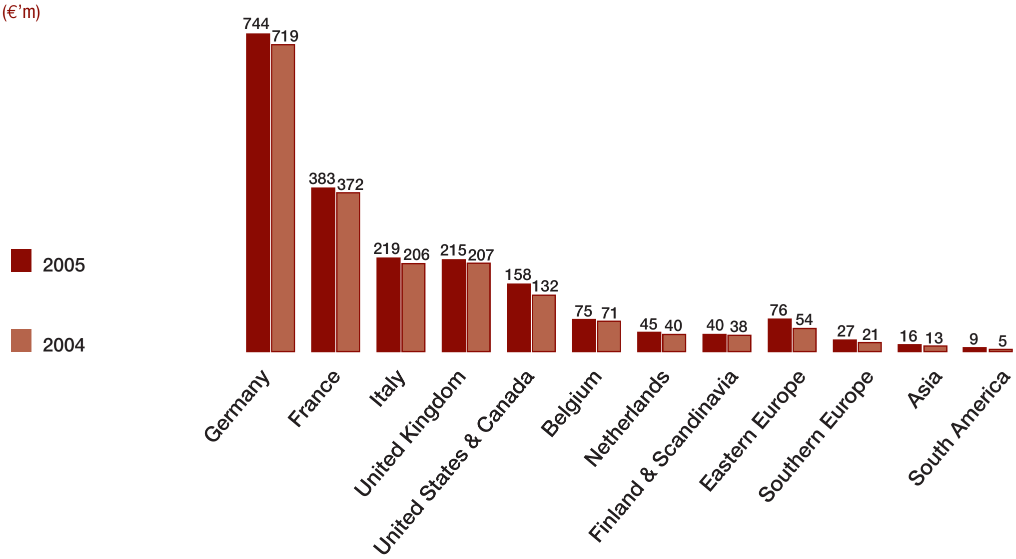
Business activity

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.

Analysis of turnover by country



Consolidated turnover



Breakdown of turnover between credit insurance and other activities

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 activities

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.

Consolidated turnover (€'000)

	2005	2004	% change
Credit insurance	1,747,044	1,621,886	7.7%
Other	260,905	257,243	1.4%
Total	**2,007,949**	**1,879,129**	**6.9%**

With growth of 7.7%, 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

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 surpluses for prior years compared with 2004 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.

(€'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%	

Consolidated net income

Cost of claims for the current year

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.

(€'000)

	2005	2004	Variation %
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%**

Cost of claims for the previous year

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	Variation %
Gross cost of claims for previous year	330,240	393,094	-16.0%
Ceded cost of claims relating to previous year	(141,939)	(187,637)	-24.4%
Net cost of claims relating to previous year	**188,300**	**205,456**	**-8.4%**

(€'000)

	2005	2004	Variation %
Net cost of claims relating to the current year	**(609,817)**	**(567,675)**	**7.4%**
Net cost of claims relating to previous year	**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%**

Consolidated net income

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 by 19.5%, 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)

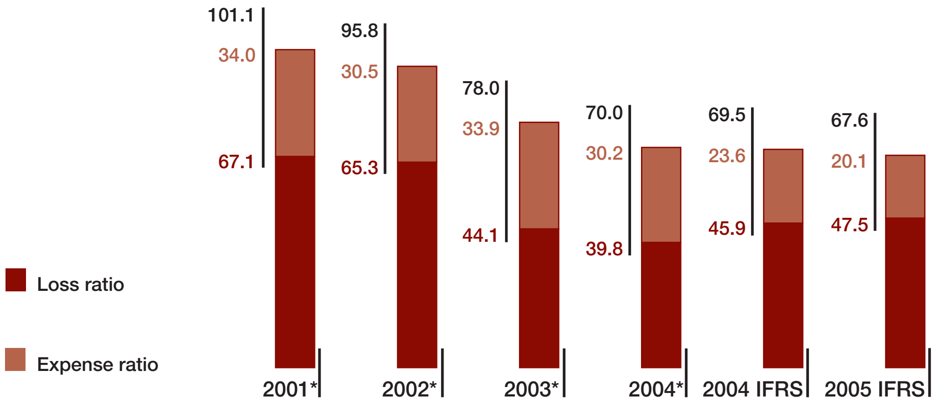
	2005	2004	V% change
Net earned premiums	990,514	880,853	12.4%
Net cost of claims	(470,732)	(404,545)	16.4%
Net operating expenses	(198,351)	(207,374)	-4.4%
Ordinary operating income before net financial income and impairment of portfolio assets	**321,431**	**268,934**	**19.5%**

Consolidated net income

Net combined ratio

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

Combined ratio net of reinsurance as a % of earned premiums



(*) Historical data (not IFRS)
2002 Pro forma including the companies belonging to the former HERMES group over the full year.

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 1st 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 1st 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%.

Consolidated net income

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 impairment	35,410	8,345	324.3%
Net financial income	**125,922**	**90,119**	**39.7%**

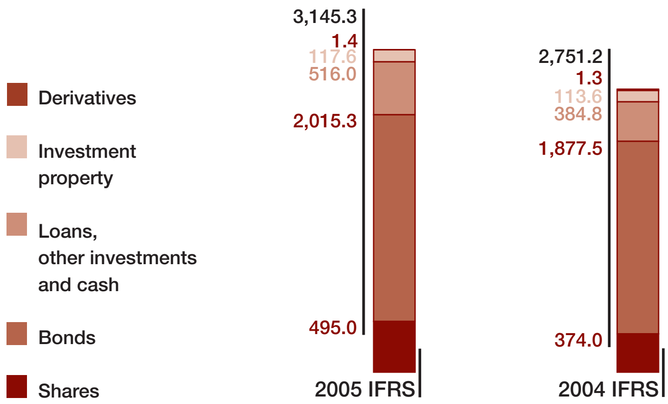
At 31 December 2005, the group's investment portfolio was up by 10.4% to €2,923.7 million. Including cash, investments amounted €3,145.3 million at 31 december 2005 compared with €2,751.1 million at 31 December 2004. This €394.2 million increase can be explained by market gains (€93.2 million) and by 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%.

Investment portfolio

Market value as at 31/12/2005 (€'m)



Consolidated net income

(€'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**	**2,533,551**	**1,149**
- Derivatives	1,419	-	1,419	1,419	-	1,271	-	1,271	1,271	-
- Investments 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**	**2,648,455**	**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**

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%**

Operating income

The expense of €10.2 million recognised in 2004 in other operating revenues and expenses corresponded to the impairment of goodwill on the British subsidiary. In 2005, impairment tests were performed that showed that no additional write-downs were required.

(€'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	0	(10,166)	-100.0%
Operating income	**446,644**	**347,212**	**28.6%**

Consolidated net income

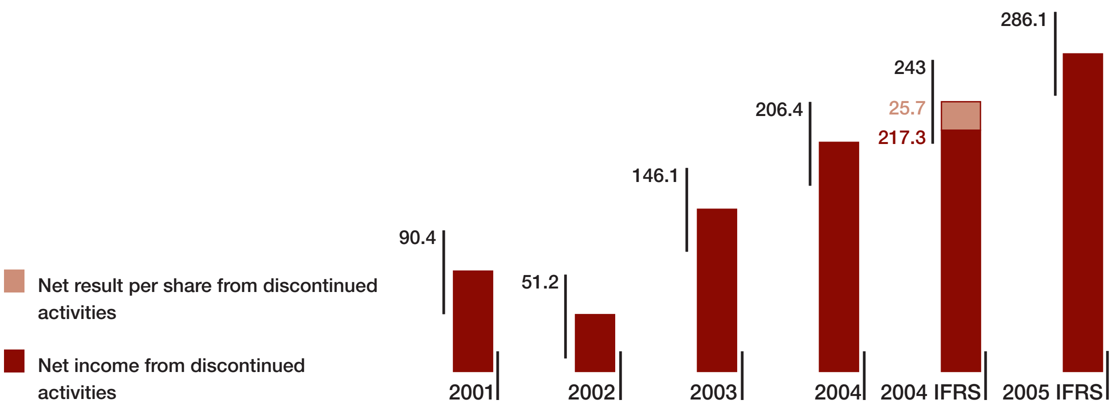
Consolidated net income

Consolidated net income came to €286.1 million, an increase of 17.7% compared with 2004. Stripping out the impact of discontinued activities (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 method	8,056	5,349	51%
Corporation tax	(158,394)	(110,679)	43%
Minority interests	(109)	(2,613)	-96%
Net income from discontinued activities	0	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.

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.

(€'000)

	2005	2004	% change
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%**
Net combined ratio	58.2%	65.6%	

Performance of group's main geographic segments

France

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

(€'000)

	2005	2004	% change
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%**
Net combined ratio	76.2%	64.3%	

Italy

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

(€'000)

	2005	2004	% change
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%**
Net combined ratio	84.6%	77.9%	

Performance of group's main geographic segments

United Kingdom

This segment comprises the activities carried out by the subsidiaries located in the United Kingdom.
Turnover in the UK grew by 4.3% thanks notably to increases in premiums-related revenues.
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.

(€'000)

	2005	2004	% change
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%**
Net combined ratio	69.6%	69.6%	

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.
The US subsidiary 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.

(€'000)

	2005	2004	% change
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%**
Net combined ratio	52.3%	72.6%	

Performance of group's main geographic segments

Benelux countries

The Benelux segment comprises the Belgian and Dutch activities. 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 favourable, 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.

(€'000)

	2005	2004	% change
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%**
Net combined ratio	74.3%	90.0%	

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.

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.

(€'000)

	2005	2004	% change
Earned premiums	88,765	64,074	38.5%
Premium-related revenues	35,944	26,793	34.2%
Turnover	**124,709**	**90,866**	**37.2%**
Net financial income	4,506	3,197	40.9%
Total revenues from ordinary activities	**129,216**	**94,064**	**37.4%**
Insurance services expense	(53,888)	(30,102)	79.0%
Reinsurance and retrocession expense	(5,121)	(12,418)	-58.8%
Other expenses	(56,358)	(43,411)	29.8%
Total other expenses	**(115,367)**	**(85,930)**	**34.3%**
Ordinary operating income	**13,849**	**8,134**	**70.3%**
Net combined ratio	48.8%	68.6%	

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	0	0	0	0	0	91,625
Translation differences	0	0	0	0	34,901	0	30	34,931
Dividends paid	0	-103,621	0	0	0	0	-233	-103,854
Change in the capitalisation reserve	0	0	0	0	0	0	0	0
Revaluation gain (loss) taken to capital	0	0	0	38,000	0	0	-692	37,308
Cash flow hedges	0	0	0	760	0	0	0	760
Treasury shares	0	0	0	0	0	9,318	0	9,318
Other changes	0	245,144	-242,983	0	0	0	-16,228	-14,067
Net income, group share	0	0	286,076	0	0	0	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**

Consolidated shareholders' equity and adjusted capital

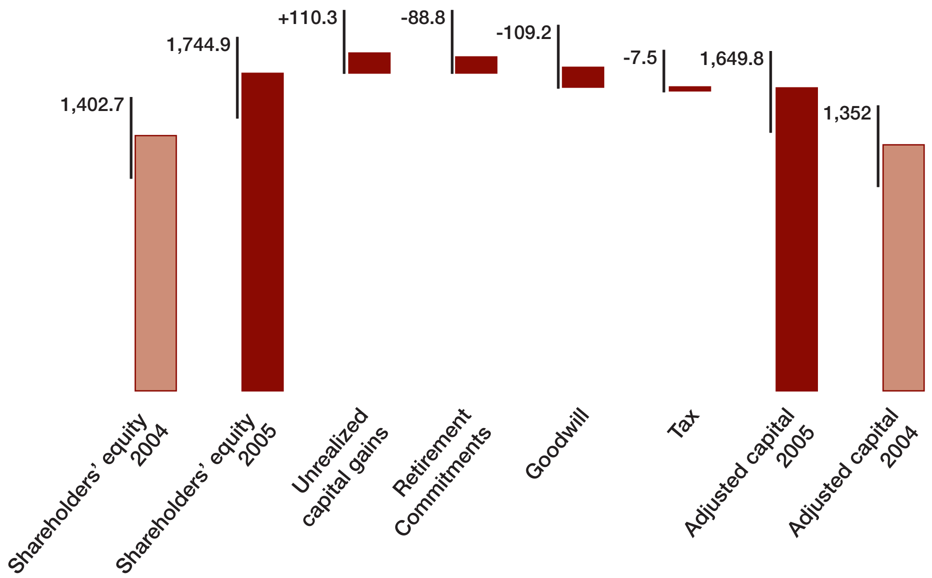
Adjusted capital

The group's adjusted capital after tax corresponds to consolidated shareholders' equity adjusted for the following items:
- unrealised capital gains on assets not recognised at fair value (mainly property assets) net of tax;
- retirement commitments (IAS 19 corridor method) net of tax;
- goodwill on acquisitions.

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 on buildings 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.

Adjusted capital after tax 31/12/2005 (€'m)

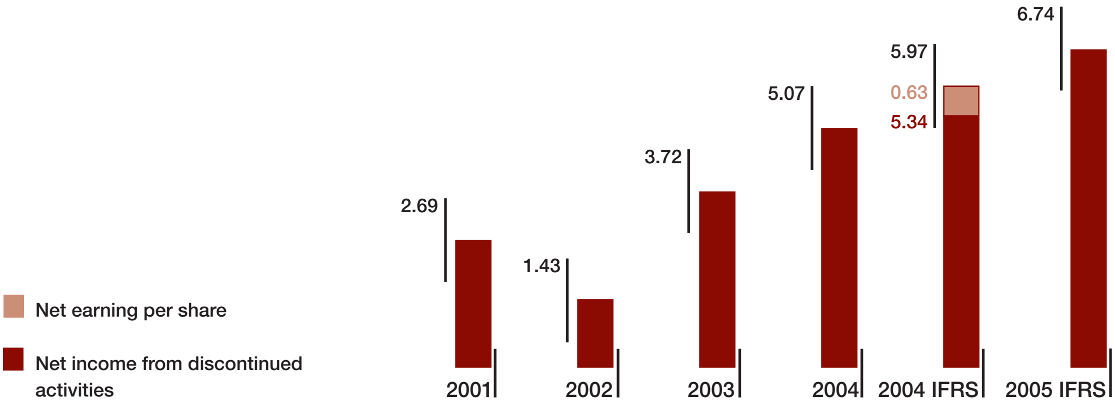


Creation of shareholder value

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%.

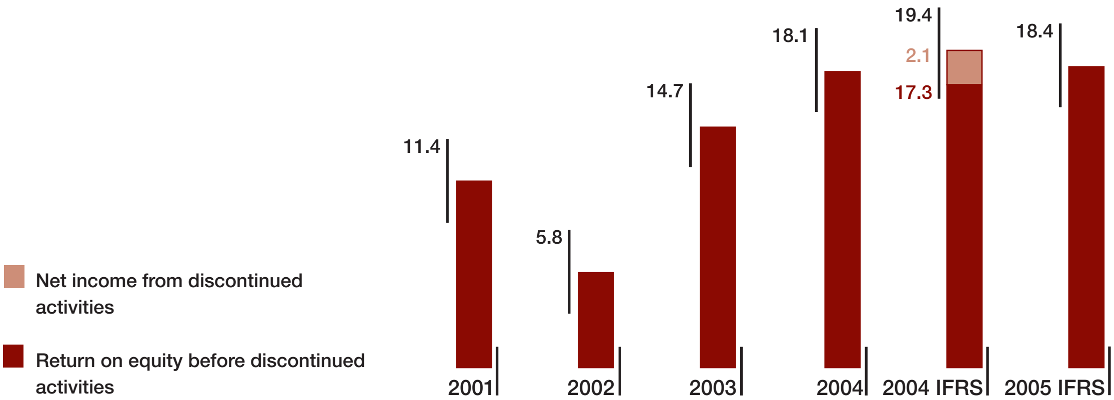
Earnings per share Annual growth rate 2001-2005: 25.8% (in euros)



Return on equity

In 2005, accounting return on equity[(1)] came to 18.4%, up by 1.1% compared with 2004 at same scope.

Return on equity (in %)[(1)]



(1) The return on the carrying value of shareholders' equity is calculated as the ratio of net income, group share to average shareholders' equity, group share at 31 December 2004 and 31 December 2005.

Creation of shareholder value

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:

(€'m)

	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%**

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.

Subsidiaries and participating interests

The main changes during the year were as follows:
- purchase of the minority interests in Euler Hermes Belgium for €15 million,
- creation of a captive reinsurance company in Switzerland,
- reorganisation of participating interests within the group in order to align the capital structure with operational responsibilities. In this connection, Euler Hermes SA sold its participating interest in its Spanish subsidiary to the French subsidiary and its participating interest in the Brazilian subsidiary to its American subsidiary.

Comments on the results

Net income for the year came to €99.3 million compared with €50.1 million in 2004. The table below shows the main components of the company's income:

(€'000)

	2005	2004	% change
Revenue from participating interests (1)	112,712	75,558	49.2%
Other net financial expenses (2)	-14,365	-41,406	-65.3%
Net operating expenses (3)	-9,196	-19,282	-52.3%
Charge (-) or write-back (+) for the impairment of treasury shares (4)	3,017	22,955	-86.9%
Ordinary income	**92,167**	**37,825**	**+143.7%**
Exceptional items (5)	1,853	-10,297	-82.0%
Corporation tax (6)	5,298	-1,952	-171.3%
Net income	**99,317**	**50,074**	**+98.3%**

(1) Revenue from participating interests increased by €37.1 million.

(2) Other net financial expenses include the cost of Euler Hermes' debt (€17.6 million at 31 December 2005), an impairment charge on the shares in Euler Hermes Credit Insurance Belgium (€3.1 million at 31 December 2005), and a write-back of the impairment provision on the shares in Euler Hermes UK (€6.1 million at 31 December 2005). The main items included in this heading in 2004 were an impairment provision on the shares in Euler Hermes UK (€20.8 million) and the cost of debt (€21.7 million).

(3) Net operating expenses declined compared to 2004, which included certain non-recurring charges: provision raised for an additional charge relating to the acquisition of Euler Hermes Kreditversicherungs AG (€4.6 million), charges on the sale of Eurofactor (€2.2 million) and additional amortisation of IT software (€2.8 million).

(4) Following the share buyback programme implemented by Euler Hermes in respect of its own shares, the company held 3.43% of the share capital at 31 December 2005. These treasury shares are valued in the balance sheet at the average stock market price during the last month of the year. The provision was thus written back in full at the end of the financial year.

(5) In 2005, exceptional items consisted essentially of the overall capital loss on the sale of participating interests (€6.1 million), the write-back of the provision for the cost of the interest rate swap relating to the AGF borrowings (€5.2 million) and the recharge of costs relating to the sale of the IRP system to Euler Hermes Germany (€3.2 million).

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

Development of the activity of Euler Hermes SA

Dividends

As recommended by the Group Management Board, the Supervisory Board proposes to the General Meeting that a dividend of €3.50 per share be paid in cash.
The total dividend to be paid in respect of 2005 thus comes to €151.5 million [(1)].

(€'000)

Proposed appropriation of income	2005
Source	
Retained earnings brougnt forward	140,818
Net income for the year	99,317
	240,135
Appropriations	
Appropriation to reserves:	
Legal reserve	55
Special reserve for long-term capital gains	0
Proposed dividend: €3,50 per share [(1)]	151,522
Retained earnings carried forward	88,557
	240,135

(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 2005 stood at 1,538,233. The dividend proposed to the approval of the General Meeting takes into account the Treasury shares.

The table below shows the dividends paid for the last five years. The dividend per Euler Hermes share has increased by an average of 20.1% per annum over the last five years.

(€'000)

	2005 [(2)]	2004 [(2)]	2003 [(2)]	2002 [(2)]	2001 [(2)]	2000 [(2)]
Total amount (in €'000)	151,522	103,621	72,437	30,831	46,440	46,430
Amount per share before tax credit [(3)]	3.50	2.50	1.82	0.80	1.40	1.40
Tax credit [(4)]			0.91	0.40	0.70	0.70
Amount per share after tax credit	**3.50**	**2.50**	**2.73**	**1.20**	**2.10**	**2.10**

(1) Dividend proposed to the General Meeting.
(2) Dividend relating to the year, paid during the subsequent year.
(3) The dividend per share is calculated based on the number of shares excluding treasury shares.
(4) Historically, this rate was 50% for natural persons and legal entities benefiting from the parent company/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.

Sustainable development

Insurance plays a fundamental role in the sustainable development of a society. The sharing of risk is a stabilising factor for society in the face of the risks that weigh on its development; moreover, thanks to its preventive role, insurance plays a vital part in developing best practice.
Sustainable development should allow present generations to satisfy their needs without jeopardising the capacity of future generations to satisfy theirs. As a credit insurance company, Euler Hermes is concerned to varying degrees by sustainable development in its accepted sense. Any approach to sustainable development must take into account the interests of all the parties involved, from the client through to suppliers, employees and shareholders, as well as the natural and social environment. Applied to a company, a policy of sustainable development requires that three objectives be pursued at the same time: economic growth, preservation of the environment and social well being.
The group's businesses are service business and therefore have no direct impact on the environment. Also, the group's activities span several continents and are carried out in numerous countries with different social and environmental laws, thus making comparison difficult. However, Euler Hermes places importance on developing responsible partnerships with its clients and plays a very significant role in their sustainable development by offering them resources designed to reduce customer risk and by ensuring stable cash flows through the regular payment of invoices issued. In a wide variety of economic environments, Euler Hermes helps its client companies to manage customer risk, to consolidate growth and ensure lasting development, thus directly benefiting shareholders, employees and business partners. The group's activities contribute to the stability and growth of international trade.
Lastly, Euler Hermes also applies strict rules throughout the group in terms of business ethics, corporate governance and transparency with regard to all its economic partners.

Responsibility is at the heart of the corporate culture

Euler Hermes is an international group that has developed strongly over the past decade by bringing together a number of leading companies within the sector, each with its own history and identity. They have been gathered together around a business model that implies a shared vision of the business as well as rigour and a sense of responsibility toward clients, staff and shareholders.

World leader in credit insurance, and the leader in most of its national markets, Euler Hermes has placed responsibility at the heart of its strategy, which has been a decisive factor during periods of economic uncertainty. This responsible attitude has borne fruit and enabled all the parties concerned to limit risk and reap the benefits. Increasingly selective risk underwriting and higher premiums have enabled the group to insure more significant risks and prevent the rise in company failures from affecting the financial stability of its clients.

Implementing tight cost control means constantly seeking the best possible organisation of work and staff, combined with adequate investment. The shareholders share this responsibility and have given the group their unwavering confidence and support. Thanks to the culture of responsibility shared by all its partners, the group's strategy has been rewarded by success, thus ensuring the future of Euler Hermes' business.

Helping its clients to achieve sustainable business growth requires optimum management of risk. To achieve this, Euler Hermes places its staff in a position of great responsibility toward business partners. In the economic conditions of the past few years, companies, their customers and suppliers have been in a riskier situation where the failure of one party can result in a knock-on effect. Ending a business relationship or withdrawing credit can create difficulties for the company. The losses generated by the failure of a trading partner increase the cost of risk and can endanger the company's survival.

Euler Hermes has adopted a prudent and progressive approach that is made possible by its risk prevention model. Thanks to their regular contact with all the players in each market: businesses, bankers, trade associations, etc., Euler Hermes' staff become aware of any increased risk of bankruptcy very early on. They begin discussions very early on with the policyholder and the buyer, thus avoiding a sudden termination.

Thanks to its capacity to identify risk very early on, Euler Hermes can help its clients to respond to any increase in risk. Together, they can adapt credit limits to the new risk situation. Permanent monitoring and a constructive dialogue with all the parties concerned pave the way for rapid and flexible action to be taken. The policyholder, buyer and supplier can thus consolidate their situation while continuing their business activities.

The group's backbone is formed by men and women working in tightly knit and responsible teams

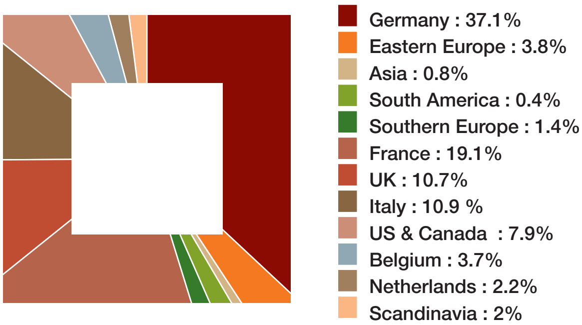
Since the beginning of the 1990s, Euler Hermes has turned into a multi-cultural group, built on a human scale, that seeks to preserve its richness and flexibility by uniting its staff around shared values that enable them and the group to grow together: solidarity and team spirit, commitment and performance, the ability to listen and speak openly, respect for others and fairness.

As a multi-cultural international group, Euler Hermes has adopted a dynamic and harmonised human resources policy that respects local cultural differences for its employees.

Sustainable development

Made up of companies located in all parts of the world, Euler Hermes had 5,399 employees at 31 December 2005. There is an even balance between men and women. The average age is 40 and the average length of service is 11.4 years.

Breakdown of Group employees 2005



In 2005, 437 new employees were recruited and 366 people left the group.

The use of outside labour remains minimal and is limited to non-strategic functions.

In each country in which Euler Hermes operates, work organisation and working hours conform strictly to local regulations and labour agreements.

Promoting a group culture is a priority

One of the group's main priorities is to favour the integration of each employee and to encourage teamwork. Euler Hermes took measures in this direction in 2005 by organising numerous meetings at all levels of management.

Since it was created in 2002, the group has developed a series of tools designed to achieve this double objective of cohesion and diversity, the leading of which include the "Intercultural Teambuilding Seminars".

Thus, in April 2005 a cycle of five two and half day seminars for members of the Group Management Board and for holding and subsidiary company executives of a dozen different nationalities came to an end. At each seminar, the emphasis was on cultural exchange and understanding.

Similar seminars were organised for cross-company functions. The first took place in 2004 for information systems managers. In 2005 two seminars were organised for financial officers and managers, one dealt with internal control and the other with consolidation.
In addition, several international seminars were organised with the aim of developing international management skills based on values shared by all group entities and of developing a multi-cultural approach to any given issue.
Lastly, in January 2006 a seminar on negotiating techniques in an international environment was held for around ten staff members.
In parallel with these seminars, inter-subsidiary committee meetings of all the main functions (risk, sales and marketing, finance, reinsurance, information technology, communications, human resources, etc.) were held throughout the year to encourage the sharing of information and best practices.

All these measures form part of an active policy of international mobility.

Ethics and compliance

A group compliance officer was appointed in January 2003. His task is to act as a relay for the ethics department at AGF and the compliance department of the Allianz group. The local entities report to Euler Hermes, AGF, and Allianz on a quarterly basis. These reports concern mainly the prevention of insider trading, legal disputes and court cases, regulatory and tax controls. The group function relies mainly on the local audit structures for this purpose.
Other concrete measures have been implemented, such as the drafting and circulation of professional conduct and compliance guidelines based on those established by AGF and Allianz, notably in the context of Sarbanes Oxley compliance.

The group took measures to guard against money laundering and the financing of terrorists, particularly at Euler Hermes SFAC and Euler Hermes UK, in accordance with the Banking Commission regulations in France and with FSA regulations in the UK.

Sustainable development

Harmonising career management and remuneration

As an international group, Euler Hermes encourages staff mobility. To this end, career management and pay policies have been harmonised throughout the group.
At group level and within each subsidiary, Career Management Committees are responsible for assessing skills, for career development and for monitoring succession plans. This approach facilitates geographic and functional mobility by developing the sharing of experience and synergies within the group, while ensuring equal treatment for all staff.

In addition, Euler Hermes' employees have been able to participate in AGF and Allianz's international employee share ownership plans in recent years.

Valuing performance and potential

Euler Hermes rewards staff performance through an objective, selective and motivating remuneration policy.

Over the past four years, the group has put together an international database of market pay scales providing analysis and statistics for putting together "remuneration packages". A system of Management by Objectives enables the performance of each employee to be assessed in relation to quantitative and qualitative objectives agreed at an annual appraisal meeting. A performance-related pay scheme, developed initially for senior executives and management staff, has been extended to other staff categories.

A policy of identifying high potential staff has also been introduced to offer employees rewarding and diversified careers in their home country and abroad.

Consolidating key skills

Training employees in the business skills of the future is fundamental. Euler Hermes takes targeted action to train its employees with an emphasis on developing key skills, such as project management, client service, new technology, managerial development and language skills.
In addition to these local moves, the Allianz group offers training programmes. Senior executives attended international training programmes set up by the Allianz Management Institute in collaboration with internationally reputed colleges and universities.
In 2005, a budget of €3.4 million was allocated to training, a stable amount compared with 2004. This budget represented 1.44% of total payroll expenses.
The basic level of staff qualification is high as 46% of employees have a university or business school degree. This percentage is rising as the result of the recruitment of highly qualified new staff, notably at newly created subsidiaries.

Patronage and solidarity

The group's culture and values favour its involvement in the local social and cultural fabric. Various group companies are involved in environmental and aid programmes and patronage of the arts, with a particular focus on young people.

In Italy, Euler Hermes SIAC provides financial support to Ospedale Bambino Gesù, the leading Italian hospital for children.
In the UK, Euler Hermes UK raises funds and sponsors national charity events for medical research and child aid programmes.
In Hungary, Euler Hermes Magyar was one of the sponsors of a charity concert in aid of hospitals and children's aid.
In the US, Euler Hermes ACI continues to develop a programme of aid for the Johns Hopkins Children's Center, which provides children with both medical care and teaching.
In Poland, Euler Hermes financed the purchase of toys and clothing for children at orphanages.
In Belgium, the end-of-year gifts have been replaced in the last three years by financial aid for projects such as the construction of a school for disabled children in 2002, computer equipment for a centre for the mentally handicapped in 2003 and the gift of an industrial kitchen for an organisation catering for the homeless in 2004.

Lastly, spontaneous aid programmes were set up following the tidal wave that devastated South-East Asia at the end of 2004. Euler Hermes' German subsidiary has set up a partnership with the Sri Lankan government credit insurer to rebuild more than 100 fishermen's houses.

In Italy, Euler Hermes SIAC collected funds at the beginning of the year for the victims of the tsunami in South-East Asia. The company matched the amount collected from the employees. Thanks to these funds, the Italian Red Cross was able to set up a mobile laboratory in the disaster area.

Several other group companies have taken similar initiatives: Euler Hermes SFAC collected donations from its employees for Médecins du Monde, and in the US and the UK, funds were collected for specialised organisations such as the International Red Cross.

Corporate governance

The group is managed by a Management Board, which is itself supervised by a Supervisory Board. Two Committees have been set up by and report to the Supervisory Board: an Audit Committee, and a Remuneration and Appointments Committee. The Supervisory Board now also includes a censor (non-voting member).

All members of the Group Management Board and the Supervisory Board together with the managers of the subsidiaries and directors of the group's cross-company functions are appointed in accordance with the expertise that they possess in the exercise of their responsibilities and their management experience.

Furthermore, no member of the bodies responsible for corporate governance has been found guilty of fraud or subject to any other official public accusation and/or penalty.

Euler Hermes applies the principles of corporate governance by adapting them as required for the direction and control of the subsidiaries. These principles have thus been implemented within the largest subsidiaries and are described in the Chairman's Report pursuant to Article L.225-37 of the French Commercial Code.

Group Management Board

The Group Management Board is the group's decision-taking body. Its function is to manage, co-ordinate and control the group. All of the powers of the Group Management Board are exercised collectively although individual Board members are assigned responsibility for supervising cross-company functions for the group and its subsidiaries. The Group Management Board meets as often as required in the company's interest. In 2005 it met twice a month.

The members of the Management Board are: ***Clemens von Weichs, Chairman (CEO), Jean-Marc Pillu, General Manager, Gerd-Uwe Baden, Nicolas Hein and Michel Mollard***.
There was no change in the Management Board during 2005.

Supervisory Board

The Supervisory Board exercises a permanent control over the Group Management Board's management of the company and provides it with the necessary authorisations as required by law or the Articles of Association. The Supervisory Board also appoints the members of the Group Management Board as well as its chairman. In 2005 the Supervisory Board met four times.

In accordance with Article 11 of the Articles of Association, the Supervisory Board is composed of at least three members and, at most, twelve members, who are appointed by the Shareholders' Ordinary General Meeting. Also, in accordance with the principles of corporate governance, the Supervisory Board has three independent members.

The members of the Supervisory Board comply with the provisions of the French law on the New Economic Regulations (NRE) No. 2001-420 of 15 May 2001, covering the number of directorships they hold. This constitutes an important guarantee of their commitment and availability to the group.

Since 2003, the Supervisory Board also includes a censor, a non-voting member, who may be called to attend all meetings of the Supervisory Board and has a consultative role in deliberations.

Up to 31 December 2005, the members of the Supervisory Board were: ***Jean-Philippe Thierry, Chairman, Laurent Mignon, Vice-Chairman, Diethart Breipohl, John Coomber, Charles de Croisset, Reiner Hagemann, Robert Hudry, Yves Mansion and François Thomazeau***. Since the Shareholders' General Meeting of 22 April 2005, the Supervisory Board is composed of nine members as against 10 previously as the Board did not propose the renewal of a term of office that expired.
Following the resignation of Mr Reiner Hagemann upon his retirement, the Supervisory Board proposed that he be replaced by Mr Clement Booth, a member of the Management Board of Allianz.

Therefore, since 1st January 2006, the Supervisory Board members are: ***Jean-Philippe Thierry, Chairman, François Thomazeau, Vice-Chairman, Clement Booth, Diethart Breipohl, John Coomber, Charles de Croisset, Robert Hudry, Yves Mansion and Laurent Mignon.*** **Mr Clement Booth** will hold his office for the remainder of Mr Hagemann's term of office, i.e. until the Shareholders' General Meeting called to approve the financial statements for 2006. This appointment will be submitted to the Shareholders' General Meeting of 22 May 2006.

Mr Jean-Hervé Lorenzi acts as censor.

Audit Committee

The Audit Committee is responsible for supervising procedures for external and internal audits of group companies. Specifically, it is reported to by:
- the head of group audit on the planning and outcome of audit assignments of the group and its subsidiaries,
- accounting and financial managers on the company financial statements,
- the independent auditors on their findings.
The Audit Committee met four times in 2005.

In 2005, the members of the Audit Committee were: ***Laurent Mignon,***

Chairman, Robert Hudry and Yves Mansion.

Following the changes made to the Supervisory Board, the composition of the Audit Committee also changed. Since 1st January 2006, the members of the Audit Committee are: ***Robert Hudry, Chairman, Yves Mansion and François Thomazeau.***

Remuneration and Appointments Committee

The Remuneration and Appointments Committee is composed of three members of the Supervisory Board. Its task is to make recommendations to the Supervisory Board concerning the remuneration of members of the Group Management Board and the attribution of stock options to employees of the group. It met twice in 2005.

In 2005, the members of the committee were: ***François Thomazeau, Chairman, Charles de Croisset and Reiner Hagemann.***

Following the departure of Mr Reiner Hagemann, the members of the committee since 1st January 2006 are: ***François Thomazeau, Chairman, Charles de Croisset and Jean-Hervé Lorenzi.***

Management of cross-company functions

Euler Hermes has a matrix-type management organisation, of which the cross-functional managers on the one hand, and managers of subsidiaries, on the other, are the cornerstones.

Cross-functional managers and managers of subsidiaries implement the strategy determined by the Group Management Board and report to its members on their specific responsibilities.

Cross-company functions are managed by:

Elias Abou Mansour (until 31 January 2006):	Information Technology
Nicolas Delzant:	Credit Risks, Information, Collections
Benoît des Cressonnières:	Reinsurance, Investor Relations and General Secretariat
Raphaële Hamel:	Communications
Nicolas Hein (*):	Finance, Accounting & Risk Management
Louis Hofmeijer:	Sales and Marketing
Francis Lallemant:	Audit and Support
Michel Mollard (*):	Strategy
Elisabeth Sfez:	Career Management and International Mobility

(*) Members of the Management Board.

Management of main subsidiaries

Each local entity is managed by a Chief Executive Officer (CEO) who is responsible for implementing the group's strategy, its business model and for determining local strategies.

The Chief Executive Officers of the main subsidiaries are:

Germany:	Euler Hermes Kreditversicherung	Dr Gerd-Uwe Baden (*)
Belgium:	Euler Hermes Credit Insurance	Jean Luc Louis
United States:	Euler Hermes ACI	Paul Overeem
France:	Euler Hermes SFAC	Jean-Marc Pillu (*)
Italy:	Euler Hermes SIAC	Jean-François Bellissen
Netherlands:	Euler Hermes Kredietverzekering	Roland van Malderghem
Scandinavia:	Euler Hermes Nordic	Lars Gustafsson
United Kingdom:	Euler Hermes UK	Richard Webster

(*) Members of the Management Board.

Sustainable development

Environmental responsibility

The impact of a company's activities on the environment is a key element that must be considered in every aspect of its strategic thinking.
These concerns have been taken into account in general insurance operations, but the issues are less obvious for a credit insurance activity, which, by its very nature, has only a limited impact on the environment. However, the group has taken steps to increase awareness and responsibility and the many cost savings implemented involve more efficient use of human resources, equipment and natural resources.

In our business, direct consumption of water and non-renewable energy resources is limited. Accordingly, a specific organisation has not been set up within the group to handle accidental pollution that could have consequences outside the company.
However, electrical and heating equipment is regularly reviewed and replaced so that it complies with the required standards in terms of safety, consumption and comfort.

In view of the activity carried out by the group, utilisation of the ground or the production of waste that could contaminate the water, air or ground are minimal or non-existent. The group's choice of suppliers takes into account their commitment to collecting and recycling the equipment at the end of its life. In some subsidiaries, notably in Belgium, waste is systematically sorted for recycling. Certain consumables are recycled, notably ink cartridges for photocopiers.
Consumption of paper is a major concern for the company. Group companies send several million items of mail and millions of computer printouts are made each year.
Over the last few years, the group has developed direct or Internet-based computer links (EOLIS among others) with its clients thus enabling rapid, precise and inexpensive daily communication.
For internal consumption, the policy is to use recycled paper; furthermore, the configuration and development of micro-computing has increased electronic storage capacity, enabling filing space to be saved and limiting the use of "paper" files.

At each of the group companies, a central function, usually the General Resources department, is responsible for drafting operating guidelines to ensure that the technical maintenance and management of property conforms with local regulations.
The Euler Hermes group is firmly committed to a proactive approach designed to make environmental responsibility a concern for all employees in every aspect of their daily work.
Regular checks are effected to detect the presence of bacteria or asbestos. Other checks, equivalent to Veritas checks, are carried out on electrical installations.

Director's remuneration

Group Management Board

Remuneration for members of the Group Management Board is set by the Remuneration and Appointments Committee and approved by the Supervisory Board. The remuneration and benefits paid to members of the Group Management Board in 2005 amounted to €2.568 million.

The principles of the performance-related remuneration of members of the Group Management Board are described in "General Information".

The performance-related pay scheme for company officers is based on three criteria:
- reported consolidated net income,
- the achievement of operating objectives,
- the achievement of personal qualitative objectives.

(€'000)

	Set annual salary paid in 2005	Performance-related remuneration paid in 2005 (in respect of 2004)	Other specific benefits [2]	Attendance fees 2005	Benefits in kind 2005 [3]	Total remuneration paid in 2005
Clemens von Weichs	390.0	293.1	45.0	7.2	18.1	753.3
Jean-Marc Pillu	375.0	252.5			3.0	630.5
Gerd-Uwe Baden [1]	360.0	134.7	70.0		13.6	578.2
Nicolas Hein [1]	260.0	90.0			2.8	352.8
Michel Mollard [1] [4]	200.0	50.8			2.1	252.9
Total	**1,585.0**	**821.1**	**115.0**	**7.2**	**39.5**	**2,567.8**

(1) joined the Management Board on 1st June 2004; period from 1st June 2004 to 31 December 2004 for the calculation of performance-related pay paid in 2005 in respect of 2004.
(2) specific housing benefits paid to Mr. Clemens von Weichs and expenses for moving from Switzerland to Germany paid to Mr. Gerd-Uwe Baden.
(3) benefits in kind consist of company cars.
(4) in 2005, Mr Michel Mollard received performance-related remuneration in respect of 2004 amounting to €50.8 thousand, including €38.1 thousand in the form of bonuses and €12.7 thousand in respect of profit-sharing.

Furthermore, during 2005, the members of the Group Management Board were allocated Euler Hermes subscription options at €63.08 each and Allianz "Stock Appreciation Rights" (SARs) at €92.87 each. The latter are attributed in the Allianz worldwide top executives incentive plan. The value of these bonuses is linked to changes in Allianz share prices over seven years.
Stock options and Allianz SARs were allocated as follows:

Stocks options and other incentives (in number)	Stock options 2005	SAR allocation 2005
Clemens von WEICHS	9,000	8,030
Jean-Marc PILLU	9,000	7,377
Gerd-Uwe BADEN	9,000	6,622
Nicolas HEIN	9,000	4,385
Michel MOLLARD	6,000	2,854
Total	**42,000**	**29,268**

Mr Clemens von Weichs exercised 4,091 AGF share subscription options that he had been granted on 30 September 2002 at an exercise price of €33.25 each.

Mr Jean-Marc Pillu exercised 6,000 share purchase options granted in 2000 at €50.11 each.
The other members of the Group Management Board did not exercise any share purchase or subscription options in 2005.

Mr Jean-Marc Pillu benefited from a corporate directors guarantee (Garantie Sociale des Chefs d'entreprise – GSC) for which the 2005 contributions came to €14,500 and the employer's charges on the related benefit in kind amounted to €6,200.

Certain members of the Group Management Board are also eligible for the Mid-Term Bonus mechanism implemented to encourage management loyalty.
In addition, the members of the Supervisory Board are eligible in a complementary pension plan. The details relating to this plan are given in the note 16 of the appendices to the group accounts and in the chapter "Remuneration and benefits in kind received by the company's directors'" of the general information.

The Mid-Term Bonus mechanism and the share option plans granted to members of the Group Management Board are described in the General Information section entitled "Remuneration and benefits in kind paid to managers".

Director's remuneration

Certain members of the Group Management Board who are exclusively corporate officers and do not have the status of employees benefit from specific agreements in the event of their removal. These agreements are intended to replace the specific conditions provided for in law in the event of the removal of an employee who has the status of a paid employee under company law. These specific measures concern Messrs Clemens von Weichs, Jean-Marc Pillu and Gerd-Uwe Baden and provide for the payment of a gross indemnity of between 50% and 200% of the amount of the last annual fixed remuneration they received.

Supervisory Board

Attendance fees paid to members of the Supervisory Board amounted to €260 thousand in 2005 and break down as follows:

In thousand of euros

	Attendance fees
Jean-Philippe THIERRY, Chairman	30.6
Diethart BREIPOHL	15.3
John COOMBER	15.3
Charles de CROISSET	30.6
Reiner HAGEMANN	30.6
Robert HUDRY	30.6
Yves MANSION	30.6
Laurent MIGNON	30.6
François THOMAZEAU	30.6
Jean-Hervé LORENZI, censor	15.3
Total	**260.0**

In addition, in accordance with Article L.225-102-1, paragraph 2 of the French Commercial Code, the remuneration and benefits of all kinds received by each of the corporate officers of AGF and Allianz AG, the companies that control Euler Hermes amounted to:

Mr Jean-Philippe Thierry: €2,838.5 thousand as follows:
- set annual salary paid in 2005 of €657.8 thousand,
- performance-related remuneration paid in 2005 of €960 thousand,
- attendance fees amounting to €67.6 thousand,
- a medium-term performance-related payment (Three Years Bonus) based on the financial years 2002, 2003 and 2004 amounting to €804.9 thousand,
- an amount of €348.2 thousand corresponding to the exercise of all the Stock Appreciation Rights (SAR) granted in 2003.

Mr Jean Philippe Thierry also has a company car and driver. In addition, he received 20,243 Allianz AG SAR (Stock Appreciation Rights, a bonus that is determined by reference to changes in the share price of Allianz over a period of seven years) and 150,000 options to purchase AGF SA shares.

Mr Laurent Mignon: €1,084.1 thousand as follows:
- set annual salary paid in 2005 of €350 thousand,
- performance-related remuneration paid in 2005 of €412.6 thousand,
- a medium-term performance-related payment (Three Years Bonus) based on the financial years 2002, 2003 and 2004 amounting to €262.2 thousand,
- attendance fees amounting to €59.3 thousand.

Mr Laurent Mignon also has a company car and driver. In addition, he received 9,189 Allianz AG SAR (Stock Appreciation Rights) and 75,000 options to purchase AGF SA shares.

Mr François Thomazeau: €1,073.8 thousand as follows:
- set annual salary paid in 2005 of €350 thousand,
- performance-related remuneration paid in 2005 for €417.3 thousand,
- a medium-term performance-related payment (Three Years Bonus) based on the financial years 2002, 2003 and 2004 amounting to €264.0 thousand,
- attendance fees amounting to €42.5 thousand.

Director's remuneration

Mr François Thomazeau also has a company car and driver.
In addition, he received 9,246 Allianz AG SAR (Stock Appreciation Rights) and 55,000 options to purchase AGF SA shares.

Mr Reiner Hagemann: €3,141 thousand as follows:
- set annual salary paid in 2005 of €700 thousand,
- performance-related remuneration paid in 2005 amounting to €1,491 thousand,
- an exceptional bonus linked to objectives amounting to €950 thousand.

Mr Reiner Hagemann also has a company car and driver.
In addition, he received 25,751 Allianz AG SAR (Stock Appreciation Rights) and 13,108 RSU (Restricted Stock Units, a share rights plan granted to corporate officers of German companies and based on Allianz AG's share price performance).

Mr Diethart Breipohl: €80 thousand in his capacity as member of the Allianz AG Supervisory Board and €28.4 thousand in attendance fees in his capacity as a member of the Board of Directors of AGF SA.

List of posts and offices held by directors

The table below shows the posts and offices held by the members of the Group Management and Supervisory Boards.

Name	Company in which the post or office is held	Country	Post/Office
GROUP MANAGEMENT BOARD			
Clemens von Weichs			
	Euler Hermes	France	Chairman of the Group Management Board (CEO)
	Euler Hermes Kreditverzicherung AG	Germany	Chairman of the Supervisory Board
	Euler Hermes UK Plc	UK	Director
	Euler Hermes Holding UK Plc	UK	Director
	Euler Hermes ACI	USA	Chairman of the Board
	Euler Hermes SFAC	France	Chairman of the Supervisory Board
	Euler Hermes SIAC	Italy	Chairman of the Board
	Beraterkreis IKB, Düsseldorf	Germany	Advisor
	Hamburger Gesellschaft zur Förderung des Versicherungswesens	Germany	Director
Jean-Marc Pillu			
	Euler Hermes	France	General Manager
	Euler Hermes Credito Compania de Seguros y Reaseguros	Spain	Chairman
	Euler Hermes Emporiki	Greece	Vice-Chairman
	Euler Hermes Services	France	Chairman
	Euler Hermes Servicios de Credito SL, Sociedad Unipersonal	Spain	Chairman
	Euler Hermes SFAC	France	Chairman of the Management Board
	Euler Hermes SFAC Crédit	France	Chairman of the Supervisory Board
	Euler Hermes SFAC Recouvrement	France	Chairman
	Euler Hermes UK	UK	Director
	Euler Hermes UK Plc	UK	Director
	Euler Hermes ACMAR	Morocco	Chairman
	COSEC	Portugal	Director
	Perfectis Private Equity	France	Chairman of the Supervisory Board
Gerd-Uwe Baden			
	Euler Hermes	France	Member of the Group Management Board
	Euler Hermes Kreditversicherungs AG	Germany	Chairman of the Management Board
	Euler Hermes Versicherungsbeteiligungen GmbH	Germany	Director
	Euler Hermes Beteiligungen GmbH	Germany	Director
	Prisma Kreditversicherungs AG	Austria	Representative of the Chairman of the Management Board

List of posts and offices held by directors

Name	Company in which the post or office is held	Country	Post/Office
GROUP MANAGEMENT BOARD (continued)			
Nicolas Hein			
	Euler Hermes	France	Member of the Group Management Board
	Euler Hermes ACI	USA	Director
	Euler Hermes SIAC	Italy	Director
	Euler Hermes Holding UK Plc	UK	Director
	Euler Hermes UK	UK	Director
	Euler Hermes SFAC	France	Vice-Chairman of the Supervisory Board
	Euler Hermes Kreditverzekering NV	Netherlands	Director
	Euler Hermes Re AG	Switzerland	Representative of Euler Hermes, Chairman of the Supervisory Board
Michel Mollard			
	Euler Hermes	France	Member of the Group Management Board
	Euler Hermes UK Plc	UK	Director
	Euler Hermes Holding UK Plc	UK	Director
	Euler Hermes ACI	USA	Vice-Chairman of the Board
	Euler Hermes SFAC	France	Member of the Supervisory Board
	Euler Hermes Credit Insurance	Belgium	Chairman of the Board
	Euler Hermes Kreditverzekering NV	Netherlands	Director
	Euler Hermes SIAC	Italy	Vice-Chairman of the Board
	Kepler	France	Chairman and Chief Executive Officer

List of posts and offices held by directors

Name	Company in which the post or office is held	Country	Post/Office
SUPERVISORY BOARD			
Jean-Philippe Thierry			
	AGF	France	Chairman and Chief Executive Officer
	AGF Holding	France	Chairman and Chief Executive Officer
	AGF IART	France	Chairman of the Board of Directors (End of office on 02/02/06)
	AGF International	France	Director
	AGF RAS Holding	Netherlands	Director
	AGF Vie	France	Chairman of the Board of Directors (End of office on 02/02/06)
	Allianz Seguros y Reaseguros	Spain	Director
	Baron Philippe de Rothschild SA	France	Censor
	Château Larose-Trintaudon	France	Chairman of the Board of Directors
	Cie Financière Saint-Honoré	France	Member of the Supervisory Board
	Euler Hermes	France	Chairman of the Supervisory Board
	Groupe Taittinger	France	Member of the Supervisory Board
	Paris Orléans	France	Censor
	Eurazeo	France	Censor
	Mondial Assistance	France	Chairman of the Supervisory Board
	Allianz Global RISC Rückversicherungs AG	Germany	Director
	Allianz Nederland Groep	Netherlands	Director (From 1st January 2006)
	Société foncière financière de participations	France	Director
Laurent Mignon			
	AGF	France	General Manager
	AGF Asset Management	France	Chairman of the Supervisory Board
	AGF Holding	France	Director and Deputy General Manager
	AGF IART	France	Permanent representative of AGF International
	AGF Informatique	France	Member of the Supervisory Board
	AGF International	France	Director
	AGF Private Equity	France	Permanent representative of AGF Holding
	AGF Vie	France	Director and General Manager
	Banque AGF	France	Chairman and Chief Executive Officer
	Bolloré	France	Permanent representative of AGF Vie
	Bolloré Investissement	France	Permanent representative of AGF Holding
	AGF Private Banking	France	Chairman of the Board of Directors
	Euler Hermes	France	Vice-Chairman of the Supervisory Board
	Génération Vie	France	Chairman of the Board of Directors
	GIE Placements d'assurance	France	Director
	Oddo et Cie SCA	France	Member of the Supervisory Board
	W Finance	France	Chairman of the Board of Directors
	Sequana capital	France	Vice-Chairman of the Supervisory Board
	Coparc	France	Chairman of the Board of Directors
	AVIP	France	Chairman of the Supervisory Board

List of posts and offices held by directors

Name	Company in which the post or office is held	Country	Post/Office
SUPERVISORY BOARD (continued)			
François Thomazeau			
	AAAM (AGF Alternative Asset Management)	France	Director
	ACAR	France	Chairman of the Board of Directors
	AGF	France	General Manager
	AGF Afrique	France	Chairman of the Board of Directors
	AGF Belgium Holding	Belgium	Chairman of the Board of Directors
	AGF Belgium Insurance	Belgium	Chairman of the Board of Directors
	AGF Benelux	Luxembourg	Chairman of the Board of Directors
	AGF Holding	France	Director and Deputy General Manager
	AGF Holdings UK	UK	Chairman of the Board of Directors
	AGF IART	France	Director
	AGF Insurance	UK	Chairman of the Board of Directors
	AGF International	France	Chairman and Chief Executive Officer
	AGF Ras Holding	Netherlands	Vice-Chairman of the Board of Directors
	AGF Vie	France	Director
	Allianz Nederland Groep	Netherlands	Member of the Supervisory Board
	Allianz Seguros y Reaseguros	Spain	Director
	ARSA BV	Netherlands	Member of the Supervisory Board
	Banque AGF	France	Permanent representative of AGF
	GIE AGF Informatique	France	Member of the Supervisory Board
	Cofitem-Cofimur	France	Director
	Euler Hermes	France	Member of the Supervisory Board
	SIIC de Paris (formerly Immobanque)	France	Director
	PHRV	France	Director
	Thomson Clive Ltd	UK	Director
	W Finance	France	Member of the Supervisory Board
	Compania Colombiana de Inversion Colseguros	Colombia	Chairman
	Adriatica de Seguros	Venezuela	Chairman of the Board of Directors
	Inmobiliara Driavena	Venezuela	Chairman
	Europe Expansion Sicav	France	Censor
	Caisse de retraite AGF	France	Chairman of the Board of Directors
	Mondial Assistance	Switzerland	Deputy Vice-Chairman of the Board
	Locindus		Director
	Foncière des 6e et 7e arrondissements	France	Director
Robert Hudry			
	Euler Hermes	France	Member of the Supervisory Board
	AGF	France	Censor
Charles de Croisset			
	Bouygues	France	Director
	Euler Hermes	France	Member of the Supervisory Board and the Remuneration Committee
	SA des Galeries Lafayette	France	Censor
	Renault	France	Director and Chairman of the Audit Committee
	Thales	France	Director and Chairman of the Audit Committee
	Fondation du Patrimoine	France	Chairman

List of posts and offices held by directors

Name	Company in which the post or office is held	Country	Post/Office
SUPERVISORY BOARD (continued)			
Reiner Hagemann (up to December 31st 2005)			
	Allianz Versicherungs AG	Germany	Chairman
	Allianz AG	Germany	Member of the Management Board
	Schering AG	Germany	Member of the Supervisory Board
	E.ON Energie AG	Germany	Member of the Supervisory Board
	Allianz Global Rückerversicherungs AG	Germany	Member of the Supervisory Board
	Bayerische Versicherungsbank AG	Germany	Chairman of the Supervisory Board
	Frankfurter Versicherungs AG	Germany	Chairman of the Supervisory Board
	Euler Hermes Kreditversicherungs AG	Germany	Chairman of the Supervisory Board
	Allianz Private Krankenversicherungs-AG	Germany	Chairman of the Supervisory Board
	Euler Hermes	France	Member of the Supervisory Board
	Allianz Elementar Versicherungs AG	Austria	Chairman of the Supervisory Board
	Allianz Elementar Lebensversicherungs AG	Austria	Vice-Chairman of the Supervisory Board
	Allianz Investmentbank AG	Austria	Member of the Supervisory Board
	Allianz Cornhill Insurance Plc	UK	Member of the Board of Directors
	Allianz Irish Life	Ireland	Member of the Board of Directors
	Allianz Suisse Versicherungs AG	Switzerland	Member of the Board of Directors
	Allianz Suisse Lebensversicherungs AG	Switzerland	Member of the Board of Directors
	RAS International NV	Netherlands	Member of the Supervisory Board
	Vereinte Spezialversicherung AG	Germany	Chairman of the Supervisory Board
Clement Booth (from January 1st 2006)			
	Allianz AG	Germany	Member of the Management Board
	Allianz Australia Ltd	Australia	Director
	Allianz Global Risks Rückversicherungs AG	Germany	Chairman of the Supervisory Board
	Allianz Marine & Aviation Versicherungs AG	Germany	Vice-Chairman of the Supervisory Board
	Allianz Irish Life	Ireland	Director
	Allianz Risk Transfer	Switzerland	Chairman of the Board of Directors
	Allianz Cornhill Insurance Plc	UK	Director
	Allianz Global Risks US	US	Director
	Allianz Underwriters Insurance Co.	US	Director
	Accord, Pearl River, New York	US	Chairman and Chief Executive Officer
	St. Ann's Park Management Cy	UK	Director
Yves Mansion			
	Alcan	Canada	Director
	Euler Hermes	France	Member of the Supervisory Board
	Société Foncière Lyonnaise	France	Chairman and Chief Executive Officer
	AMF (Autorité des Marchés Financiers)	France	Member of the College
Diethart Breipohl			
	Allianz AG	Germany	Member of the Supervisory Board
	Beiersdorf AG (to 18 May 2005)	Germany	Member of the Supervisory Board
	Continental AG	Germany	Member of the Supervisory Board
	KarstadtQuelle AG	Germany	Member of the Supervisory Board
	KME AG	Germany	Chairman of the Supervisory Board
	Le Crédit Lyonnais	France	Director
	Euler Hermes	France	Member of the Supervisory Board
	AGF	France	Director
	Atos Origin (from 3 June 2005)	France	Member of the Supervisory Board

List of posts and offices held by directors

Name	Company in which the post or office is held	Country	Post/Office
SUPERVISORY BOARD (continued)			
John R. Coomber			
	Swiss Re	Switzerland	Member of the Board
	Swiss Re UK Plc	UK	Director
	Swiss Re Life & Health Ltd	UK	Director
	Swiss Re Life & Health America Holding Company	USA	Director
	Swiss Reinsurance Company UK Ltd	UK	Director
	The Mercantile & General Reinsurance Company Ltd	UK	Director
	Euler Hermes	France	Member of the Supervisory Board
	IMMD Institute for Management Development	Switzerland	Member of the Foundation
Jean-Hervé Lorenzi (Censor)			
	Compagnie Financière Saint-Honoré	France	Member of the Supervisory Board
	Assurance et Conseil Saint-Honoré	France	Member of the Supervisory Board
	Assurance Saint-Honoré	France	Member of the Management Committee
	AFOM	France	Director
	Atlex SA	France	Director
	Pages Jaunes SA	France	Director
	Associés en Finance SA	France	Director
	BVA SA	France	Member of the Supervisory Board
	Crédit Foncier de France	France	Censor
	Euler Hermes	France	Censor

Observations of the Supervisory Board on the report from the Group Management Board

The Group Management Board has presented you with its report on Euler Hermes' situation and on its activity during the year ended 31 December 2005.

2005 was marked by a deceleration in economic activity world wide due mainly to the rise in the price of oil and many other commodities. Although the US continued to drive world growth, Europe saw a further decline in the first half and the rebound in the second half, boosted by the euro's depreciation, remained limited. Asia continued to benefit from US demand, with China gaining market share in global manufacturing.

This slowdown in growth was accompanied by a slight drop in the number of corporate failures. However, the number of business failures remained high in Europe.

It is with immense satisfaction that the Supervisory Board notes that Euler Hermes was able to increase business growth worldwide thanks to a dynamic strategy focused on its core business. It has continued to reinforce its presence in areas where it recently set up operations, such as Eastern Europe, Southern Europe and Asia, and to consolidate its positions elsewhere, notably in the US where credit insurance is growing rapidly.
Claims expense posted only a moderate increase thanks to a prudent underwriting policy. Furthermore, strict cost control combined with more advantageous reinsurance conditions enabled the group to reduce operating costs and thus post significant growth in operating income.

The Supervisory Board approves the investment strategy implemented by the group, which consists of restricting exposure to equity market risk and maintaining the greater part of investments in bonds.

Generally speaking, the Supervisory Board approves, without exception, all the Group Management Board's strategic choices and initiatives.

The Supervisory Board is extremely pleased with Euler Hermes' upgrade to AA- by Standard & Poor's. This highlights the group's financial strength and the quality of the results achieved in recent years.

In 2005, the Supervisory Board's Audit Committee examined the implementation of the "Business Continuity Management" project providing for a disaster recovery plan and the "Sarbanes-Oxley" project. It also verified the proper application of IFRS for the presentation of the financial statements. It analysed the results of a "benchmark" survey of procedures and costs at different group entities and of the trend in reinsurance with a view to optimisation. Lastly, a report on data protection was drawn up and the report on the Financial Security Law was updated.
Taking into account the actions carried out, in progress or scheduled, the Supervisory Board has approved the work carried out by the Group Management Board and its staff and the internal control systems set in place.

The Supervisory Board has examined the Group Management Board's report and the financial statements for the year ended 31 December 2005. It recommends that the shareholders approve the resolutions submitted to the Annual General Meeting by the Group Management Board.

The Group Management Board's objectives for 2006 are to pursue dynamic international development in markets that benefit from the globalisation of trade, notably Eastern Europe, Asia and South America. It will also work to extend the product offer to accompany the development of large multinationals and to expand the range of services for policyholders. It will also foster the sharing of best practices between operating entities so as to achieve lasting productivity gains. This strategy should strengthen the group's capacity to achieve profitable growth despite ever increasing competition and an uncertain economic environment.

The Supervisory Board reconfirms its confidence in the Group Management Board and thanks all the staff for their work and their commitment to the group, which enabled Euler Hermes to achieve excellent results in 2005.

Chairman's Report
pursuant to Article L.225-68 of the French Commercial Code

To the shareholders',

In addition to the management report, I wish to report to you on the conditions under which the work of the Supervisory Board and the Group Management Board is prepared and organised, and on the internal control procedures implemented by Euler Hermes SA.

Regulatory obligations

The French Financial Security Act (Loi de Sécurité Financière, or LSF) was promulgated on 1st August 2003, and has since been completed by the Act to improve confidence and modernise the economy (loi pour la confiance et la modernisation de l'économie). It requires the Chairman of the Board of Directors or the Supervisory Board of a French public limited company (société anonyme) to disclose, in a report attached to the management report:

- the conditions under which the Board's work is prepared and organised,
- the limits on the powers of the Chief Executive Officer,
- the internal control procedures.

In a report attached to their general report, the Independent Auditors must submit their remarks on the part of the Chairman of the Supervisory Board's report on internal control procedures relating to the preparation and processing of accounting and financial information. These provisions apply as from the 2003 financial year. Euler Hermes is a French public limited company with a Group Management Board and a Supervisory Board and must therefore comply with the provisions of the French Financial Security Act.

The Sarbanes-Oxley Act adopted in the United States on 25 July 2002, and which will apply from the end of 2006 to companies listed on the New York Stock Exchange, introduced measures to increase financial and accounting transparency and to emphasize directors' responsibility.
These measures relate in particular to:

- certification by the CEO (Chief Executive Officer) and the CFO (Chief Financial Officer) that procedures and controls relating to published information have been defined, established, tested and maintained, and in addition that the effectiveness of these procedures and controls has been evaluated (Section 302 of the Sarbanes-Oxley Act).
- assessment by the directors of the internal controls set forth in a report stating the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, an assessment of the effectiveness of this system, and certification by external auditors (Section 404 of the Sarbanes-Oxley Act).

The Allianz group to which Euler Hermes belongs is subject to the obligations set out in the Sarbanes-Oxley Act and took steps to be able to comply with it as from the financial statements drawn up as at 31 December 2004. The work performed by Euler Hermes in the context of Allianz's requests in this regard is coordinated with the work required in relation to the French Financial Security Act.

There are three parts to this report:

- the conditions under which the Supervisory Board's work is prepared and organised:
  – the role of the Supervisory Board and how it is organised;
  – the role of the Group Management Board and how it is organised;
- internal control procedures and the control environment;
- internal control procedures with regard to accounting and financial information.

Conditions under which the Supervisory Board's work is prepared and organised

In general, the group is run by a Management Board, which is itself supervised by a Supervisory Board. In addition, the group has set up an Audit Committee and a Remuneration and Appointments Committee. These structures are completed by managers of cross-company functions, who report to the Group Management Board and who form the group's operational management structure.

The role of the Supervisory Board and how it is organised

In accordance with the law and under the terms of Article 11 of the Articles of Association, the Supervisory Board continuously monitors the company's management by the Group Management Board and gives this Board the prior authorisations required under the law or the Articles of Association.

In accordance with the company's Articles of Association, the Supervisory Board has at least three and no more than twelve members who are appointed by Ordinary General Meetings of the shareholders. The number of members of the Supervisory Board who are 70 years of age or older may not be more than one-third of the members in office. If this limit is exceeded, the oldest member must automatically resign. As at 31 December 2005, the Supervisory Board had ten members.

If the Supervisory Board considers it useful, it may, when so proposed by its Chairman, appoint non-voting members of the Board (censors), for a term that it chooses. These non-voting members may be individuals or legal entities and may but need not be shareholders. The Board determines the responsibilities and terms and conditions of their remuneration. This remuneration is taken from the annual amount for Supervisory Board members' fees allocated to the Supervisory Board by the Ordinary General Meeting. These non-voting members may be called to and may attend and participate in all Supervisory Board meetings but with a right of discussion only. There is currently one such additional member, an individual.

The Supervisory Board elects a Chairman and a Vice-Chairman from among its members. The Chairman, and in his absence, the Vice-Chairman, is responsible for convening Board meetings and chairing its deliberations. Members of the Supervisory Board must own at least five shares during their term of office. In order to change members regularly, members serve a three-year term, although they may be re-elected.
The membership of the Supervisory Board is partly changed every year at the Ordinary General Meeting of the shareholders, depending on the number of members in office, such that changes are made as regularly as possible and so that all members have changed by the end of every three-year period.

In the event of a vacant position, following the death or resignation of one or more members of the Supervisory Board, a provisional replacement may be elected by the remaining members, with the appointment being subject to ratification by the next Ordinary General Meeting of the shareholders.

The members of the Supervisory Board may receive remuneration in the form of Supervisory Board members' fees, the amount of which is fixed by the Ordinary General Meeting of the shareholders, and exceptional remuneration under the conditions provided for by law. In addition, the Chairman and the Vice-Chairman may receive special remuneration, the amount of which is set by the Supervisory Board.

In accordance with corporate governance principles, the Supervisory Board includes four independent members (members are considered independent when they do not have any kind of relationship with the company, its group or its general management that may compromise their freedom of opinion). Furthermore, the members of the Supervisory Board comply with the provisions of the French law on New Economic Regulations (NRE) No. 2001-420 of 15 May 2001, covering the number of directorships they may hold. This constitutes an important guarantee of their commitment and availability to the group.

The Supervisory Board appoints the members of the Group Management Board, decides on their number, and appoints their Chairman, and Chief Executive Officers where appropriate. It also sets their remuneration. It may remove members from office or recommend that the Ordinary General Meeting remove one or more members of the Group Management Board from office.
Throughout the year, the Supervisory Board makes the checks and controls it considers appropriate and can publish any documents that it considers useful for the completion of its mission. At least once a quarter, the Group Management Board presents a report to the Supervisory Board. The Supervisory Board can call shareholders' meetings and set the agenda. The Supervisory Board can decide to create committees and it sets their composition and assignments. Their activity is exercised under the Board's responsibility, without said assignments having the purpose of delegating the powers attributed to the Supervisory Board by law or the Articles of Association, nor having the effect of reducing or limiting the powers of the Group Management Board.

In addition, the following decisions of the Group Management Board are subject to prior authorisation from the Supervisory Board:
- the sale of property and the total or partial sale of shareholdings and the constitution of sureties on company assets where the transaction exceeds €30,000,000;
- direct transactions or equity holdings that might significantly affect the group's strategy and materially modify its financial structure or scope of activity where these exceed €5,000,000;
- the issue of securities, of any kind, that may result in a modification of the registered capital regardless of the amount involved;
- transactions aimed at granting or contracting any borrowings or loans, credits or advances where these exceed €75,000,000;
- transactions aimed at constituting sureties, guarantees, deposits or bonding where these exceed €30,000,000.

Where a transaction exceeds the specified amount, the approval of the Supervisory Board is required in each case.

The Supervisory Board met four times in 2005.

Within the Supervisory Board, there is an Audit Committee and a Remuneration and Appointments Committee.

The Board's Audit Committee

The Board's Audit Committee consists of three members of the Supervisory Board and is responsible for supervising methods used for the internal and external control of group companies. Its task is to be kept informed by:
- the group head of audit on the activities and forecast planning of audit assignments of the group and its subsidiaries;
- accounting and financial managers on the company financial statements;
- the Independent Auditors on their findings.

Such information may be provided outside the presence of the company's general management.

It meets prior to each meeting of the Supervisory Board. The Audit Committee met four times in 2005. Its Chairman reports to the Board on the work of the Committee.

Chairman's Report
pursuant to Article L.225-68 of the French Commercial Code

The Remuneration and Appointments Committee

The Remuneration and Appointments Committee consists of three members of the Supervisory Board. Its task is to submit recommendations to the Supervisory Board regarding remuneration of the members of the Group Management Board and the granting of stock options to group employees. It also ratifies decisions taken by the Group Management Board regarding the remuneration of the directors of the group's main subsidiaries. Its Chairman reports to the Board on the Committee's work. It met three times in 2005.

The role of the Group Management Board and how it is organised

In accordance with the law and under the terms of Article 15 of the Articles of Association, the Group Management Board is the group's collective decision-making body. The function of the Group Management Board is to manage, organise and control the group. All of the powers of the Group Management Board are exercised collectively although Board members are assigned specific responsibility for supervising cross-company functions for the group and its subsidiaries. The Group Management Board consists of at least two and no more than six members appointed by the Supervisory Board; a member of the Supervisory Board cannot be a member of the Group Management Board. The Group Management Board has five members.

The number of offices held by the members of the Group Management Board complies with Article 11 of the NRE law 2001-420 of 15 May 2001.

Members of the Group Management Board must be individuals under the age of 65, effective from the completion of the nearest General Meeting of shareholders. However, when a member of the Group Management Board reaches this age, the Supervisory Board can, on one or more occasions, extend his functions for a total term that may not exceed three years.

The Group Management Board is appointed for a period of three years and its members may be re-elected. They can be removed from office by the Supervisory Board or by the General Meeting of shareholders on the recommendation of the Supervisory Board. The Supervisory Board sets the method and amount of remuneration for each of the members of the Group Management Board when they are appointed.

In accordance with the law and under the terms of Article 16 of the company's Articles of Association, the Supervisory Board appoints one of the members of the Group Management Board as Chairman (CEO). The Chairman exercises his functions for the period of his office as a member of the Group Management Board. He represents the company in its relations with third parties. The Supervisory Board can allocate the same power of representation to one or more other members of the Group Management Board who then bear the title of General Manager. Euler Hermes has a General Manager.

Agreements concerning the company and any commitments undertaken in its name are signed by the Chairman of the Group Management Board, or by any member of the Group Management Board who has been appointed Chief Executive Officer by the Supervisory Board in the event the Chairman of the Group Management Board is absent or unable to sign, or by any member especially empowered for this purpose.

In accordance with the law and under the terms of Article 17 of the company's Articles of Association, the Group Management Board is invested with the most extensive powers to act in all circumstances in the name of the company. It exercises these powers within limits defined by the corporate purpose, subject to those expressly allocated to the Supervisory Board and General Meetings by the law and the Articles of Association.

The Group Management Board can invest one or more of its members or any outside person with special assignments that it decides upon, which may be permanent or temporary, and can delegate to them the powers that it considers appropriate for one or more particular cases, with or without the option of sub delegation.

The Group Management Board operates according to "internal regulations" which are designed to complement the operating principles stipulated in the Articles of Association, while respecting the collective principle of the Group Management Board and facilitating the work of the Supervisory Board. In addition, the regulations define the practical procedures for holding meetings and recording minutes. These regulations are regularly updated as a function of the company's requirements and the assignments the Group Management Board sets itself and its members.

The Group Management Board can set up committees. It decides on their composition and attributes, and they carry out their activity under its responsibility, but it cannot delegate its powers. The Group Management Board meets as often as required in the interests of the company. The Group Management Board met almost twice a month in 2005.

The members of the Group Management Board divide among themselves the supervision of the business of the Euler Hermes group and group functions. The Chairman of the Group Management Board (CEO) alone represents the company in its relations with third parties. In the event the Chairman is absent or unable to act, the General Manager will also represent the company in its relations with third parties.

Chairman's Report
pursuant to Article L.225-68
of the French Commercial Code

In addition, the Chairman (CEO) is in charge of organising and coordinating the business of all group companies. Currently, he supervises at group level the areas of Information Technology, Internal Audit, the career paths of senior managers, communications and the activity of other members of the Group Management Board.

The four other members of the Group Management Board share the remaining cross-company functions, that is Risks and Commitments, Sales and Marketing, Finance and Accounting, Reinsurance, Strategy, International Development and risk management.
The person responsible for each cross-company function sets the limits of powers granted to the managers of subsidiaries in each of the areas in question. In addition, each member of the Group Management Board acts as the representative of the shareholder in respect of certain group companies.

Lastly, the members of the Group Management Board must provide each other with information about the following:
- the most significant decisions taken in their entity or in the area of business for which they are responsible within the group and in particular actions aimed at developing or adapting the group's business,
- events whose scope, even if they take place in their area of responsibility, involve several entities and in particular changes in procedures or operational methods which, although they do not require formal approval by the members of the Group Management Board, may affect other group companies.

More generally, the Group Management Board deals with all actions related to the implementation of the group's general strategy, in accordance with the procedure set out in the Group Management Board's internal regulations.
These regulations may be changed by the Supervisory Board if the Chairman proposes any such change.
These structures are completed by an operational management structure:

Management of Euler Hermes' cross-company Functions
Euler Hermes has a matrix-type management structure, integrating cross-functional managers (Strategy and International Development, Risks and Commitments, Reinsurance, Sales and Marketing, Audit and Support, Finance and Accounting, Information Technology, Risk Management, Communications, and Career Management for senior managers), two of whom are also members of the Group Management Board (Finance and Accounting, Strategy and International Development), and the managers of subsidiaries. Cross-functional managers and managers of subsidiaries implement the strategy determined by the Group Management Board and report to members of the Group Management Board on their specific responsibilities.
Minutes of the meetings of the Group Management Board are sent to all cross-functional managers and managers of subsidiaries. Each local entity is managed by a CEO who is responsible for implementing the group's strategy and its business model and for determining local strategic policy.

INTERNAL CONTROL PROCEDURES AND CONTROL ENVIRONMENT

The Euler Hermes group operates mainly in the fields of credit insurance and bonding and guarantees

Current regulatory obligations

Legal obligations (the French Financial Security Act, the Sarbanes-Oxley Act in the United States) have been added to the existing set of regulations under which a company's management is directly responsible for all the company's business, including its internal control system; that is the achievement of objectives and the design and implementation of resources making it possible to control them. These regulations include those issued by the Insurance Control Commission (Commission de Contrôle des Assurances), the Banking Commission (Commission Bancaire) as well as accounting standards and the recommendations made in reports on corporate governance. All these rules and regulations have been taken into account in group procedures.

Internal controls

The French Financial Security Act does not refer to any internal control benchmarks. As the Euler Hermes group has started to implement measures in order to comply with the Sarbanes-Oxley Act, and for consistency's sake, it uses the internal control principles laid down by the COSO (Committee of Sponsoring Organizations of the Treadway Commission), which apply within the Allianz group. These principles are internationally acknowledged.

It defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
- effectiveness and efficiency of operations,
- reliability of financial reporting,
- compliance with applicable laws and regulations.

COSO's definition of internal control breaks it down into five separate areas:
- the control environment (increasing staff awareness of the need for controls),
- the assessment of risks (factors likely to affect achievement of objectives),

- control activities (application of standards and procedures),
- information and communication of data to manage and control activities,
- monitoring of control systems.

The main objectives of internal controls are the following:
- financial performance, by the efficient and appropriate use of the group's assets and resources and protection against the risk of losses,
- precise and regular knowledge of the data required for decision-making and risk management,
- adherence to internal and external rules,
- prevention and detection of fraud and mistakes,
- accuracy and completeness of accounting records and preparation of reliable accounting and financial information in a timely manner.

Internal controls, in accordance with the COSO's description, are described below.

The control environment

The control environment inside the Euler Hermes group and its subsidiaries consists of the following:
- control structures,
- rules of conduct,
- the definition of responsibilities and control of individual objectives.

The principles of corporate governance

The Euler Hermes group has applied the principles of corporate governance by organising the structures of the holding company so as to supervise and control its subsidiaries. It has set up the following structures within its largest subsidiaries (Euler Hermes Sfac, Euler Hermes SIAC, Euler Hermes United Kingdom, Euler Hermes ACI, Euler Hermes Credit Insurance Belgium, Euler Hermes Kredietverzekering, Euler Hermes Kreditversicherung, Euler Hermes Nordic):

Governance structures

- A Board of Directors or Supervisory Board, depending on the entity. It includes the representative(s) of the shareholder (the group), directors from outside the group and meets four times a year in the presence of the CEO. Its task is to define the strategic orientations and business activities of the subsidiary and its CEO. It reviews the subsidiary's financial statements, main projects, legal risks and development. Its work is based on group reports drawn up by Group Management Control and specific indicators in the Sales and Marketing, Risks, and Litigation areas in particular.
- A Board Audit Committee. This consists of two or three directors and generally meets, with the subsidiary's management, on the day before Board of Directors' meetings. It scrutinises the subsidiary's financial statements, internal controls and the activity of internal and external auditors. The internal and external auditors take part in the work. They may discuss matters outside the presence of the company's general management at the request of members of the Committee or its Chairman. The Committee reports to the Board of Directors.
- A Remuneration Committee. This consists of the CEO, the representative of the shareholder and a non-executive chairman. The Committee decides on the remuneration of the members of the subsidiary's Management Committee on the basis of the CEO's proposals. The Group Remuneration Committee is informed of its decisions.
- A Finance Committee whose role is defined in the chapter entitled "Accounting and financial internal control procedures".

Management structures

- A Management Committee or Management Board, depending on the entity, chaired by the CEO. This consists of the main managers and meets at least once a month. It manages the subsidiary's business operationally on the basis of reports drawn up by Management Control and specific indicators. Its Chairman reports to the Board of Directors.
- A Management Audit Committee. This committee consists of members of the Management Committee and its Chairman (or his deputy). It meets between four and eight times a year. It reviews in detail internal audit reports, is responsible for communicating the contents of the report within the company and monitors the implementation of recommendations and the completion of the internal audit programme.

The former Hermes group companies have similar structures based on the Supervisory Board and "Vorstand" model.

The smaller subsidiaries have an Audit Committee, which plays the same role as in the larger subsidiaries.

Action as regards rules of conduct

A compliance officer was appointed within Euler Hermes in January 2003, with the task of acting as the contact person for compliance functions within AGF and compliance within the Allianz group. Compliance reports are sent every quarter from local entities to AGF, Allianz and Euler Hermes' central functions, mainly on the prevention of insider trading, current legal and judicial proceedings, regulatory and tax audits, fraud, etc. The central functions rely essentially on the local audit structures.

Other concrete actions have been implemented, such as regular checks of terrorist lists, or are currently underway, such as the introduction of codes of conduct based on compliance rules drawn up by the AGF and Allianz groups and adapted to comply with local laws and regulations.

Measures have been taken inside the group to prevent money laundering, and more especially within Euler Hermes Sfac and Euler Hermes UK in accordance with the rules of the Commission Bancaire for France and of the FSA for the United Kingdom.

Definition of functions and control of individual objectives

The level of skills is ensured by recruitment procedures, supported by definitions of positions. All staff take part in individual assessment interviews which make it possible to have an annual review and to set objectives for the coming year with their line manager that are consistent with the entity's objectives.

Risk assessment

Risks were first mapped in 2002, by listing the operational risks with the managers of the subsidiaries. Business activity is divided into nine main functions:

- four operational functions: Sales and Marketing, Risk Management, Indemnification and Litigation and Collections,
- five functions for support activities: Management, Human Resources, Finance and Accounting, Procurement and Information Technology.

These functions have been organised into 34 sub-functions. Seven categories of generic risks have been defined: cessation of operations, unreliable information, disclosure of sensitive information, loss of assets, loss of competitiveness, excessive costs, failure to comply with the law. These risks, which are specific to each function, are classified by category. For example, the risk of payment of a claim above the amount covered comes in the category of excessive costs/indemnification and litigation function.

These risks are assessed for each sub-function in terms of probability of occurrence, significance in the event of occurrence and control as regards audit. A level of risk is thus determined for each function and each sub-function.

The results of risk mapping are submitted to management audit committees and the Board's Audit Committee. This review takes place systematically when audit programmes are defined. The risk map was updated in 2005, on the basis of audit reports validated in collaboration with the managers of the subsidiaries. Euler Hermes Kreditversicherung's risk map was brought into line with the Euler Hermes model in 2005.
A risk control function was created at group level in 2005, responsible for risk management (monitoring reserves, review of methods for setting up reserves, risk-based allocation of capital, etc.).

Organisation of internal control activities

There are two levels of internal controls: control of the implementation of rules and procedures by management and control by audits.

Implementation of rules by management

Euler Hermes' rules and general principles were defined in 1999 by the group's cross-functional managers, in agreement with the Group Management Board, in the areas of Risk, Litigation, Collections, Sales and Marketing, Finance, Accounting, Reinsurance, Information Technology, Audit, Communication and Human Resources.
In the area of Risks and Sales and Marketing, these rules were updated in 2003 and again in 2004. They have been implemented in the main entities as procedures that include in particular the thresholds of individual responsibility and the organisation of specific risk and sales and marketing committees for example.

It should be noted that the following models have been introduced in all the main subsidiaries:

- a risk business model and quality standards in terms of the management of debtor risk;
- a collection business model and quality standards in terms of collection of receivables.

First level of control

At group level, there are cross-company functions for the Risk/Litigation, Sales and Marketing, and Strategy/International Development operational areas and for the Information Technology, Finance and Accounting, Reinsurance, Internal Audit, Human Resources and Communication and Risk Management support areas. A member of the Group Management Board is responsible for each function and these members check the implementation of group directives in the subsidiaries.

For example, the risk (credit) cross-company function monitors all the credit risk business. To do this, it uses the monthly group reports drawn up by Group Management Control and monthly reports on sensitive risks. Corrective action is coordinated with a Group Risk Committee whose members include subsidiaries' risk managers. This committee, chaired by the manager of the cross-company risk function, meets every two months. Each subsidiary's risk manager reports to this committee. Local risk business is supervised by a local risk committee, of which the CEO is generally a member, and by a system of delegation of powers.

Within company departments, procedures govern the measures to be taken and the main related controls. The extension of the documentation of the control system to departments that were not covered initially was completed in 2004.

Controls are carried out by the operational units themselves. These controls may be integrated into the processing of transactions (first level) and some may be integrated into automated systems. In addition, they may be carried out by units or individuals who are independent of the above-mentioned operational units or distinct from those who have carried out controls at the first level (second level).

Second level, the internal control

The group has a central audit function and audit structures within the largest units. In 2005, there were 20 auditors within the group (the drop in numbers as compared to 2004 is due to the discontinuation of the factoring business). The audit structure is decentralised and the main subsidiaries have their own structure. New auditors will be appointed in 2006, essentially at group level in order to improve coverage of risks. The group audit manager reports to the Euler Hermes Audit Committee and to the Chairman of the group and is a permanent member of subsidiaries' audit committees along with the local audit manager.

An annual programme of audit assignments is drawn up. This programme, based on a map of risks and a pragmatic approach to requirements, has a local part (2/3 of the activity) and a group part that includes the global audits of subsidiaries, and audits of cross-functional processes carried out simultaneously in the main subsidiaries. It is drawn up in accordance with a structured procedure in the second half of the year. It is the subject of a procedure of discussion, communication and validation with operational staff, general management and audit committees. The last stage of the validation process is the presentation of the programme to the Euler Hermes Audit Committee for approval in November. The audit programme is adapted appropriately, in order to obtain coverage of risk over five years in accordance with Allianz's directives, while ensuring more frequent coverage of the most sensitive risks. The 2006 group programme includes seven independent audits (audit of subsidiaries), three cross-functional audits, including one on the principles of accounts closing, and five audits of the information systems.

The audit activity is based on an audit charter that was validated by the Audit Committee and the Supervisory Board in April 2001. It precisely defines the assignment, the organisation of the various levels of control within the Euler Hermes group and its subsidiaries and the terms and conditions of intervention by group and local audit departments. It is completed by the development of audit standards and procedures at local and group levels.

In 2005 the Allianz group issued audit guidelines, which the Euler Hermes group follows.

Lastly, AGF conducted a quality audit of the group's audit structure, which did not reveal any major shortcomings. All improvements requested have since been introduced.

Specific procedures for information systems

Security of information systems

Euler Hermes has set up a system for information system security by appointing a manager for the security of the group's information system from within the group's Information Technology management team. This person is in charge of coordinating actions relating to security with the security managers in the subsidiaries, in particular as regards the introduction of security standards and more specifically the Allianz group's standards. Allianz standards cover the following:
– Data classification
– E-mail security
– Data encrypting
– Incident management
– Internet access
– Network access
– Increasing awareness of security issues
– Physical security
– Protecting systems against viruses and unauthorised entry
– Security of applications
– Secure access to systems/applications

Within the framework of the Sarbanes-Oxley project implemented within the Euler Hermes group in 2005, the various group companies have identified and documented existing controls designed to secure information systems used in group companies, and also to introduce procedures to protect information against any unauthorised use, disclosure or modification, and against any damage or loss (logical access controls ensuring only authorised users have access to systems, data and programmes).
All the controls identified were described and documented in detail.

Quality assurance and new developments

The IT managers of the largest entities in the group use methods for the design and creation of IT applications. In 2004 and 2005, the group IT function defined and implemented development standards applicable to all companies in the group: breakdown of all IT projects into eight phases, deliverables at the end of each phase (standard documents). Quality audits (IT Architecture and Quality – ITAQ) are also organised when requested by the Group IT Director, a local IT manager or the Group IT Architecture and Strategy department.

Consolidation and harmonisation of systems

The Euler Hermes group's IT systems are undergoing consolidation. Subsidiaries are inter-connected by means of a long-distance network, which was available 99.91% of the time in 2005.
The resources (data, equipment) required to manage the group's credit insurance commitments are centralised on one site. In the event of any problem, there is a back-up site and data recovery tests are carried out regularly (twice in 2005).

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The group production centre and local production centres apply data backup procedures and use off-site data storage.
The group is continuing to implement a policy of system harmonisation and integration: Risks (IRP), Sales and Marketing, Litigation and Collections, Reporting (Rebus). The progressive introduction of this policy within the group will help to reinforce access control procedures and the standardisation of subsidiaries' internal control systems.
In accordance with Allianz's policy, in 2005 the Euler Hermes group updated and tested the business continuity plans that were introduced throughout the group in 2004.
The group's internal audit structure and group subsidiaries' audit teams work together on reviews of IT projects or reviews of recently implemented applications. An audit of IT security was conducted in 2005/early 2006.

Gradual development of internal controls by the group

At the request of its ultimate shareholder, from 2004 the Euler Hermes group had to comply with the requirements of sections 302 and 404 of the Sarbanes-Oxley Act which consist, especially for section 404, in identifying, documenting and evaluating all process controls which contribute significantly to financial and accounting reports.
In 2004 and 2005, the Sarbanes-Oxley project concerned five subsidiaries, Euler Hermes Sfac, Euler Hermes Kreditversicherung, Euler Hermes UK, Euler Hermes ACI and Euler Hermes Siac. The project basically consisted in identifying the five COSO internal control areas in each of the subsidiaries, identifying for operational reasons those control activities that are performed throughout the production process.
This work was coordinated by the group's Chief Financial Officer, on the basis of Allianz directives. After the scope of the project was identified, work was undertaken locally to describe the procedures and internal controls providing a reasonable assurance of the accuracy of the financial statements and documents, test the design and effectiveness of existing controls, and introduce actions to reinforce existing controls when necessary.
The process did not identify any major shortcomings.

Other COSO internal control areas

Other COSO internal control areas are:
- the control environment (increasing staff awareness of the need for controls),
- the assessment of risks (factors likely to affect achievement of objectives),
- information and communication of data to manage and control activities,
- monitoring of control systems.
These internal control areas were identified.
Similar action was taken in other subsidiaries.

ACCOUNTING AND FINANCIAL INTERNAL CONTROL PROCEDURES

Procedures

All the principles and rules that apply to companies in the Euler Hermes group are described in a consolidation manual that is provided to all entities. In 2005 Euler Hermes began to use the IFRS format to present its consolidated financial statements.

Euler Hermes is consolidated by the Allianz group, which has prepared its consolidated financial statements under IAS and IFRS since 1998. The Euler Hermes group, which, like its core shareholder AGF, is adopting IFRS for the first time at a later date than that applied by the Allianz group to which it belongs, had the choice, in accordance with IFRS 1 § 24, between two options for measuring its assets and liabilities:
a) "at the value that would be recognised in the consolidated financial statements of Allianz, based on the date of transition to IFRS by Allianz, excluding adjustments made relating to the consolidation or as a result of the business combination under which Allianz acquired the subsidiary";
b) "at the value that would be recognised through the application of other provisions of this standard, based on the date of transition to IFRS by Euler Hermes".

The Euler Hermes group elected for the option given in paragraph 24a of IFRS 1 relating to the first-time adoption of IFRS. This option, together with the election made by Euler Hermes to retroactively restate business combinations as from 31 March 1998 (the date on which Allianz took control of the AGF group), had the following impact on the corporate acquisitions made by the group:

- Acquisitions prior to 31 March 1998:

Acquisitions of subsidiaries prior to 31 March 1998 (including that of Euler Hermes in the UK and in the US) have not been retroactively restated through the application of the option under IFRS 1 that permits the retroactive restatement date of acquisitions to be determined. Goodwill calculated when these subsidiaries were first included in the consolidation scope has been retained as an asset at the amount net of amortisation at 31 December 2003, subject to impairment tests. Network values determined on first consolidation have been transferred to goodwill, net of the amortisation calculated between 31 March 1998 and 31 December 2003. The assets and liabilities of the entities concerned are restated where necessary in order to ensure consistency with the IFRS of Euler Hermes as applied by the group.

- Acquisitions made subsequent to 31 March 1998 from the Allianz group:

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The only acquisition concerned is that of Euler Hermes Kreditversicherungs AG and its subsidiaries during the second half of 2002. The restatement of this acquisition involved replacing the values appearing in the published consolidated financial statements prepared under French accounting standards using the "fair value method" (also known as the Purchase GAAP method) with the assets and liabilities appearing in the Allianz group's consolidated financial statements prepared under IFRS (including for goodwill). The resulting variances were recognised in shareholders' equity at 1st January 2004. In particular, the net acquisition goodwill and network values (reclassified within goodwill) relating to this company and its subsidiaries were cancelled, with a corresponding entry to shareholders' equity. At the level of the Allianz group, this acquisition involved a transaction between joint ventures that had been adjusted using the values in the consolidated financial statements (historical values) and therefore did not generate any goodwill.

The assets and liabilities of the entities concerned were also restated, where applicable, in order to ensure consistency with the IFRS as applied by the Euler Hermes group.

▪ Acquisitions made subsequent to 31 March 1998 from non-Allianz group entities:
Less material acquisitions were made subsequent to 31 March 1998 and have been restated in accordance with IFRS 3.

OTHER CONSEQUENCES OF THE FIRST-TIME ADOPTION OF IFRS

▪ Translation differences.
Pursuant to the exemption provided for in paragraph 22 of IFRS 1, translation differences that appeared as a separate item within consolidated shareholders' equity under French accounting standards at 31 December 2003 have been transferred to consolidated reserves without any impact on the total amount of shareholders' equity. In the event that the subsidiaries concerned are subsequently sold, only those translation differences arising after 1st January 2004 will impact the income statement.

In addition, goodwill on non-euro zone foreign subsidiaries (after reclassification of network values) has been retroactively recalculated in order to comply with the requirements of IAS 21.

▪ Share-based payments (IFRS 2).
IFRS 2 is applied retroactively to all measures concerned that are granted after 7 November 2002.

▪ Application of IFRS 4 relating to insurance contracts.
Insurance contracts are valued in accordance with the French accounting standards provided for in CRC Regulation no. 2000–05.

▪ Valuation of buildings.
The group has elected to apply the option to recognise buildings at historical cost.

▪ Employee benefits.
The corridor method is used for the recognition of actuarial variances arising on the measurement of commitments in respect of post-employment benefits, which include notably lump-sum retirement payments.
A detailed report on the transition to IFRS is included in the management report.

Organisation of controls

Accounting and financial controls are carried out by the Group Finance function.
This is organised in three departments:
- the Consolidation department
- the Management Control department
- the Assets/Liabilities Management department

Under the authority of the group's Chief Financial Officer, these three departments monitor and regularly check accounting and financial information and management indicators that are characteristic of the business.
The general system of organisation is based on a division into geographical areas, with the Consolidation and Management Control departments being divided in the same way. This makes it possible to assign a functional two-person team consisting of a consolidator and a management controller to each geographical area.

The Consolidation department

The Consolidation department has six consolidators who report to the department manager.
His/her role is, firstly, to prepare the consolidated financial statements published by the Euler Hermes group and, secondly, to provide shareholders with the information required to integrate Euler Hermes' financial statements into their own consolidated financial statements, in the form of a consolidation package.

The Consolidation department is directly in touch with the accounting and financial managers of the consolidated entities and the principal shareholder's consolidation manager.

All group companies which meet the legal and regulatory conditions are consolidated except for those that are expressly excluded for clear and stated reasons.

The Euler Hermes group's consolidated financial statements are drawn up on a quarterly basis. They are prepared by the Euler Hermes' Group Management Board and submitted to the Group Audit Committee then to the Supervisory Board.

They are published twice a year on the basis of six-monthly and annual reports in accordance with AMF regulations. At 30 June they are subject to a limited review by the Independent Auditors while the annual financial statements are subject to an audit at the level of the individual accounts of the consolidated entities and the consolidated financial statements themselves.

In addition, a certificate of compliance signed by the subsidiary's chairman and financial manager is used with regard to quarterly accounts drawn up by group companies and sent to the Consolidation department.

An identical certificate signed by the Chairman of the Group Management Board and the group's Chief Financial Officer is sent to the principal shareholders.

The consistency and uniformity of the consolidated data are ensured by the use of three tools provided to all group companies:
- a standard chart of accounts,
- a standard consolidation package,
- an instruction manual.

Standard chart of accounts
The standard chart of accounts was developed in the context of an accounts harmonisation plan that involved all group companies and defines the relevant level in information gathering. Information input is either automatic or manual, by means of a table of correspondence with the charts of accounts used by each of the subsidiaries.

Consolidation package
This is a standard document configured and formatted with SAP software, used by all group companies and has three modules:
- financial statements: balance sheet, income statement and attached tables,
- statistical statements, which provide details of the information reported in the financial statements and analyse it in a variety of ways,
- statements relating to off-balance sheet commitments, which are periodically inventoried and assessed.

Instruction manual
This document, which is available to all consolidated entities on the group's intranet site, describes the general accounting principles that apply to the group, the methods of valuing and recording items on the balance sheet and in the income statement and provides the instructions required to supply information for the consolidation package.

The Management Control department

Three levels of internal organisation
Management control is carried out jointly by the management control departments within each subsidiary and the Group Management Control department.
The way it is organised allows the Group Management Control department, which is organised by geographical area, to play a control role at a second level.
Group Management Control is placed under the responsibility of a member of the Group Management Board.
The controls exercised by the principal shareholders (AGF and Allianz) are superimposed onto this internal organisation.

Direct dependence on corporate governance bodies
Group Management Control also submits the group's results to the Group Management Board, the Audit Committee and the Supervisory Board every quarter.

Management control tasks
The main responsibilities of management control are as follows:
- drawing up budgets and adjusting annual forecasts,
- analysing changes in business every month by means of operational and financial indicators,
and, in addition, at group level:
- making comparisons between subsidiaries,
- preparing reports for shareholders,
- checking the consistency of data contained in consolidation packages.

Tools that are harmonised within the group
The controls carried out are based on harmonised reports that are defined by Group Management Control. This harmonisation makes possible comparisons in time and space and the performance of benchmark reviews (especially relating to costs).
Reports sent by subsidiaries contain written commentaries on the business that are drawn up by the financial manager and validated by the CEO. These must highlight material deviations from month to month or as compared to the budget or updated forecasts.

A data analysis process that covers the entire business
Regardless of the event in question (monthly analysis, quarterly closing, updating of forecasts or preparation of the budget), controls are carried out mainly on the following data:
- exogenous data: reinsurance conditions, financial assumptions, rate of tax in particular,
- endogenous data: commercial production (premiums, premium rates, etc.), changes in loss ratios and overheads, headcount in particular,

- adherence to accounting rules: reserves booked for premiums, reserves booked for claims, calculation of the equalisation reserve for example.

This analysis is by business line.

Specific features of the procedures for drawing up budgets and updating forecasts

Budgets are drawn up according to the following cycle:

- Group Management Control sends guidelines validated by the Group Management Board, together with a harmonised budget package (mid-June),
- the subsidiaries transmit their own budget instructions and their internal assumptions for the purpose of checking the consistency of these assumptions (endogenous and exogenous) as compared to mid-year results,
- preparation of the budget within each subsidiary, validation by the CEO and transmission of budget packages (mid-September),
- budget arbitration meeting attended by the Group Management Board, Group Management Control and the representative of the principal shareholder for the group and the CEO, the financial manager and the head of management control for the subsidiaries,
- presentation of the budget to the principal shareholders for validation.

Annual forecasts are updated twice a year, in May and in September. They are used to adjust the budgets in accordance with the most recent changes in business. This is a formal procedure, giving rise to the issuance of guidelines and the transmission of a budgetary package to the group in return, which is subject to in-depth discussions between the subsidiaries and the group.

The Assets/Liabilities Management department

The role of this department is to ensure the consistency of financial investment policies between the subsidiaries and the compliance of these policies with the instructions set forth by the group on a cross-functional basis.

These relate to the breakdown of portfolios by category of assets, the determination of benchmark indices, and the choice of portfolio managers and institutions in charge of the custody of securities.

This supervision takes the form of monthly finance committee meetings attended by the subsidiary's Chief Executive Officer and financial manager, representatives of the managing institution and the group finance function.

The committee makes recommendations about the purchase and sale of securities and about the reinvestment strategy for operational cashflows.

Euler Hermes' Group Management Board acts as arbitrator.

In addition, the Assets/Liabilities Management department organises two group finance committee meetings every year attended by the Group Management Board and representatives of the principal shareholders.

This committee receives reports on past management and determines future strategies.

Lastly, the Assets/Liabilities Management department manages the holding company's debt, and negotiates new loans and related hedging instruments. It reports to the Group Management Board for prior approval.

CONCLUSION

This report has been presented to the Audit Committee and the Supervisory Board.

In accordance with the organisational methods common to Euler Hermes group entities, as described above, and existing measures and procedures, the Supervisory Board and its Chairman, the Group Management Board and the relevant parts of the group are kept regularly informed of internal controls and of the level of exposure to risk, as well as of the progress recorded in this respect and in connection with corrective measures adopted.

Date 3 May 2006

Jean-Philippe THIERRY
Chairman of Euler Hermes' Supervisory Board

Report of the auditors on the report of the Chairman of the Supervisory Board

Report of the auditors, prepared pursuant to Article L.225-235 of the French Commercial Code, on the report of the Chairman of the Supervisory Board of Euler Hermes SA on internal control procedures relating to the preparation and processing of accounting and financial information

YEAR ENDED 31 DECEMBER 2005

To the shareholders,

In our capacity as auditors of Euler Hermes SA and pursuant to the provisions of Article L.225-235 of the French Commercial Code, we hereby present our report on the report prepared by the Chairman of your company's Supervisory Board in accordance with the provisions of Article L.225-68 of the French Commercial Code in respect of the year ended 31 December 2005.
In his report, the Chairman of the Supervisory Board is required to report in particular on the conditions under which the Supervisory Board's work is prepared and organised and on the internal control procedures put in place within the company.
We are required to give you our observations on the information contained in the Chairman's report on internal control procedures relating to the preparation and processing of accounting and financial information.

We have conducted our work in accordance with professional standards applicable in France. Those standards require us to perform tests designed to verify the fairness of the information contained in the Chairman's report on internal control procedures relating to the preparation and processing of accounting and financial information. These tests consist in particular of:
• reviewing the objectives and general organisation of internal control, and the internal control procedures relating to the preparation and processing of accounting and financial information, as presented in the Chairman's report;
• reviewing the work forming the basis for the information thus provided in the report.

Based on this work, we have no observations to make concerning the information provided on the company's internal control procedures relating to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Supervisory Board, prepared pursuant to the provisions of the last paragraph of Article L.225-68 of the French Commercial Code.

Neuilly-sur-Seine, Paris and Paris-la-Défense, 3 May 2006

The Auditors

PRICEWATERHOUSECOOPERS AUDIT	KPMG AUDIT Department of KPMG SA	ACE AUDIT
Christine Bouvry	Xavier Dupuy	Alain Auvray

Consolidated Financial Statements 31 December 2005

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Consolidated balance sheet

(€'000)

ASSETS	Notes	31-Dec-05	31-Dec-04
Goodwill	1	109,166	102,841
Other intangible assets	2	32,603	29,845
Intangible assets		**141,769**	**132,686**
Investment property	3	94,049	96,448
Financial investments	4	2,804,160	2,532,402
Derivatives	5	1,419	1,271
Investments - insurance businesses		**2,899,628**	**2,630,121**
Investments accounted for by the equity method	**6**	**43,521**	**37,648**
Share of assignees and reinsurers in the technical reserves and financial liabilities	**18**	**544,912**	**608,453**
Insurance and reinsurance receivables	7	473,473	456,372
Other receivables	8	128,503	143,431
Operating receivables		**601,976**	**599,803**
Operating property and other property and equipment	9	155,511	170,927
Acquisition costs capitalised		39,159	32,689
Corporation tax receivables		18,804	36,900
Deferred tax assets	10	16,732	36,388
Other assets	11	14,504	13,775
Other assets		**244,710**	**290,679**
Cash	**12**	**221,678**	**102,698**
Total assets		**4,698,194**	**4,402,088**

(€'000)

LIABILITIES	Notes	31-Dec-05	31-Dec-04
Capital stock		14,346	13,794
Additional paid in capital		444,985	353,912
Reserves		908,134	766,612
Net income, group share		286,076	242,983
Revaluation reserve	13	142,463	103,702
Other		(58,951)	(103,170)
Shareholders' equity, group share		**1,737,053**	**1,377,833**
Minority interests	14	7,869	24,883
Total shareholders' equity		**1,744,922**	**1,402,716**
Provisions for risks and charges	**15**	**98,049**	**84,828**
Subordinated borrowings		140	13,377
Borrowings from banking sector businesses		110,244	250,319
Other borrowings		226,435	89,878
Borrowings	**17**	**336,819**	**353,574**
Gross non-life technical reserves	18	1,497,164	1,511,593
Liabilities related to contracts		**1,497,164**	**1,511,593**
Inwards insurance and reinsurance liabilities	19	212,075	197,374
Outwards reinsurance liabilities	19	159,565	175,206
Other operating liabilities	20	229,241	272,119
Operating liabilities		**600,881**	**644,699**
Derivatives	5	1,220	10,016
Deferred tax liabilities	10	371,968	344,228
Corporation tax payables		28,980	19,904
Other liabilities	21	18,191	30,530
Other liabilities		**420,359**	**404,678**
Total shareholders' equity and liabilities		**4 698,194**	**4,402,088**

Consolidated income statement

(€'000)

	Notes	2005	2004
Premiums written		1,719,988	1,610,729
Change in unearned premiums		(30,527)	(32,624)
Earned premiums		1,689,461	1,578,105
Premium-related revenues		318,488	301,024
Turnover	**22**	**2,007,949**	**1,879,129**
Investment income net of management charges		90,512	81,775
Gains and losses on disposal of investments		37,895	30,726
Change in investment impairment provisions		(2,485)	(22,381)
Net financial income (excluding financing expense)	**23**	**125,922**	**90,120**
Total ordinary revenues		**2,133,871**	**1,969,249**
Insurance services expense		(689,709)	(608,462)
Net reinsurance income or expense	22	(249,922)	(285,467)
Contract acquisition expense		(284,002)	(276,921)
Impairment of portfolio securities and similar		(708)	(1,676)
Administration expense		(188,138)	(181,617)
Other ordinary operating revenues and expense		(274,748)	(257,730)
Total other ordinary revenues and expense		**(1,687,227)**	**(1,611,873)**
Ordinary operating income	**22**	**446,644**	**357,376**
Other operating income and expense	25	-	(10,162)
Operating income		**446,644**	**347,214**
Financing expense	26	(10,121)	(22,000)
Income from companies accounted for by the equity method	6	8,056	5,349
Corporation tax	27	(158,394)	(110,680)
Net income from discontinued activities	**28**	**-**	**25,713**
Consolidated net income		**286,185**	**245,596**
Minority interests	14	(109)	(2,613)
Net income, group share		**286,076**	**242,983**
(in €)			
Earnings per share	**29**	**6.74**	**5.97**
Diluted earnings per share		**6.69**	**5.94**
Earnings per share from continuing activities		**6.74**	**5.34**
Diluted earnings per share from continuing activities		**6.69**	**5.31**
Earnings per share from activities abandoned		**-**	**0.63**
Diluted earnings per share from activities abandoned		**-**	**0.63**

Consolidated cash flow statement

	2005	2004
Consolidated net income	**286,076**	**242,983**
Net income from discontinued activities	-	(9,606)
Corporation tax	158,394	110,680
Financing expense	10,121	22,000
Operating income before tax	**454,591**	**366,057**
Adjustments for non-monetary and non-operating items		
Minority interests	109	2,410
Allocation to and writebacks of depreciation, amortisation and reserves (income)	41,022	(2,257)
Change in technical reserves	31,925	(43,609)
Change in deferred acquisition costs	(6,470)	(9,470)
Change in fair value of financial instruments recognised at fair value through the income statement (excluding cash and cash equivalents)	(7,575)	-
Realised capital gains/(losses) net of writebacks	(30,320)	(28,605)
Unrealised foreign exchange gain (loss) in company accounts	(1,505)	1,730
Revenues and expenses linked to stock options and similar	4,308	1,629
Interest revenues received	(84,977)	(107,971)
Interest revenues cashed	87,889	105,408
Adjustment for elements included in operating income that do not correspond to cash flows and reclassification of financing and investment flows	**34,406**	**(80,735)**
Operating activities:		
Income (loss) of companies accounted for by the equity method	(8,057)	(5,349)
Dividends received from companies accounted for by the equity method	4,095	4,324
Change in liabilities and receivables relating to insurance and reinsurance transactions	(15,688)	65,440
Change in operating receivables and liabilities	(28,370)	(36,708)
Change in other assets and liabilities	(3,536)	(2,032)
Corporation tax	(98,627)	(115,378)
Cash flow from operating activities	**338,814**	**195,619**
Investing activities:		
Cash flows on movements in AFS securities	**(153,801)**	**(128,438)**
Acquisition	(729,424)	(565,356)
Disposal	575,623	436,918
Cash flows on movements in HTM securities (acquisition cost)	**80**	**(6,352)**
Acquisition	(2,213)	(8,350)
Disposal	2,293	1,998
Cash flow on movements in property	**(814)**	**(1,505)**
Acquisition	(3,554)	(6,270)
Disposal	2,740	4,765
Cash flows on movements in other investments	**(127,998)**	**(11,732)**
Acquisition	(191,570)	(26,904)
Disposal	63,572	15,172
Change in securities held for trading	**(2,579)**	**-**
Acquisition	(3,916)	-
Disposal	1,337	-
Cash flow linked to changes in the consolidation scope	**5,022**	**129,231**
Acquisitions of subsidiaries and joint ventures, net of acquired cash	(15,915)	456
Disposals of subsidiaries and joint ventures, net of ceded cash	20,461	141,224
Investments in companies accounted for by the equity method	-	(12,449)
Merger	476	-
Other	3	-
Cash flow from investing activities	**(280,087)**	**(18,796)**

Consolidated cash flow statement

Financing activities	2005	2004
Increases and decreases in capital	1,265	-
Increases in capital	1,265	-
Change in treasury stock	11,027	-
Dividends paid outside the group	(13,487)	(11,854)
Cash flow linked to transactions with the shareholders	**(1,195)**	**(11,854)**
Changes in loans and subordinated securities	(18,079)	(198,052)
Issue	135,717	-
Repayment	(153,796)	(198,052)
Interest paid	(18,590)	(24,271)
Cash flow from group financing	**(36,669)**	**(222,323)**
Cash flow from financing activities	**(37,864)**	**(234,177)**
Impact of foreign exchange differences on cash and cash equivalents	7,664	1,203
Other net changes in cash	**7,664**	**1,203**
Change in cash flows	**28,527**	**(56,151)**
Reconciliation of change in cash and cash flows	**0**	**0**
Change in cash from cash	**28,527**	**(56,151)**
Cash and cash equivalents at start of period	**251,188**	**307,339**
Cash and cash equivalents at end of period	**279,715**	**251,188**

The cash flow statement presents the cash flows generated by operating activities, investing activities and financing activities. The Euler Hermes group has used the indirect method to present cash flows relating to operating activities, under which the net income is adjusted for transactions that have no cash flow impact, any lag or adjustment of operating cash inflows or outflows, past or future, relating to operations, and income and expense items relating to cash flows concerning investments or financing.

As the factoring companies were sold at the end 2004, the sale proceeds, adjusted for the amount of opening cash for these companies, was reported in investing activities in the heading "cash flows relating to changes in the consolidation scope". As a result, cash flows relating to Eurofactor impact only this item and represent the bulk of the amount recognised in 2004 in the line "disposals of subsidiaries and joint ventures net of cash ceded".

Changes in shareholders' equity

(€'000)

	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Other: Translation differences	Other: Treasury shares	Other: Total Other	Shareholders equity, group share	Minority interests	Total share holders' equity
Shareholders' equity at 1 January 2004										
French GAAP	**13,297**	**292,288**	**836,144**	**-**	**(232)**	**(92,290)**	**(92,522)**	**1,049,207**	**24,283**	**1,073,490**
Impact of adoption of IFRS			**19,130**	**61,170**	**232**		**232**	**80,532**	**1,731**	**82,263**
Impact of new rule for impairment of AFS			(17,599)	17,599						
Shareholders' equity at 1 January 2004										
IFRS	**13,297**	**292,288**	**837,675**	**78,769**	**-**	**(92,290)**	**(92,290)**	**1,129,739**	**26,014**	**1,155,753**
Available-for-sale assets (AFS)							-	-		-
Measurement gain/(loss) taken to shareholders' equity				29,504			-	29,504	442	29,946
Cash flow hedges							-	-		-
Gain/(loss) taken to shareholders' equity				(853)			-	(853)	-	(853)
Impact of translation differences					(10,880)		(10,880)	(10,880)	67	(10,813)
Net income recognised in shareholders' equity	**-**	**-**	**-**	**28,651**	**(10,880)**	**-**	**(10,880)**	**17,771**	**509**	**18,280**
Net income for the year			239,224				-	239,224	2,613	241,837
Impact of new rule for impairment of AFS			3,759	(3,759)				-		
Total revenues and losses recognised for the year	**-**	**-**	**242,983**	**24,892**	**(10,880)**	**-**	**(10,880)**	**256,995**	**3,122**	**260,117**
Capital movements	497	61,624					-	62,121		62,121
Dividend distributions			(72,437)				-	(72,437)	(548)	(72,985)
Shareholders' equity component of share-based payment plans			1,306				-	1,306		1,306
Other movements			68	41			-	109	(3,705)	(3,596)
Shareholders' equity at 31 December 2004										
IFRS	**13,794**	**353,912**	**1,009,595**	**103,702**	**(10,880)**	**(92,290)**	**(103,170)**	**1,377,833**	**24,883**	**1,402,716**
Available-for-sale assets (AFS)							-	-		-
Measurement gain/(loss) taken to shareholders' equity				38,000			-	38,000	(692)	37,308
Impact of transferring realised gains and losses to income statement							-	-		-
Cash flow hedges							-	-		-
Gain/(loss) taken to shareholders' equity				760			-	760		760
Impact of translation differences					34,901		34,901	34,901	30	34,931
Net income recognised in shareholders' equity	**-**	**-**	**-**	**38,760**	**34,901**	**-**	**34,901**	**73,661**	**(662)**	**72,999**
Net income for the period			286,076				-	286,076	109	286,185
Total revenues and losses recognised for the period	**-**	**-**	**286,076**	**38,760**	**34,901**	**-**	**34,901**	**359,737**	**(553)**	**359,184**
Capital movements	552	91,073				9,318	9,318	100,943		100,943
Dividend distributions			(103,621)				-	(103,621)	(233)	(103,854)
Shareholders' equity component of share-based payment plans			1,747				-	1,747		1,747
Other movements			414				-	414	(16,228)	(15,814)
Shareholders' equity at 31 December 2005										
IFRS	**14,346**	**444,985**	**1,194,210**	**142,463**	**24,021**	**(82,972)**	**(58,951)**	**1,737,053**	**7,869**	**1,744,922**

Changes in shareholders' equity

At 31 December 2005, the capital stock of Euler Hermes consisted of 44,830,244 fully paid-up shares, including 1,538,233 treasury shares.

In accordance with IAS 39, available-for-sale (AFS) investments were revalued at market value with the resulting gain or loss being taken directly to the revaluation reserve with no impact on the income statement. The variance in revaluation reserves during the year equaled to €38,760 thousands including €760 thousands relating to the revaluation of a hedging swap taken out by Euler Hermes SA.

2005 yearly variances in translation differences concerned mainly the US dollar for almost €25 million, the pound sterling for more than €6.5 million and the Brazilian real for more than €2.5 million.

Following the combined ordinary and extraordinary shareholders' general meeting held on 22 April 2005, which set the price for reinvestment of the Euler Hermes dividend in shares at €54.40 per share, 1,661,023 new shares were created. In addition, 63,548 new shares were created as a result of the exercise of stock options during 2005.
Following these transactions, the share capital and additional paid-in capital of Euler Hermes SA increased by €552 thousands and €91,073 thousands respectively.

The variance of €1,747 thousands corresponds to the personnel expenses limited to the outstanding stock option plans in accordance with the application of IFRS 2.

The variance in minority interests was due mainly to the purchase of the minority interests in Euler Hermes Credit Insurance Belgium from L'Office National Ducroire. A breakdown of this movement is provided in note 14.

The non-distributable reserves include notably provisions for equalisation recognised in the statutory financial statements.

Subsequent to the publication of its consolidated financial statements for the six months ended 30 June 2005, the group has reviewed its methods for writing down securities classified as available-for-sale as indicated in Section 4 entitled "Transition to IFRS". The post-tax impact of this change of accounting method was an increase in unrealised reserves and a corresponding reduction in consolidated reserves of €17.6 million in the opening IFRS balance sheet. Compared with the 2004 income statement as published in the financial statements for the period ended 30 June 2005, the group share of the net profit increased by €3.8 million.

Notes to consolidated financial statements

1 - SIGNIFICANT EVENTS

The following significant events occurred in 2005:

Changes in the capital stock and share ownership

The Shareholders' General Meeting of 22 April 2005 approved the payment of 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 resulted in the creation of 1,661,023 new shares, with an increase in the capital stock of €532 thousands and additional paid-in capital of €89,828 thousands. On this occasion, AGF reinvested all the dividends due to it in shares. At 31 December 2005, AGF owned 30,744,048 shares out of a total of 44,830,244, i.e. 68.58% of the capital stock.

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

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

Changes in Euler Hermes' rating by Standard & Poor's

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 upgrade was the direct consequence of the significant improvement in profitability and strength displayed by the Euler Hermes group in the last 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 of Euler Hermes Belgium.

Walter Bau claim

The bankruptcy of Walter Bau (construction sector) constituted the largest claim incurred by the group 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 at 31 December 2005 is put at €5.4 million.

Creation of a captive reinsurance company

Euler Hermes SA created a captive reinsurance entity in Switzerland, Euler Hermes Reinsurance AG, involving an investment of €66.6 million in late 2005.

2 - IFRS ACCOUNTING AND VALUATION RULES

The financial statements of the Euler Hermes group at 31 December 2005 were approved by the Group Management Board meeting of 3 March 2006.

2.1 - General principles

In accordance with European regulation no. 1606/2002 of 19 July 2002, the consolidated financial statements published for 2005 were prepared in accordance with the IFRS as adopted by the European Union. International accounting standards comprise IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), together with their interpretative texts. The 2005 financial statements include an opening balance sheet prepared in accordance with the rules fixed by IFRS 1 "First-time adoption of IFRS" and comparative financial statements for 2004.

The standards and interpretations applied stem essentially from:
- IAS/IFRS and their interpretative texts whose application is mandatory at 31 December 2005 and which have been adopted by the European Union;
- options adopted and exemptions used in the preparation of the first set of IFRS consolidated financial statements in 2005;
- The application of IAS 32/39 standards and IFRS 4 from the 1st of January 2004 (decision of the group);
- guidance provided in CNC recommendation no. 2005-R01 relating to the format of financial statements prepared by insurance firms under international accounting guidelines;
- guidance provided in the summary of the work undertaken by CNC working parties on specific facets of the implementation of IFRS by insurance firms.

The group decided not to apply any IFRS or interpretative texts that had already been published and adopted by the European Union but had not yet come into force. The impact of the future application of standards, interpretations and amendments to standards already published, but not yet in force, is currently being analysed by the group.

For its consolidated financial statements for the year ended 31 December 2005, the Euler Hermes group elected not to apply the SORIE amendment of IAS 19 and IFRS 7.

Notes to consolidated financial statements

An analysis of the impact of the transition to the new accounting standards is provided in section 4.

The financial statements are presented in euros, rounded to the nearest thousand. They have been prepared on a cost basis except for asset and liability items relating to insurance contracts, which are measured in accordance with the methods already applied by the group (see note 2.3.19.2) and for financial instruments measured at fair value (financial instruments at fair value through the income statement and available-for sale financial instruments). Non-current assets and groups of assets intended to be sold and held with a view to being sold are measured at the lower of carrying value and fair value less selling costs. The balance sheet is presented in increasing order of liquidity.

The preparation of annual financial statements that comply with IFRS requires management to apply judgements, estimates and assumptions that impact the application of accounting policies and the amount of the assets, liabilities, income and expenses. The estimates and assumptions are based on past experience and on other factors deemed to be relevant in view of the circumstances.

They form the basis on which judgements regarding the carrying value of assets and liabilities are based, when this cannot be directly deduced from other sources. The actual results may differ from these estimates. The estimates and assumptions are reviewed regularly. The impact of any changes to accounting estimates are recognised in the financial year in which the change is made when this change concerns only the current financial year, or to the financial year to which the change applies and subsequent financial years when the change concerns both the current year and later years.

Judgements made by management in applying IFRS that have a material impact on the financial statements and key assumptions and other major sources of uncertainty relating to estimates on the balance sheet date, that present a significant risk of requiring a material adjustment to be made to the assets and liabilities during the period essentially concern impairment of goodwill, technical reserves and retirement commitments. These items are specifically covered in section 2.3.6.3 for goodwill impairment, section 2.3.19.2 for technical reserves, and 2.3.17 for employee benefits.

2.2 - Consolidation scope

2.2.1 Changes in the consolidation scope

The following changes in the consolidation scope occurred in 2005:

Companies joining the group:
Euler Hermes SA created a captive reinsurance company in Switzerland, Euler Hermes Reinsurance AG. The share capital of this company is €54.8 million.

Companies leaving the group:
Mundialis was deconsolidated on 1st April 2005 following the joint decision taken by Euler Hermes and L'Office National Ducroîre that this company should cease trading. Mundialis was previously consolidated using the proportional method. The share of shareholders' equity at the time of the deconsolidation was recognised as an asset in the balance sheet at €2,081,000.

Following the decision of Euler Hermes Financial Commitee taken on 29 November 2005, the German fund Allianz HKV-Funds was liquidated on 31 December 2005. This had no impact on the consolidated financial statements.

Other changes:
Following the buyout of minority interests in Euler Hermes Credit Insurance Belgium from L'Office National Ducroire, the percentage interests held by the Euler Hermes group in this company and its subsidiaries changed as follows:

- Euler Hermes Credit Insurance Belgium: from 70% to 100%;
- Euler Hermes Services Belgium SA: from 70% to 100%;
- Hermes Kredit Service SRO: from 95.77% to 100%;
- Euler Hermes Cescob Pojist'ovna. AS: from 95.77% to 100%;
- Euro Gestion: from 94.04% to 99.99%;
- Euler Hermes Kreditverzekering NV: from 76.40% to 99.80%;
- Euler Hermes Services BV: from 73.13% to 99.90%;
- NV Interpolis Kreditverzekeringen: from 34.38% to 44.91%.

Negative goodwill of €1.5 million was generated on this transaction and recognised in the income statement as required under IAS/IFRS.

2.2.2 List of consolidated companies

French companies	Consolidation method	31-Dec-05 % control	31-Dec-05 % interest	31-Dec-04 % control	31-Dec-04 % interest
Euler Hermes SA[(1)] 1, rue Euler - 75008 Paris Siren no.: 552 040 594	68.58% held by AGF	Parent company	Parent company	Parent company	Parent company
Bilan Services 25, boulevard des Bouvets - 92000 Nanterre Siren no.: 333 192 631	Full	66.00	50.00	66.00	50.00
Codinf Services 29, rue de Délizy - 93500 Pantin Siren no.: 341 693 778	Full	81.13	81.13	81.13	81.13
Euler Hermes Asset Management 1, rue Euler - 75008 Paris Siren no.: 422 728 956	Full	100.00	100.00	100.00	100.00
Euler Hermes Services 1, rue Euler - 75008 Paris Siren no.: 414 960 377	Full	100.00	100.00	100.00	100.00
Euler Hermes SFAC 1-3-5 rue Euler - 75008 Paris Siren no.: 348 920 596	Full	100.00	100.00	100.00	100.00
Euler Hermes SFAC Crédit 1, rue Euler - 75008 Paris Siren no.: 388 236 853	Full	100.00	100.00	100.00	100.00
Euler Hermes SFAC Recouvrement 1, rue Euler - 75008 Paris Siren no.: 388 238 026	Full	100.00	100.00	100.00	100.00
Euler Tech 1, rue Euler - 75008 Paris Siren no.: 388 237 091	Full	100.00	100.00	100.00	100.00
Euro Gestion EURO VL - Immeuble Colline Sud 10, passage de l'Arche - 92034 Paris-La Défense FR0007047568	Full	100.00	99.99	100.00	94.04
Euler Gestion CIC Asset Management 4, rue Gaillon - 75002 Paris FR0007434980	Full	100.00	100.00	100.00	100.00

(1) Proportion held is based on a total of 44,830,244 shares (before restatement of treasury shares).

Foreign companies	Country	Consol. method	31-Dec-05 % control	31-Dec-05 % interest	31-Dec-04 % control	31-Dec-04 % interest
Bürgel Wirtschaftsinformationen (4) **GmbH & Co. KG** Gasstraße 18 - Hamburg	Germany	Equity	50.10	50.10	50.10	50.10
Euler Hermes Beteiligungen GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Gesellschaft Für Finanzdienstleistungen GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Forderungsmanagement GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Germany GmbH (2) Königinstrasse 28 - 80802 Munich	Germany	Merger absorption			100.00	100.00
Euler Hermes Gesellschaft Für Informations Dienstleistungen mbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Rating GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Kreditversicherungs AG Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Risk Management GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Euler Hermes Versicherungsbeteiligungen GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Hermes E-Business GmbH Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Hermes Risk Management Hamb. Friedensallee 254 - Hamburg	Germany	Full	100.00	100.00	100.00	100.00
Allianz HKV-Funds (3) DE0006231848 - Frankfurt	Germany	Liquidation			100.00	100.00
Dresdner Bank Investment-HK1-827-Funds DE0009758276 60329 - Frankfurt	Germany	Full	100.00	100.00	100.00	100.00
Hermes Allianz Investment-1-Funds DE0009787150 - dit - Deutscher Investment Trust	Germany	Full	100.00	100.00	100.00	100.00
Hermes Allianz Investment-2-Funds DE0006231798 - Mainzer Landstrasse 11-13	Germany	Full	100.00	100.00	100.00	100.00
Prisma Kreditversicherungs AG Heiligenstadter Strasse 201 - Vienna	Austria	Equity	49.00	49.00	49.00	49.00
Euler Hermes Credit Insurance Belgium SA (NV) 15, rue Montoyer - 1000 Brussels Brussels RC: 31 955	Belgium	Full	100.00	100.00	70.00	70.00
Euler Hermes Services Belgium SA (NV) 15, rue Montoyer - 1000 Brussels Brussels RC: 45 8033	Belgium	Full	100.00	99.99	100.00	69.99
Graydon Belgium (NV) Uibreidingstraat 84 Bus 1 - 2500 Berchem	Belgium	Equity	27.50	27.50	27.50	27.50
Mundialis SA (NV) 39, rue du Commerce - 1000 Brussels	Belgium	Deconsolidation without disposal	50.00	35.00	50.00	35.00
Euler Hermes Seguros de Crédito SA Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100.00	100.00	100.00	100.00

(2) Merger through absorption by Euler Hermes Kreditversicherungs AG.
(3) Earnings in 2005 fully consolidated up to the liquidation data.
(4) These companies will be fully consolidated as from 2006 (see § 2.3.1).

Notes to consolidated financial statements

Foreign companies	Country	Consol. method	31-Dec-05 % control	31-Dec-05 % interest	31-Dec-04 % control	31-Dec-04 % interest
Euler Hermes Serviços Ltda Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100.00	100.00	100.00	100.00
Euler Hermes Do Brasil Exportaçao Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100.00	100.00	100.00	100.00
Euler Hermes Crédito Compaña de Seguros y Reaseguros SA Paseo de la Castellana, 77 - 28046 Madrid	Spain	Full	100.00	100.00	100.00	100.00
Euler Hermes Servicios SL Paseo de la Castellana, 77 - 28046 Madrid	Spain	Full	100.00	100.00	100.00	100.00
Euler Hermes ACI Inc 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100.00	100.00	100.00	100.00
Euler Hermes ACI Collections Services Inc 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100.00	100.00	100.00	100.00
Euler Hermes ACI Holding Inc 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100.00	100.00	100.00	100.00
Euler Hermes ACI Services, LLC 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100.00	100.00	100.00	100.00
Euler Hermes UK plc 01, Canada Square - London E14 5DX	United Kingdom	Full	100.00	100.00	100.00	100.00
Euler Hermes Collections UK Ltd 01, Canada Square - London E14 5DX	United Kingdom	Full	100.00	100.00	100.00	100.00
Euler Hermes Guarantee plc Surety House, Lyons Crescent - Tonbridge Kent TN9 1EN	United Kingdom	Full	94.86	94.86	94.86	94.86
Euler Hermes Holdings UK plc 01, Canada Square - London E14 5DX	United Kingdom	Full	100.00	100.00	100.00	100.00
Euler Hermes Risk Services UK Ltd 01, Canada Square - London E14 5DX	United Kingdom	Full	100.00	100.00	100.00	100.00
Euler Hermes International Ltd 01, Canada Square - London E14 5DX	United Kingdom	Full	100.00	100.00	100.00	100.00
Graydon UK Limited Hyde House, Edgware road - Colindale - London NW9 6LW	United Kingdom	Equity	27.50	27.50	27.50	27.50
Euler Hermes Emporiki SA 109-111, Messogion Ave Politia Business Center - 115 26 Athens	Greece	Full	50.00	50.00	50.00	50.00
Euler Hermes Emporiki Services Limited 109-111, Messogion Ave Politia Business Center - 115 26 Athens	Greece	Full	50.00	50.00		
Euler Hermes Credit Underwriters Hong Kong Ltd (4) 09/F 1 Int. Finance Centre 01, Harbour View street - Hong Kong	Hong Kong	Equity	100.00	100.00	100.00	100.00
Euler Hermes Services (HK) Ltd 09/F Int. Finance Centre 01, Harbour View street - Hong Kong	Hong Kong	Full	100.00	100.00	100.00	100.00
EH Magyar Követeléskezelö Kft Kiscelli u.104 - 1037 Budapest	Hungary	Full	74.90	74.90	74.90	74.90
Euler Hermes Magyar Hitelbiztosító Rt Kiscelli u.104 - 1037 Budapest	Hungary	Full	74.89	74.89	74.89	74.89

(4) These companies will be fully consolidated as from 2006 (see § 2.3.1).

Notes to consolidated financial statements

Foreign companies	Country	Consol. method	31-Dec-05 % control	31-Dec-05 % interest	31-Dec-04 % control	31-Dec-04 % interest
Euler Hermes SIAC Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100.00	100.00	100.00	100.00
Euler Hermes Siac Services SRL Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100.00	100.00	100.00	100.00
Dimensione SRL Piazza Stia, 8 - 00138 Rome	Italy	Full	100.0	100.0	100.0	100.0
Logica SRL Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100.0	100.0	100.0	100.0
Euler Hermes Credit Services (Japan) Ltd 08-07, Kyobashi 1-chome, Chuo-Ku - Tokyo	Japan	Full	100.00	100.00	100.00	100.00
Lietuvos Draudimo Kreditu Draudimas Jasinskio 16, Vilnius - République de Lithuania	Lithuania	Equity	51.00	51.00	51.00	51.00
Euler Hermes Re 6 B, Route de Trèves - 02633 Senningerberg	Luxembourg	Full	100.00	100.00	100.00	100.00
Euler Hermes Acmar 243, boulevard Mohammed-V - 20000 Casablanca	Morocco	Full	55.00	55.00	55.00	55,00
Euler Hermes Acmar Services 243, boulevard Mohammed-V - 20000 Casablanca	Morocco	Full	55.00	55.00		
Euler Hermes Seguro de Crédito SA Blvd Manuel Avila Camacho #164, 8° piso Col. Lomas de Barrilaco - Mexico, DF CP 11010	Mexico	Full	100.00	100.00	100.00	100.00
Euler Hermes Servicios SA Blvd Manuel Avila Camacho #164, 8° piso Col. Lomas de Barrilaco - Mexico, DF CP 11010	Mexico	Full	100.00	100.00	100.00	100.00
Euler Hermes Interborg NV Hoogoorddreef 5 - Postbus/PO 1100 AL Amsterdam	The Netherlands	Full	95.00	95.00	95.00	91.92
Euler Hermes Kredietverzekering NV Pettelaarpark 20 - Postbus 70571 NL-5201 CZ's-Hertogenbosch	The Netherlands	Full	99.80	99.80	100.00	76.40
Euler Hermes Services BV Pettelaarpark 20 - Postbus 70571 NL-5201 CZ's-Hertogenbosch	The Netherlands	Full	100.00	99.90	100.00	73.13
Graydon Creditfink BV Hullenbergweg 260 - 1101 BV Amsterdam	The Netherlands	Full	27.50	27.50	27.50	27.50
Graydon Holding NV Hullenbergweg 260 - 1101 BV Amsterdam	The Netherlands	Equity	27.50	27.50	27.50	27.50
Graydon Nederland BV Hullenbergweg 260 - 1101 BV Amsterdam	The Netherlands	Equity	27.50	27.50	27.50	27.50
Kisys Krediet Informatie Systemen BV Hullenbergweg 270 - 1101 BV Amsterdam	The Netherlands	Equity	27.50	27.50	27.50	27.50
MarkSelect BV Diemerhof 26 - Postbus 22969 - 1100 DL Amsterdam	The Netherlands	Equity	27.50	27.50	27.50	27.50
N.V. Interpolis Kredietverzekeringen Pettelaarpark 20 - 5216 PD's Hertogenbosch	The Netherlands	Equity	45.00	44.91	45.00	34.38
Euler Hermes Zarzadzanie Ryzykiem Sp. Z.o.o. Pettelaarpark 20 - 5216 PD's Hertogenbosch	The Netherlands	Proportional	100.00	100.00	100.00	100.00
Euler Hermes Zarzadzanie Ryzykiem Sp. Z.o.o. ul. Chocimska, 17 - 00 791 Warsaw	Poland	Full	100.00	100.00	100.00	100.00
Towarzystwo Ubezpieczen Euler Hermes SA ul. Chocimska, 17 - 00 791 Warsaw	Poland	Full	100.00	100.00	100.00	100.00

Notes to consolidated financial statements

Foreign companies	Country	Consol. method	31-Dec-05 % control	31-Dec-05 % interest	31-Dec-04 % control	31-Dec-04 % interest
Companhia de Seguro de Creditos SA (COSEC) Avenida de Republica, n° 58 1069-057 Lisbon	Portugal	Equity	41.43	41.43	41.43	41.43
Euler Hermes Cescob, uverova pojist'ovna, a.s. Molakova 576/11, 186 00 Pragues 8	Czech Republic	Full	100.00	100.00	100.00	95.77
Euler Hermes Cescob Service, s.r.o. Zahrebska 23-25 - 120 00 Pragues 2	Czech Republic	Full	100.00	100.00	100.00	95.77
Euler Hermes Credit Insurance Nordic AB Klara Norra Kyrkogata 29 - SE 101 34 Stockholm	Sweden	Full	100.00	100.00	100.00	100.00
Euler Hermes Kreditversicherungs Service - AG General Wille strasse 10 - 8002 Zurich	Switzerland	Full	99.50	99.50	100.00	99.50
Euler Hermes Reinsurance AG Tödistrasse 65 - 8002 Zurich	Switzerland	Full	100.00	100.00		

NB: percentages of control and interest are those determined the last day of the period.

2.3 Consolidation principles and methods

2.3.1 Consolidation policies

Euler Hermes consolidates entities within its scope using the consolidation method that must be applied according to the type of control that it exercises over the entity. The group uses the acquisition method for recognising purchases of subsidiaries. The acquisition cost is measured as the fair value of the asset received, of shareholders' equity instruments issued and of liabilities incurred or committed to as at the transaction date plus any costs that are directly attributable to the acquisition. Any excess of the acquisition cost over the fair value of the group's share of the identified net assets acquired is recorded as goodwill. For companies accounted for by the equity method, this goodwill is not recognised separately, but instead is included in the amount of investments accounted for by the equity method. If the acquisition cost is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries

Subsidiaries are entities that are controlled by Euler Hermes. Control is the power, direct or indirect, to direct the financial and operational policies of an entity in order to obtain benefits from its activities. In assessing whether or not control exists, potential voting rights and conversion options that can be exercised during the period in question are taken into account. The financial statements of a subsidiary are incorporated into the group's consolidated financial statements from the date on which the parent company acquires control of the subsidiary until the date on which its ceases to exercise such control.

The group currently holds less than 20% of certain mutual funds, which are not consolidated. Holdings in other mutual funds represent more than 50% and are consolidated using the full consolidation method. This concerns the following mutual funds:
- Euler Gestion
- Euro Gestion
- Allianz HKV – Fonds (liquidated on 31 December 2005)
- Dresdner Bank Investment –HK1
- Hermes Allianz Investment-1-Funds
- Hermes Allianz Investment-2-Funds

The Euler Hermes group owns 100% of these mutual funds.

Companies accounted for by the equity method

Companies accounted for by the equity method are entities, including those without a legal status such as certain partnerships, over whose financial and operational policies the group exercises significant influence without having control. The consolidated financial statements incorporate the group's share of the results of such companies using the equity method, from the date on which the parent company acquires significant influence until the date on which it ceases to have such influence. When the group's share of the losses of an associate is equal to or more than its interest in the associate, the carrying value of the interest is reduced to zero and the group ceases to recognise its share of any future losses, except when the group has a legal or implied obligation or has made payments in the name of the associate. The amount of the group's investments accounted for by the equity method includes any goodwill (net of accumulated impairment) identified at the time of the acquisition.

Holdings in such companies are accounted for using the equity method. These companies are:
- Prisma Kreditversicherungs AG;
- Graydon Holding NV;
- Companhia de Seguro de Creditos SA (COSEC)

Euler Hermes Credit Underwriters Hong Kong Ltd, Lietuvos Draudimo Kreditu Draudimas and Bürgel Wirtschaftsinformationen GmbH & Co. KG are currently accounted for using the equity method even though they are exclusively controlled, since the accounting information necessary for their consolidation is not available within the time required for publishing the group's results. Euler Hermes has launched an accounting project aimed at enabling these entities to be consolidated using the full consolidation method as from 2006. The non-consolidation of these companies has no impact on the income statement and consolidated shareholders' equity. The impact in relation to the total consolidated balance sheet is less than 1%. In addition, these companies have no group borrowings.

Entities under joint control (joint ventures)

Entities under joint control are those over whose economic activity the group exercises joint control by virtue of a contractual agreement. The financial statements of a joint venture are incorporated into the consolidated financial statements using the proportional consolidation method, by means of which the group's share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined, line by line, with the corresponding items in the group financial statements, from the date on which the parent company acquires joint control until it ceases to have such control.

NV Interpolis Kredietverzekeringen is controlled jointly by Euler Hermes Kredietverzekering NV, which owns 3,742 shares out of a total of 8,315 shares, and Interpolis Verzekeringen NV, which owns 4,573 shares out of a total of 8,315 shares. Each share represents one voting right. An executive director is appointed by each party and all decisions are subject to agreement.

Notes to consolidated financial statements

Mundialis, which was jointly controlled with L'Office National Ducroire, was deconsolidated as from 1st April 2005.

There are no other jointly controlled companies.

2.3.2 Eliminations on consolidation

Income and expenses arising on intra-group transactions are eliminated during the preparation of the consolidated financial statements. Income and expenses arising on transactions with companies accounted for by the equity method or joint ventures are eliminated to the extent of the group's share in the company concerned.

2.3.3 Financial period and year-end dates

The financial year for all consolidated companies is a 12-month period ending on 31 December.

2.3.4 Translation of foreign currencies

2.3.4.1 Translation of transactions denominated in foreign currency

According to IAS 21, transactions denominated in foreign currencies (currencies other than the operating currency) are translated into the currency used by the group for operating and presentation purposes at the exchange rate prevailing on the transaction date; for practical reasons, an average rate is used, i.e. the average of the month-end exchange rates. The entity's operating and reporting currency is the euro.

At each closing, the entity must translate balance sheet items denominated in a foreign currency into its operating currency by means of the following procedures:
- monetary items (notably bond investments, receivables and liabilities, and technical insurance reserves) are translated at the closing exchange rate and any resulting gains and losses are recognised in the result for the period,
- non-monetary items that are measured at historical cost (notably property investments) are translated at the exchange rate prevailing on the transaction date, and,
- non-monetary items that are measured at fair value (notably equity investments) are translated at the exchange rate prevailing on the fair-value valuation date.

2.3.4.2 Translation of financial statements prepared in a currency other than the euro

The financial statements of non euro zone subsidiaries are prepared in their operating currency. At each closing, the income statement and the balance sheet of each entity are translated into euros to facilitate the presentation of the consolidated financial statements, using the following procedure:
- the assets and liabilities of each balance sheet presented (including comparatives) are translated at the respective closing rate of each of these balance sheets;
- the income and expense of each income statement (including comparatives) are translated at the exchange rate prevailing on the dates of each transaction (in practice, an average exchange rate for the period is used, except in the case of significant fluctuations in the exchange rate).

The group's share of any translation differences arising on shareholders' equity with effect from 1st January 2004 is recorded within shareholders' equity under "Translation differences", while the portion relating to third parties is recorded under "Minority interests".

The exchange rates applied on consolidation for currencies outside the euro zone were as follows:

Exchange rate (to euros):

	31 December 2005		31 December 2004	
	closing	average	closing	average
Pound sterling	0.6853	0.683042	0.70505	0.67932
US dollar	1.1797	1.237983	1.3621	1.2461
Swedish krona	9.3885	9.299733	9.0206	9.1237
Brazilian real	2.7416	2.986192	3.6137	3.6281
Hong Kong dollar	9.1474	9.627233	10.5881	9.706317

2.3.5 Sectoral data

A sector of activity is a distinct component of a business that is engaged in the supply of products or services exposed to risks and profitability that differ from those of other sectors of activity. A geographic sector is a distinct component of a business engaged in the supply of products or services in a given economic environment that are exposed to risks and profitability that differ from those of other geographic sectors.

Sectoral assets are operating assets that are used by a sector for its operating activities and which are directly attributable to that sector or can reasonably be assigned to it. Sectoral liabilities are operating liabilities arising from the operating activities of a sector and which are directly attributable to that sector or can reasonably be assigned to it. Sectoral profit or loss comprises income and expense arising from the operating activities of a sector that are directly attributable to that sector and the relevant portion of income and expense that can reasonably be assigned to the sector, notably income and expense relating to sales to external customers and income and expense relating to transactions with other sectors of the same business.

The primary sector for the Euler Hermes group is the geographic sector as it corresponds to the information presented to the group's management bodies. The six main geographic sectors correspond to the geographic regions covering the majority of the activity and which are therefore monitored in detail. These sectors are Germany, France, Italy, the United Kingdom, the United States and the Benelux countries.

The secondary sector is the business line, which comprises credit insurance and the other sectors under which are grouped less significant businesses: Bonding (financial guarantees), Fidelity (insurance against malicious actions taken by employees), Retail (personal loan reinsurance) and services fees linked to Public export guarantees managed on behalf of the German State.

2.3.6 Goodwill and other intangible assets

2.3.6.1 Goodwill

All business combinations made with effect from 31 March 1998 are recognised by applying the acquisition method. Goodwill represents an amount arising on the acquisition of subsidiaries, equity-accounted companies or joint ventures. It corresponds to the excess of the cost of the business combination over the share of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. The values of the identifiable assets and liabilities acquired may be adjusted within a period of 12 months commencing on the acquisition date.

For business combinations made prior to 31 March 1998, goodwill is recognised on the basis of the presumed cost, which corresponds to the carrying value calculated by reference to the accounting rules used prior to the date of transition to IFRS.

Goodwill is recognised at acquisition cost less any accumulated impairment write-downs.

With effect from 1st January 2004, and in accordance with IFRS 3, goodwill is not amortised but instead is subject to impairment testing, either annually or more frequently if events or changes in circumstances suggest that impairment may have occurred (see § 2.3.6.3).

If the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination (i.e. negative goodwill), a further review is undertaken of the identification and measurement of the identifiable assets, liabilities and contingent liabilities and of the assessment of the cost of the combination. Any excess identified after this review is recognised immediately in the income statement.

For the purposes of impairment testing, goodwill is allocated to Cash Generating Units or to groups of Cash Generating Units (see § 2.3.6.3 for the impairment test procedures).
At each closing, the carrying value of the Cash Generating Unit (or groups of Cash Generating Units) to which the goodwill relates is compared with its recoverable value, which represents the higher of the fair value of the Cash Generating Unit less any selling costs and its value in use. The value in use is defined as the present value of future cash flows as identified in the business plans of the subsidiary concerned.
Goodwill arising from the acquisition of a holding in equity-accounted companies is not presented separately, but is included within the amount of the investments in companies accounted for by the equity method.

2.3.6.2 Other intangible assets

An intangible asset is a non-monetary asset that has no physical substance and which is identifiable, i.e. it meets one of the following two conditions: it is separable (i.e. it can be sold, transferred, conceded, rented out or exchanged), or it arises from contractual or legal rights, regardless of whether or not these rights are separable.
Other intangible assets acquired by the group are recognised at cost less any accumulated amortisation and write-downs. Subsequent expenditure relating to recognised intangible fixed assets is capitalised only to the extent that it contributes to increasing, and not simply maintaining, the future economic benefits represented by the intangible fixed asset to which it relates. All other expenditure is recognised as an expense in the income statement when incurred.

Intangible assets with a defined useful life are amortised on a straight-line basis over their estimated useful lives. The amortisation charge is recognised in the income statement.

The group records under this heading software that is developed in-house or acquired externally and contract portfolios. Software developed in-house or acquired externally is amortised over its estimated useful life.

Costs relating to the development phase are capitalised provided that the entity can demonstrate the technical feasibility of the project, its intention to complete and use the intangible fixed asset, its capacity to use it, how the intangible fixed asset will generate future economic benefits, the availability of resources to complete the development and its capacity to reliably measure the costs associated with the intangible fixed asset.

2.3.6.3 Impairment

Goodwill

In accordance with IFRS 3, goodwill is not amortised but is subject to an annual impairment test for each Cash Generating Unit (CGU) or group of CGUs to which the goodwill relates. The CGUs correspond to the main subsidiaries presented in the sectoral analyses. An impairment of goodwill is recognised when the higher of the Cash Generating Unit's value in use (present value of future cash flows) and the fair value less any selling costs, is less than its carrying value (share of net assets and goodwill). The main assumptions used to determine the value in use are as follows: indefinite renewal of policies, growth rate to infinity of

between 0% and 2% depending on the CGU concerned, and a discount rate of 8.15%.
The model is based on the projected 3-year budget prepared by management with a final year based on normalised management ratios (combined ratios and target retention rates) using a minimum rate of 85% for the combined ratio.

Furthermore, as part of the setting up of a captive reinsurance company, the scope of the Cash Generating Units has been extended to include reinsurance assignments made to this new company as well as the share of related shareholders' equity. Lastly, the valuation model has been fine-tuned to incorporate specific treatment of capital surpluses actually available for distribution.
The impairment recognised in the income statement is allocated in priority to goodwill, if goodwill has been allocated to the Cash Generating Unit, while the balance is allocated on a pro rata basis to other assets comprising this Cash Generating Unit. Such impairment is never written back.

Other intangible assets
All other intangible assets are subject to an impairment test if there is any evidence of impairment.
Any impairment recognised for an asset other than goodwill is written back if the estimate of the recoverable value has increased since the recognition of the last impairment. However, the write back cannot be such that the carrying value of the asset exceeds the carrying value that would have been determined, net of amortisation, if no impairment had been recognised.

2.3.7 Property assets

2.3.7.1 Distinction between investment property and operating property

An investment property is a property asset (land or building) owned by the group for the purpose of generating rental income or capital appreciation, as opposed to being for use in the production or supply of goods or services or for sale in the ordinary course of business. Investment property is recognised in the balance sheet under "Investments – insurance businesses". The group's operating property is included within property and equipment.

2.3.7.2 Recognition and measurement

The Euler Hermes group recognises property (held for investment or operating purposes) in accordance with the cost method. This means that each property asset must be recorded at an amount equal to the cost on the acquisition date (purchase price, including non-recoverable taxes and other expenses directly attributable to the acquisition such as transfer taxes and legal fees) plus any subsequent expenditure that can be capitalised under IAS16 and less any accumulated depreciation calculated in accordance with IAS 16 and any impairment relating to the application of IAS 36.

The Euler Hermes group has identified four categories of property assets that apply to both investment property and operating property:

- Housing
- Warehouses and commercial premises
- Offices
- High-rise buildings

The depreciable balance sheet amount corresponds to the historical acquisition cost (including expenditure that can be capitalised) less any residual value, where applicable, and any impairment. When the historical acquisition cost determined in this manner exceeds the residual value, a depreciation charge is recognised. The residual value corresponds to the amount that the business would currently obtain by selling an asset that has already reached the age and condition of the asset at the end of its useful life, net of any costs relating to its disposal.

For each category of property assets, the group has identified six significant components, in addition to land, each of which has a different useful life and must therefore be subject to a depreciation schedule according to their respective useful lives. The table below shows, for each category of property assets, the general allocation rules for each component, and the depreciation period and the residual value, where applicable. Acquisition expenses of properties are allocated to the components and depreciated over the same period.

Properties are valued periodically by independent experts. The fair value of buildings is estimated based on market prices, adjusted, where applicable, to take into account the nature, location or other specific features of the building concerned. The fair value is presented in the notes to the balance sheet (see note 3). The useful lives and residual values are reviewed at each balance sheet date and are amended on a forward basis it they are deemed to have changed significantly.

Notes to consolidated financial statements

	Housing		Warehouses and commercial premises		Offices		High-rise buildings	
Component	Depr. period	RV	Depr. period	RV	Depr. period	RV	Depr. period	RV
Load-bearing structures and walls	100 years	70%	30 years	25%	100 years	70%	70 years	45%
Non-load-bearing windows and facades, roofs and terraces, internal constructions	40 years	-	30 years	-	40 years	-	40 years	-
A/C engineering, plumbing and networks, electrical engineering	25 years	-	20 years	-	25 years	-	25 years	-
Centralised technical management, fire safety, other safety	25 years	-	20 years	-	25 years	-	25 years	-
Lifts and other lifting gear	25 years	-	20 years	-	25 years	-	25 years	-
Major maintenance work	10 years	-	10 years	-	10 years	-	10 years	-

RV = residual value as a percentage of the component value.

2.3.7.3 Impairment

The value in use of property is calculated at each balance sheet date using the discounted future cash flows method. A provision for impairment of property is recognised where required to reduce the value of the property to the higher of the value in use and the expert valuation. This provision may be written back through the income statement in the event of an increase in value.

2.3.8 Other property and equipment

Other property and equipment are recognised at cost less accumulated depreciation and impairment write-downs. The depreciation methods and useful lives are mainly as follows:

- IT equipment	straight-line	3 years
- Furniture/fittings	straight-line	10 years
- Motor vehicles	straight-line	5 years

2.3.9 Financial instruments

2.3.9.1 Financial investments

In accordance with IFRS, financial investments are analysed between the following categories: financial instruments at fair value through the income statement, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification is determined on initial recognition of the instrument according to its nature and/or the group's ownership intention.

Euler Hermes investments are mainly classified in available for sale investments.

Available-for-sale assets (AFS)

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or which are not classified within the other three categories of financial instruments as defined below.

Initial recognition

Available-for-sale assets are recognised at fair value plus any transaction costs directly related to the acquisition (referred to hereafter as the purchase price). The difference between the purchase price and the redemption value of fixed-income securities is recognised in the income statement on an actuarial basis over the remaining term of the securities using the effective interest rate method.

Measurement

On the balance sheet date, available-for-sale assets are measured at their fair value. The difference between the fair value of the securities and their purchase price less the actuarial amortisation is recognised in "available-for-sale assets", with a corresponding entry in the revaluation reserve, with no impact on the income statement.

Impairment

When objective evidence exists of impairment of an available-for-sale asset, the accumulated loss recognised directly in shareholders' equity is removed from shareholders' equity and recognised in the income statement.

The criteria deemed to indicate impairment of available-for-sale shareholders' equity instruments are as follows:
- significant impairment is presumed when the fair value of an available-for-sale equity is more than 20% less than the average acquisition cost of the securities at the quarter end;
- lasting impairment is presumed when the fair value is less than the acquisition cost for more than 9 months.

In addition, any subsequent decrease in the fair value of a security already written down results in the recognition of an additional impairment charge through the income statement.

The amount of the accumulated loss removed from shareholders' equity and recognised in the income statement is equal to the difference between the acquisition cost (net of any capital repayment and any write-downs) and the current fair value, less any impairment of this financial asset previously recognised in the income statement.

Impairment recognised on a shareholders' equity instrument is never written back to the income statement prior to derecognition of the instrument.

For debt instruments, the impairment, which is equal to the difference between the fair value and the amortised cost, is recognised through the income statement.

Disposal

In the event of disposal, the amounts recognised in the revaluation reserve are recognised in the income statement.

Held-to-maturity assets (HTM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which the group has the clear intention and the capacity to hold until their maturity.

Initial recognition

On initial recognition, HTM assets are recognised at fair value plus transaction costs directly related to the acquisition.

Measurement

On the balance sheet date, held-to-maturity investments are measured at their amortised cost using the effective interest rate method. Premiums and discounts are included in the calculation of amortised cost and are recognised in the income statement on an actuarial basis over the term of the financial asset.

Assets held for trading purposes

A financial asset is classified as held for trading purposes if it is:
- acquired or held principally with a view to being sold or redeemed in the short term, or
- part of a portfolio of identified financial instruments that are managed as a whole and for which there is evidence of a recent pattern of short-term profit taking, or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Initial recognition

Assets held for trading purposes are recognised at fair value on the acquisition date.

Measurement

Assets held for trading purposes are measured at fair value. Any change in the fair value of securities held for trading purposes during the period is recognised in the income statement for the period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market, except for instruments classified at fair value through the income statement or as available for sale.

Recognition and measurement

Loans are recorded at fair value plus any directly attributable transaction costs. On the balance sheet date, they are measured at amortised cost using the effective interest rate method. Financial income for the period is recorded by applying the effective interest rate to the amortised cost of the transaction.

Impairment

When objective evidence of impairment exists (e.g. a deterioration in the financial situation of the issuers), the amount of the loss is equal to the difference between the carrying value of the asset and the value of estimated future cash flows, discounted at the original effective interest rate of the financial asset.

2.3.9.2 Derivatives

A derivative is a financial instrument, or another agreement falling within the scope of application of IAS 39, that has the following three features: (a) its value fluctuates as a function of changes in an interest rate, in the price of a financial instrument, in the price of a specific commodity, in an exchange rate, in a price or rate index, in a credit rating or a credit index, or in another variable (the "underlying"); (b) it requires no net initial investment or a net initial investment that is less than that which would be required for other types of contracts that can be expected to react similarly to changes in market conditions; and (c) it is settled in the future.

All derivatives are classified at fair value through the income statement except when it concerns a designated and effective hedging instrument. In the latter case, the instrument is always measured at fair value but the recognition of the gain or loss follows the procedures applicable to the hedging relationship to which it relates.

Within the Euler Hermes group, derivatives correspond mainly to interest rate swaps. Interest rate swaps are hedging agreements that concern underlyings of the same amount and same maturity.

Derivatives eligible for fair value hedge accounting (i.e. those used to hedge changes in the fair value of an asset or liability) are recognised as follows:
- the hedging instrument is recognised at fair value and any changes are recognised through the income statement;
- the book value of the hedged item is adjusted for any gain or loss on the hedged item attributable to the risk hedged, the change being recognised through the income statement;

Notes to consolidated financial statements

- the hedged item is remeasured at market value in respect of the component relating to the risk hedged.

Derivatives eligible for future cash flow hedge accounting are recognised at fair value, with the portion of the change in fair value of the hedging instrument that is considered to constitute an effective hedge being recognised through shareholders' equity. The ineffective portion of the hedge is recognised immediately through the income statement.

Derivatives that are not eligible for hedge accounting are recognised as free-standing derivatives in the category of assets held for trading purposes. The fair value of free-standing derivatives is therefore recognised on the balance sheet in assets or liabilities, with any changes in the fair value being recognised through the income statement.

2.3.10 Insurance and reinsurance receivables and liabilities

This heading essentially comprises receivables and liabilities arising on insurance and reinsurance transactions, earned premiums not yet written and premium cancellations, net of reinsurance.

2.3.11 Acquisition costs capitalised

Acquisition costs capitalised relate to insurance policies. They mainly comprise brokerage commissions and expenses incurred by the sales and marketing departments. The capitalised amount is calculated using the same method as for the provision for unearned premiums. As the period covered by contracts is one year at most, these acquisition costs are deferred to the following year. The movement in acquisition costs capitalised is included in acquisition expense reported in the income statement. Acquisition costs capitalised are, where applicable, written down as part of the implementation of tests on the adequacy of liabilities.

2.3.12 Current and deferred tax

The tax charge comprises current tax and deferred tax resulting from timing differences between the taxable base and the carrying value of assets and liabilities. Deferred tax is calculated using the balance sheet liability method based on the taxation conditions known at the year end. Deferred tax assets are recognised provided that it is likely that they will be collected. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of consolidated subsidiaries except when the parent company is in a position to control the date on which the timing difference will reverse and when it is probable that it will not reverse within the foreseeable future.

In practice, a deferred tax liability is recognised only on dividends whose distribution has been approved. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of companies accounted for by the equity method. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of consolidated entities that are in the process of being sold. A deferred tax liability is recognised on the adjustment to the capitalisation reserve, even when the low probability of selling at a loss securities of this reserve that are liable for tax makes it unlikely that the existing stock will be taxed.

2.3.13 Other receivables and other operating liabilities

Other receivables and other operating liabilities essentially comprise tax-related receivables and payables (other than corporation tax), amounts due to employees, amounts due to suppliers, and receivables and liabilities due from/to the Allianz group.

2.3.14 Other assets and other liabilities

These essentially comprise prepaid expense accounts.

2.3.15 Cash and cash equivalents

Cash consists of cash in hand and demand deposits. Bank overdrafts repayable on demand are also considered as cash equivalents when they form an integral part of the business' cash management procedures.

Cash invested in short-term mutual funds or in term accounts is included in "Investments" when the investments concerned have a maturity of over three months.

2.3.16 Provisions for risks and charges

2.3.16.1 Provisions

Provisions for risks and charges essentially comprise provisions for retirement commitments (see § 2.3.17). Other provisions are measured using the rules set out in IAS 37, which requires the existence of a present obligation arising from a past event, the probability that an outflow of resources representing economic benefits will be necessary to settle the obligation, and a reliable estimate of the amount of the obligation. They are discounted in the event that the impact proves to be significant.

2.3.16.2 Contingent liabilities and contingent assets

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or otherwise of one or more uncertain future events, that are not under the full control of the business, or a present obligation arising from past events but which is not recognised, either because an outflow of resources is unlikely or because the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset arising from past events and whose existence will be confirmed only by the occurrence or otherwise of one or more uncertain future events that are not under the full control of the business.

The group has not identified any contingent assets or liabilities corresponding to the above-mentioned definitions and requiring presentation in the notes to the financial statements except for obligations arising from liabilities guarantees granted as part of the disposal of the factoring activities.

Group companies may be concerned by disputes inherent in the exercise of their normal business. However, no exceptional events, disputes or arbitration procedures currently exist that are likely to have a material impact on the group's activity, results or financial situation.

2.3.17 Employee benefits

The group contributes, in accordance with the laws and practices of each country, to the constitution of retirement benefits for its employees. The benefits offered to group staff derive either from defined contribution plans or from defined benefit plans.

- Defined contribution plans involve payments to bodies that release the company from any future commitments in respect of employees. As such, only the contributions paid or payable in respect of the period are included in the group's financial statements. Such plans are in place in France, the United States, the United Kingdom and Scandinavia.

- In the case of defined benefit plans, an amount of benefits is paid to the employee upon retirement, this amount generally being determined by one or more factors such as age, number of years' service and salary. Such plans are in place in the following countries: France, Germany, Belgium, the Netherlands, Italy and the United Kingdom. In France, these concern retirement benefits paid in the form of an annuity or capital.

The related commitments are measured in accordance with IAS 19, by independent actuaries. The commitment is recognised in the balance sheet using the projected unit credit method, based on the group actuarial assumptions, which are reviewed each year. This method involves assigning an additional unit of rights to benefits for each period of service, with each of these units being measured separately to calculate the final commitment.

The group has put in place specific assets to cover certain plans. In this case, the commitment is reduced by the amount of the fair value of these assets. The commitment amount recognised as a liability is also adjusted for any actuarial variances and the past service cost.

Actuarial variances correspond to the change in the discounted value of the commitment or in the fair value of the assets, as a result of differences between the demographic and financial assumptions used in the calculations and the actual level of demographic and financial variables for the period (experience effect) and due to changes in the actuarial assumptions (IAS 19.7). These variances are recognised in the income statement using the corridor method. When the variances reach or exceed 10% of the higher (IAS 19.92) of the discounted value of the commitment or of the market value of the plan assets (the "corridor"), the amount by which these variances exceed the higher of these two values is spread over the expected average residual length of service of the plan beneficiaries.

Past service cost denotes the increase or decrease in the present value of the commitment in respect of defined benefits for services rendered during prior years, arising as a result of the introduction of a new retirement benefits plan or changes to plan arrangements during the current year. For benefit rights that have already been earned, the corresponding amount must be expensed immediately. For benefit rights that are not yet earned, the charge or income is spread on a straight-line basis over the average remaining length of service to be completed for the rights to be earned.

The Euler Hermes group also accrues commitments relating to other long-term benefits (long-service awards, etc.) granted to employees. The provision corresponds to the present value of the commitment and is calculated annually by the group.

2.3.18 Share-based payments

IFRS 2 is applied to all measures concerned that are granted after 7 November 2002. Benefits granted to group employees involving the delivery of instruments representing shareholders' equity in group companies on preferential terms are now considered as additional remuneration and are recognised in expenses at their fair value on the grant date with a corresponding entry to reserves. Where appropriate, this charge is spread over the vesting period. These benefits notably include discounts granted on the issue price of shares under capital increases reserved for employees as well as the fair value of stock purchase or subscription options granted to group employees.

Allianz has put in place stock option plans for the benefit of executives of the Euler Hermes group. On exercising their rights, these executives receive a cash amount corresponding to the difference between the market value and the subscription price (Stock Appreciation Rights plans - SAR), or shareholders' equity instruments (this action is possible under Restricted Stock Units plans - RSU).

The fair value of options granted is calculated using the Cox Ross Rubinstein valuation model.

2.3.19 Insurance and reinsurance contracts

Contracts considered as insurance or reinsurance contracts under French accounting standards are analysed in accordance with IFRS between the following categories of contracts:
- insurance and reinsurance contracts falling within the scope of IFRS 4;

Notes to consolidated financial statements

- investment contracts with discretionary participation falling within the scope of IFRS 4;
- investment contracts without discretionary participation falling within the scope of IAS 39.

Following a detailed review of its insurance and reinsurance contracts, it was evident that the Euler Hermes group only has contracts in the first category, which covers insurance and reinsurance contracts falling within the scope of IFRS 4. This review also highlighted the absence of any embedded derivatives.

2.3.19.1 Definition of insurance contracts

Insurance contracts are contracts under which the insurer accepts significant insurance risk. Insurance risk is a risk, other than a financial risk, that is transferred by the policyholder to the policy issuer (a financial risk is a risk of possible future changes in interest rates, in the price of a marketable security, in an exchange rate, etc.).

Credit insurance contracts are included in IFRS 4 phase I (paragraph B18 (g) of the standard), this standard being applied pending the standard on "Financial Guarantee Contracts and Credit Insurance". The exposure draft relating to this new standard was issued in July 2004 and was open for comments through to 8 October 2004. The purpose of this exposure draft was to produce a single standard for the treatment of financial guarantees and credit insurance. The responses to the exposure draft were discussed at the IAS Board meetings in January, February and March 2005.

In April 2005, the IAS Board concluded that the issuers of financial guarantee or credit insurance contracts that have clearly indicated that their contracts corresponded to the definition of an insurance contract under IFRS 4 and had recognised them using the accounting methods specific to insurance contracts, could elect to apply either the accounting methods provided for in IFRS 4, or those provided for in the exposure draft.

On 18 August 2005, the sections of IFRS 4 and IAS 39 relating to financial guarantees were amended. The amendments were essentially aimed at ensuring that issuers of financial guarantee contracts measure these at fair value for the initial amount and subsequently at the higher of the amount determined in accordance with IAS 37 and the amount recognised initially less, where applicable, accumulated amortisation in accordance with IAS 18. However, as companies that have been confirmed as issuers of insurance contracts may continue to use the accounting treatment proposed under IFRS 4, these amendments do not call into question the decision taken by the Euler Hermes group to apply IFRS 4 to credit insurance contracts.

2.3.19.2 Measurement of insurance contracts

Other than in the case of the specific exceptions defined in the standard, IFRS 4 permits the continued use of previous accounting principles for the recognition of insurance and reinsurance contracts. Euler Hermes has thus continued to apply the standards defined by CRC 2000-05 taking into account the following points, which are covered by specific provisions introduced by IFRS 4:
- Removal of provisions for equalisation
- Performance of a test for the adequacy of liabilities
- Impairment testing of reinsurance assets
- Identification and separation of embedded derivatives

For all other aspects, the methods already applied by the group, in accordance with CRC Regulation no. 2000-05, have been retained for the measurement of insurance contracts.

Analysis by function of expenses relating to contracts

Expenses relating to insurance contracts are initially recognised according to their nature and then analysed by function in the income statement headings by means of analysis keys based on objective business criteria. Claims settlement expenses are included in contract service charges. Contract acquisition expense and administration expense are included in the income statement.

Premiums

Premiums recognised in turnover stem from the guarantees given to policyholders to cover their trade receivables that arise in the same period as that for which the premium is paid. Given settlement delays, the lag between the triggering event, i.e. bankruptcy of the debtor, and notification of the claim, there is also a lag between recording the premiums and the related claims. This lag is taken into account through the recognition of provisions for claims incurred but not reported (IBNR).

Provisions for unearned premiums

A provision for unearned premiums, gross of commissions and expenses, is established contract by contract as a function of the time left to run between the balance sheet date and the premium due date.

Claims

Claims comprise the following items:
- claims settled during the period relating to the current period or to prior periods, net of recoveries received;
- claims settlement expense, notably settlement service expense and commissions allocated to claims handling.

No-claims bonuses and premium refunds

These amounts paid over to policyholders and determined based on claims history are recognised in insurance services expense.

Reserves for claims payable

These technical reserves are designed to cover probable losses relating to:

- claims reported but not yet settled at the balance sheet date;
- claims occurring during the period but reported after the balance sheet date and, in respect of trade receivables existing at the balance sheet date and covered by a policy on such date, claims that will occur and will be reported during subsequent periods. These so-called "unknown" or "incurred but not reported" claims are estimated using statistical models that are essentially based on the level of claims observed during prior periods.

Claims reserves are increased by a provision for administration charges.

Additional information on the measurement of claims reserves is provided in section 3.8 of "Risk management".

Estimated recoveries

Recoveries are the result of actions taken by the company against defaulting debtors in order to fully or partially recover claims paid to policyholders.

Estimated recoveries are a prudent estimate of potential recoveries on settled claims and are recognised as a reduction in the amount of the reserves for claims payable. They take into consideration a provision for administration charges determined in accordance with actual observed expenses.

Other technical reserves

A provision for current risks is established by risk category in addition to the provision for unearned premiums when claims likely to arise after the balance sheet date and relating to contracts underwritten before that date and the related acquisition costs and administration charges are not covered by the provision for unearned premiums.

Tests for the adequacy of liabilities

At each closing, insurance contract liabilities net of related assets (acquisition costs capitalised and portfolio securities) are subject to a test for the adequacy of liabilities. The methods previously applied by the group and retained under IFRS 4 (including notably the measurement of claims provisions on the basis of the non-discounted ultimate cost and the methods for establishing the provision for current risks) constitute a satisfactory test for the adequacy of liabilities given the minimum requirements specified by IFRS 4.

2.3.19.3 Reinsurance contracts

Acceptances

Insurance acceptances are recognised on a case-by-case basis based on the actual or estimated results for the year. Technical reserves correspond to the amounts advised by the assignors.

Disposals

Assigned reinsurance contracts are recognised in accordance with the terms of the various treaties. The share of assignees in the technical reserves is measured in the same way as technical reserves gross of reinsurance appearing in liabilities.

Cash deposits received from reinsurers are recognised in liabilities arising on assigned reinsurance transactions.

2.3.20 Borrowings

Borrowings are contractual obligations that require the group to transfer cash or a financial asset to another entity, or to exchange with another entity a financial asset on potentially unfavourable terms.

The measurement and recognition of borrowings are defined by IAS 39. With the exception of derivatives (see § 2.3.9.2), borrowings and other financial liabilities are recognised at fair value less any related transaction costs, and are subsequently measured at amortised cost calculated using the effective interest rate.
Borrowings include, within the meaning of IAS 39, borrowings, other financing and bank overdrafts, derivatives and amounts due to suppliers and social security liabilities included in "operating liabilities".

2.3.21 Income from ordinary activities

Income from ordinary activities can comprise items measured and recognised in accordance with IFRS 4, IAS 18 or IAS 39. This aggregate has a broader meaning than turnover as it also incorporates investment income.

Turnover comprises earned premiums and commissions and other operating revenues.

2.3.21.1 Premiums

Credit insurance premiums included in turnover correspond to written premiums excluding taxes, less premiums cancelled during the period and an estimate of written premiums that will be cancelled after the balance sheet date.

They are increased by an estimate of the portion of premiums to be written that are earned during the period and adjusted by the movement in provisions for unearned premiums, which correspond to the share of written premiums covering the period after the balance sheet date.

2.3.21.2 Other operating revenues

Other operating revenues include other services and premium-related fees, which include enquiry and monitoring charges invoiced in respect of risk management and prevention on behalf of policyholders, and fees for the collection of disputed receivables. They also include interest on arrears relating to the personal loan activity managed by Euler Hermes Credit Insurance in

Belgium, income relating to the export guarantees activity managed on behalf of the German State, and other technical income. These revenues fall within the scope of IAS 18.

2.3.21.3 Investment income

Investment income is recognised in accordance with IAS 39, IAS 17 or IAS 18 depending on its type.

Investment income net of management expense

This income comprises notably the following categories of revenue:
- net income from property
- net income from securities
- other financial income (bank credit interest, income from other investments)
- foreign exchange gains and losses
- investment management charges

Capital gains and losses on disposals of investments

Capital gains and losses on disposals of securities or property are recognised in the income statement. The group generally uses the F.I.F.O. method (First In, First Out). Shares exchanged under a public share exchange offer result in the recognition of a capital gain on exchange.

Change in fair value of investments recognised at fair value through the income statement

Differences in fair value recorded for the current period less any differences from the previous period are recognised. These essentially concern the remeasurement of derivatives.

Change in investment impairment charges

The impairment charges notably concern write-downs of investments and write-backs following a disposal, and charges for the depreciation and impairment of investment property.

2.3.22 Insurance services expense

Insurance services expense includes the net cost of claims, i.e. claims settled during the period less recoveries received, the movement in claims reserves net of projected recoveries, no-claims and other bonuses paid and payable to policyholders and expenses incurred or to be incurred for the management of claims payments and collections. The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.3.19.2 (measurement of insurance contracts).

2.3.23 Net reinsurance income or expense

This heading comprises the share of assignments and retrocessions of earned premiums, claims paid, changes in claims reserves, no-claims and other bonuses, and commissions received from reinsurers. The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.3.19.3.

2.3.24 Administration expense

Administration expense mainly comprises salary costs and costs relating to the IT systems.

2.3.25 Other ordinary operating revenues and expenses

Other ordinary operating revenues and expenses comprise:
- Other technical expenses;
- Employee profit-sharing and incentive schemes;
- Other net non-technical income;
- Provisions for risks and charges;
- Other income and expense.

Other ordinary operating revenues and expenses correspond to charges not allocated by function relating to the services activity of the Euler Hermes group.

2.3.26 Other operating revenues and expenses

These revenue and expense items arise from a major event that occurred during the accounting period and are such that they would distort the interpretation of the group's performance. They therefore consist of very few items that are unusual in nature and occur infrequently, and are for a material amount.

2.3.27 Financing expense

The recognition principles applied to this item are those set out in IAS 39.

- Financing expense consists of expenses relating to the following items:
- long-term financial liabilities: capital borrowings from the general public, e.g. in the form of bonds, or from banks or financial institutions (medium- or long-term loans, leases, etc.);
- short-term financial liabilities of the same type as above including issues of short-term negotiable debt securities to investors;
- fair-value hedging instruments recorded in the balance sheet and relating to liabilities representing the gross financial debt described above;
- accrued interest on balance sheet items representing gross financial debt.

2.3.28 Earnings per share

Earnings per share are calculated by dividing the group share of the net income or loss by the weighted average number of ordinary shares in issue during the year. An ordinary share is a shareholders' equity instrument that is subordinated to all other categories of shareholders' equity instruments.

Dilution implies a reduction in the earnings per share as a result of the assumption that convertible instruments are converted, options and equity subscription warrants are exercised, and ordinary shares are issued if certain specific conditions are met.

3 - RISK MANAGEMENT

Through its activities, the Euler Hermes group is exposed to various types of financial risks: insurance risk, market risks (exchange risk, interest rate risk and equity market risk), credit risk and liquidity risk.

To cater to the need to monitor such risks, the Euler Hermes group has implemented, within the finance department, a risk control function that aims to control the main risks to which the Euler Hermes group is exposed.

3.1 - The risk control function

3.1.1 Objective and principles of risk control

In a rapidly changing environment, the perception of risk, as well as the realisation of certain major risks, has heightened risk awareness among all company staff. Risk control and measurement have become a major component of the Euler Hermes group's strategy. In optimising this component, the objective is to reduce earnings volatility and facilitate the optimum allocation of capital, a source of lasting and steady growth. This approach forms part of an overall mechanism that is in keeping with the requirements of the key shareholders.

Responsibility for risk management lies with the various group companies. The group risk control function monitors, in conjunction with the control structures of each subsidiary, changes in risk and risk measurement. The latter indicates any changes or build up in risk that may impact the group's results.

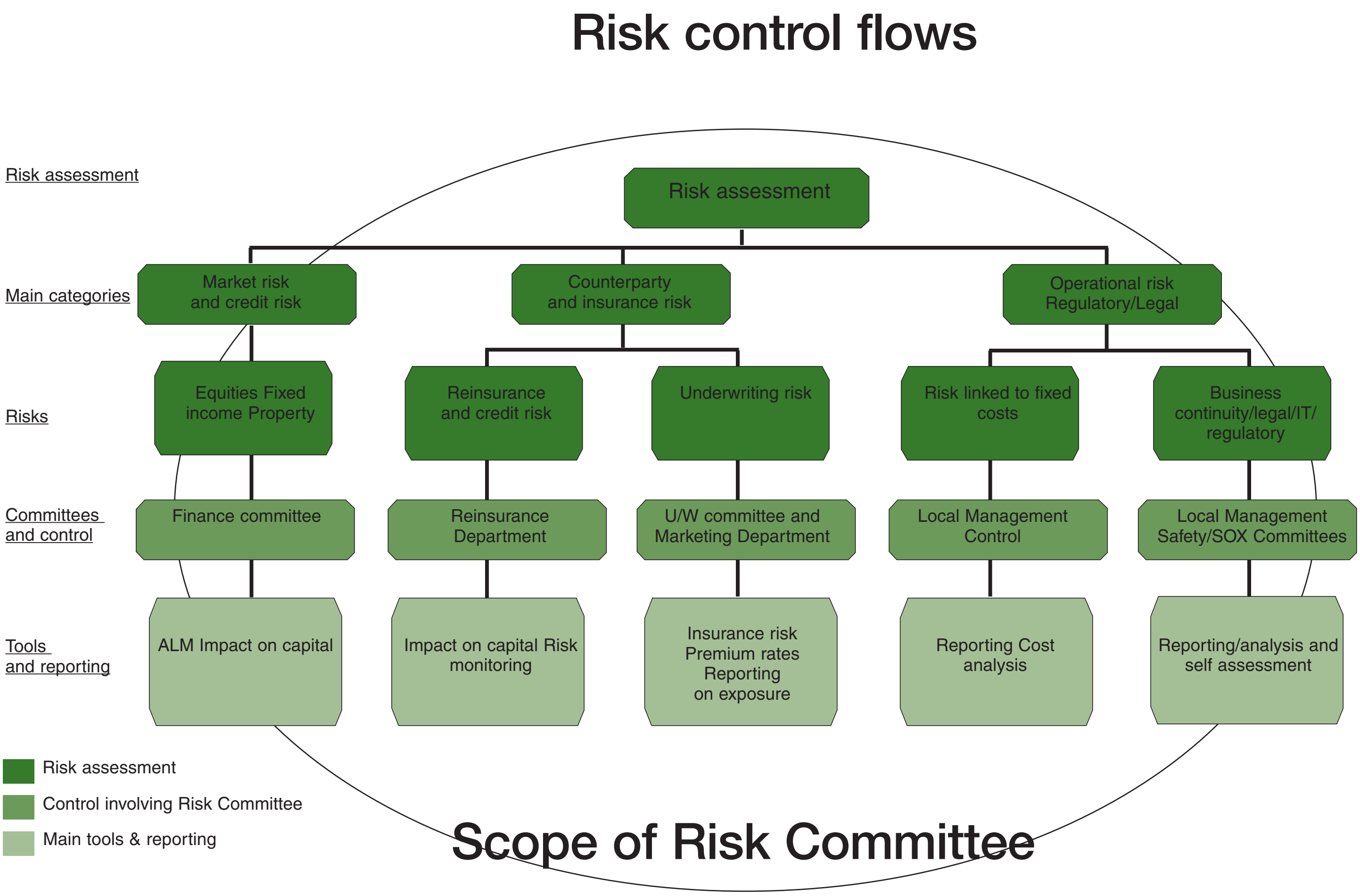
In order to properly fulfil its mission, risk control is based on a principle of independence and does not manage any operational function.

3.1.2 Risk control activity

This function is responsible for understanding, measuring and controlling all the types of risks that the group may face. To achieve this, it relies on each entity and the cross-company functions of the group to monitor and consolidate the information provided to management. This coordination provides detailed information on local situations, which in turn is used to prepare a consolidated view for submission to the group's senior management. This enables the group's management to direct the strategy in order to optimise resource allocation. As such, the investment policy may be heavily influenced by these measures in an environment of uncertain financial returns. The underwriting policy, in terms of both its commercial and risk aspects, may guide certain choices such as the contractual terms offered to policyholders or the concentration of certain risks. Through precise control of these risks, Euler Hermes pursues a policy of preserving margins while at the same time maintaining a balance between the creditworthiness of the group and its subsidiaries and the allocation of available resources.

The main functions have their own organisational structures with local committees and group committees whose tasks include risk monitoring, with independent oversight by the risk control function. Certain measurement tools are more specific to certain functions. The control and support mechanism also involves risk modelling and regular monitoring and analysis of information that is more specific to the various risk categories.

The various types of risk, identified and regrouped by category and function, are presented in the following diagram:



The need to quantify and analyse the various types of risk associated with the complexity of the credit insurance business has prompted the risk function to develop the group risk measurement tools, notably in respect of the underwriting of insurance risks and the management of financial investments.

3.2 - Insurance risk

3.2.1 Insurance risk

Technical risk arising on credit insurance is based on a highly developed risk culture associated with the management of contracts and client service. As well as the management of contract underwriting, the group provides a service to policyholders to reduce the risks associated with their trade receivables but also to reduce its own risk.

As such, during the policy period, each request from policyholders for cover on one of their debtors is analysed in accordance with clearly defined debtors creditworthiness criteria (financial analysis, previous claims made on this debtor). Such cover is therefore underwritten on the basis of the risk profile of the commercial transaction relating to the application. Effectively, through the management of risk cover based on the creditworthiness of policyholders' customers, Euler Hermes actively modulates the transfer of policyholders' customer risk. To achieve this, each group entity has a dedicated management team that, through contact with the policyholder, monitors and analyses policyholders' positions and requests. These teams are coordinated by a cross-disciplinary function at group level which ensures that consistent underwriting rules are applied to such cover and, in particular, that an equivalent rating is given across the entire group. In addition, insurance risk underwriting committees within each entity and at group level steer this activity and changes in the more sensitive risks.

On the commercial front, a cross-company function coordinates contractual changes and all the group's sales and marketing initiatives.

3.2.2 Credit insurance contracts

Credit insurance contracts are fairly similar in form within the group, their objective being to cover the risk of non-payment by policyholders' customers. However, certain contracts restrict the cover to the formal bankruptcy of the debtor only. The underlying risk is dependent upon local bankruptcy laws that offer the debtor varying degrees of latitude. The insurance company must thus anticipate the behaviour and practices stemming from these laws in order to maximise control of his own risk.

The credit insurance contract specifies the management conditions and the parameters (excess, maximum liability, etc.) that vary according to the risk profile of each policyholder. It also requires that the policyholder declares payment defaults within a given timeframe. During the policy period, there is ongoing collaboration with the policyholder, notably through the provision of the necessary cover for his customers.

3.2.3 Insurance portfolio and diversification

Through its position as leader in its main markets, Euler Hermes' exposure is spread across many debtors. In addition, the Euler Hermes group's geographical coverage provides diversification of risk across many countries, reflecting not only the location of the policyholders but more especially that of their customers.
The theoretical gross exposures in credit insurance correspond to the maximum amount of commitments that the group agrees to cover on its policyholders' applications. The actual amounts of policyholders' transactions that are covered are much less, in line with the actual turnover at a given date and, as for transfers of reinsurance risk, the excesses or liability limits also reduce the group's final exposure.
The table below sets out the theoretical exposures not by country of the group entities, rather, in order to present a truer picture of the geographic split of risks, by country of the debtor.
Consequently, as shown in this table of the geographical split of gross exposures, the debtors of a given policyholder may be

Theoretical gross exposures by country of debtor at 31 December 2005

Country	Exposure (€'m)	As a %
Total Europe	**453,096**	**88.0%**
France	185,419	36.0%
United Kingdom	51,407	10.0%
Germany	84,800	16.5%
Italy	48,126	9.4%
Belgium and Luxembourg	12,370	2.4%
Netherlands	13,714	2.7%
Spain	13,133	2.6%
Eastern Europe	13,864	2.7%
Scandinavia	13,002	2.5%
Rest of Europe	17,261	3.4%
Total Americas	**44,106**	**8.6%**
United States	32,755	6.4%
Canada	5,178	1.0%
Latin America	6,173	1.2%
Asia-Pacific	**12,844**	**2.5%**
Middle East	**2,003**	**0.4%**
Africa	**2,565**	**0.5%**
Total	**514,614**	**100.0%**

located in very different geographical locations and this split contributes to risk diversification, which, at the group portfolio level, limits the effects of bankruptcy by individual companies or groups of companies that, like sectors of activity, are clearly defined.

The second table shows the gross exposures by sector of activity. The sectoral breakdown presents another effect of diversification, i.e. a reduced impact of individual bankruptcies.

Gross exposures by the debtor's sector of activity at 31 December 2005

	Exposure (€'m)	As a %
Metals & Engineering	88, 215	17.1%
Agriculture/Food	73,526	14.3%
Construction	83,799	16.3%
Textiles	29,911	5.8%
Electronics	46,278	9.0%
Services	74,888	14.6%
Wood/Paper	20,020	3.9%
Chemicals	24,379	4.7%
Other	73,598	14.3%
Total	**514,614**	**100.0%**

3.2.4 Management of underwriting risk

In recent years, the Euler Hermes group has developed a specific organisational structure and IT applications to optimise its handling of insurance risk. This policyholder service and its control have gradually been extended to all group entities. A tailor-made IT application holds policyholders' applications, stores details of cover underwritten together with debtor positions and controls all information received and sent.

Underwriting of cover draws on an optimised organisation based on a single IT system consisting of a database used specifically for underwriting of cover. Thanks to the risk rating system and its use by specialised staff, responses to applications for cover are assessed and submitted to clients very quickly.

In addition, this tool facilitates the local monitoring of cover based on multiple criteria or centrally at group level. Details of cover can thus be readily selected by sector of activity or company size.

If the risks are underwritten locally, a central control is used to check the application of underwriting rules and changes in exposure on a real time basis. The central risk underwriting function thus has considerable resources available to monitor sensitive risks and risk concentrations and to limit these both centrally and locally.

All debtors for which policyholders make applications for cover are subject to a creditworthiness assessment resulting in the assignment of a rating (from 1, being the most creditworthy, to 10, being bankruptcy) on the capacity of the debtor to honour his commitments to suppliers. In this assessment, information quality and the proximity of the risk are key factors:
- analysis of internal information is given priority;
- each group entity monitors and underwrites its policyholders' cover. Each entity also provides a service for the other entities whose policyholders work with debtors that are located in the geographical region that it covers.

When an assessment is performed for another entity, the communication of this information is based on rules set centrally and the determination of a creditworthiness grade for each debtor. Depending on the rating, the entity that has underwritten the insurance contract provides the export cover to its clients with the maximum amount of detail. This organisation provides clients with high service quality and facilitates close control of underwriting risks on such cover.

Certain debtors, especially large groups, whose rating reflects a very high degree of creditworthiness, offer higher theoretical gross exposures. The 50 largest debtors or groups of debtors fall within the strongest rating categories. To assess the impact of this concentration, the solidity of these individual debtors must be taken into account, as well as the group's capacity to reduce insurance cover in the short term, the application of insurance contract parameters and the protection offered by reinsurance. As shown by stress tests, any potential claim net of reinsurance on these exposures should not exceed 5% of shareholders' equity. It should also be emphasised that the dynamic management of Euler Hermes' exposure during the bankruptcies of major groups with a significant theoretical gross exposure has enabled the group to avoid the impact resulting from the domino effects of bankruptcies.

Theoretical gross exposures, managed on an ongoing basis, may be reduced at any time if the risk increases following an assessment of the debtor's creditworthiness. The actual exposure depends on the utilisation, which varies over time, of these limits by the policyholders and the parameters of each contract (excesses, maximum liability, etc.). Lastly, in the event of a claim, a varying portion of the loss is shared with the reinsurer by virtue of the use of proportional and non-proportional reinsurance contracts, which contribute to reducing Euler Hermes' final exposure.

The progression from the gross exposure at a given point in time on a debtor to the potential claim amount is thus complex. Similarly, the determination of the amount of exposures net of reinsurance can be calculated only after applying policyholders' liability limits and excesses.

3.3 - Market risk

Each group entity has a financial portfolio, investment of which is managed locally in accordance with the investment policies recommended by the group. Applied locally, these policies are controlled within each entity by a finance committee that reviews the portfolio results and approves any new investments.

At group level, governance is provided by an investment management function and a group finance committee that sets the short- and medium-term guidelines for management of the financial portfolio.

Market trends and ongoing management are the primary management criteria. However, in its strategic choices, the finance committee draws on measures of risk and asset/liability management to make the most appropriate decisions according to the resources available.

The risk function fine-tunes asset/liability management tools to assess the impact of changes in investment policy. This approach also draws on the calculation of what-if scenarios based on the choices envisaged.

The financial portfolio is diversified, in terms of both investment type (although preference is given to bonds) and issuers. The risk concentrations on a given issuer are very limited and the weak correlation between the various assets enables the overall risk on the financial portfolio to be reduced.

Credit insurance is a short-term activity. The overall duration of liabilities run-off is just over one year. However, the very good continuity of the insurance business means that account can be taken of a recurring factor, i.e. investment needs, thereby extending the term of the invested assets to increase returns on the financial portfolio. In addition, the group's short-term cash and cash equivalents cover its insurance commitments net of reinsurance and only a sharp deterioration of the combined ratio (which would also fully offset financial income), over more than one year, could bring about a reduction in the financial portfolio. Past experience shows that the group has the capacity to respond in the face of a deterioration in the economic environment without reducing its financial portfolio.

3.3.1 Description of the portfolio

Through its international positioning, Euler Hermes has investments through the various local entities. Within each entity, investments in government bonds dominate, although their weighting may fluctuate slightly from one entity to another depending on the proportion invested in equities and property.

Financial portfolio at market value

	31/12/2005		31/12/2004	
	(€'m)	As a %	(€'m)	As a %
Bonds	2,015	64%	1,878	68%
Equities	495	16%	374	14%
Investment property	118	4%	114	4%
Loans, deposits and other financial investments	294	9%	282	10%
Total financial investments	**2,922**	**93%**	**2,647**	**96%**
Cash	222	7%	103	4%
Total financial investments + cash	**3,144**	**100%**	**2,750**	**100%**

3.3.2 Equity market risk

The Euler Hermes group invested around 16% of its financial portfolio in equities in 2005. This policy stems from a cautious approach. Investments are concentrated in major securities of the main financial markets. In fact, equities are considered as a risky asset whose weighting follows the strict rules of the finance committee with regard to allocation. The simulation of a fall in the markets has a relatively limited impact on the earnings of the group as a whole and means that this type of investment can be considered as providing substantial additional returns for the portfolio as a whole.

Invested mainly in the euro zone, equities benefited in 2005 from the rise in the markets. The group's policy is to maintain the equity proportion at its current level.

3.3.3 Interest rate risk

Interest rate risk management, while recognising the short duration of the liabilities, also takes into account the continuity of activity in order to increase the duration of investments and thus achieve higher returns on bond investments.
Borrowings are concentrated in the holding company, Euler Hermes SA, and, to a lesser extent, in the Belgian entity. The holding company's variable interest rate borrowings are subject to interest rate hedges for each maturity that therefore limit their interest rate risk.

Bonds by maturity

	31/12/2005		31/12/2004	
	(€'m)	As a %	(€'m)	As a %
Less than 1 year	324	16%	276	15%
1 to 3 years	569	28%	525	28%
3 to 5 years	439	22%	564	30%
5 to 7 years	297	15%	284	15%
7 to 10 years	293	15%	189	10%
More than 10 years	94	5%	39	2%
Total	**2,015**	**100%**	**1,878**	**100%**

The yield on the bond portfolio is highly dependent on changes in interest rates and the portfolio duration. The average yield for 2005 was 3.7%, close to the interest rate offered for the current duration of the bond portfolio i.e. around 3.5 years. Therefore, amounts represented by securities reaching maturity are replaced by equivalent securities with maturities that are slightly longer than the average portfolio duration in order to maintain a limited level of risk and stable income from bonds.

3.3.4 Property risk

Investment property continues to represent a limited proportion of the group's investment portfolio and is held mainly by the French entity.

In France, the investment consists of various residential properties, in Paris and the inner suburbs, with management of the property portfolio being outsourced. The turnover rate is limited, with portfolio properties being held for an average of 10 years. New acquisitions are concentrated on medium-sized properties offering profitability levels in line with the market average.

As most of these investments are held in the portfolio for a relatively long time, they offer unrealised capital gains and profitability similar to that of the financial portfolio. Fluctuations in property prices, which may demonstrate significant correlation with interest rate and equity risk, cannot be ruled out, but their impact would remain marginal.

3.3.5 Liquidity risk

At 31 December 2005, almost 80% of the group's assets consisted of listed marketable securities. Equity investments are made in large caps listed on the main markets in Europe, the USA and Japan. Similarly, group companies select bonds of major public or private issuers that are listed on highly liquid markets, thus enabling such investments to be traded at short notice.

In view of the levels of short-term cash and cash equivalents and bonds maturing in less than one year, the Euler Hermes group considers its liquidity risk as being very limited.

3.3.6 Exchange risk

The group's exchange risk is limited to locations of entities in regions using currencies other than the euro. Each entity effectively underwrites contracts in its local currency and thus generates a liability in local currency. It is essential that the concept of congruence, a requirement of the local regulators, is taken into account in this matter.

The assets of these companies are invested mainly in local investment assets. An analysis of the financial portfolio shows that entities using a currency other than the euro represent around 19%. These assets are held mainly by group companies operating in the regions that use these currencies.

Financial portfolio of entities by currency

	31/12/2005		31/12/2004	
	(€'m)	As a %	(€'m)	As a %
EUR	2,304	79%	2,161	82%
GBP	312	11%	260	10%
USD	226	8%	157	6%
Other currencies	80	3%	69	3%
Total	**2,922**	**100%**	**2,647**	**100%**

3.4 - Credit risk

Credit risk has become an essential component of risk management following the spectacular bankruptcies of certain major groups. It is thus vital that this type of concentration is monitored regularly nowadays.

Euler Hermes matches each bond portfolio line with the issuer's rating. The breakdown of the portfolio by rating, apart from providing control over the creditworthiness of securities held in the portfolio, demonstrates that securities with a AAA rating represent 78% of the portfolio and less than 2% of securities have no rating at all or a rating below A.
Concentration risk is very limited as no bond security exceeds 1.5% of the total financial portfolio.

Breakdown of bonds by rating

	31/12/2005	
	(€'m)	As a %
AAA	1,580	78%
AA+	79	4%
AA	97	5%
AA-	191	9%
A+	11	1%
A	20	1%
A-	3	0%
Others	33	2%
Total	**2,015**	**100%**

3.5 - Reinsurance and reinsurance counterparty risk

3.5.1 Reinsurance: a risk management tool

Reinsurance is an essential part of risk management through which Euler Hermes transfers part of its transactions to reinsurers, in exchange for the payment of a premium or the assignment of a portion of its premiums. Through reinsurance, the group covers high-frequency risks and/or exceptionally large risks in order to limit the impact of an increase in the number of claims or the occurrence of specific large claims. The setting of parameters for these treaties is tested each year by the reinsurance and risk control functions using stress test scenarios. This process enables the group to check the appropriateness of the protection limiting the impact of an increase in the level of claims. The setting of parameters for reinsurance contracts entered into by the subsidiaries is carried out by the group to ensure a better balance between changes in the portfolio and coverage needs.

Proportional (share) treaties protect the group against an increase in high-frequency risks in the event that a large number of debtors go bankrupt. Through these treaties, the group assigns a portion of its risks and related premiums to reinsurers, after deducting a fee to cover administration charges. Each entity has its own assignment rate depending on its position and financial capacity.

Non-proportional (excess of loss) treaties cover the occurrence of exceptionally large risks. Such claims arise following the bankruptcy of a debtor or group of debtors with exposures high enough to generate amounts exceeding the reinsurance excesses of these treaties.

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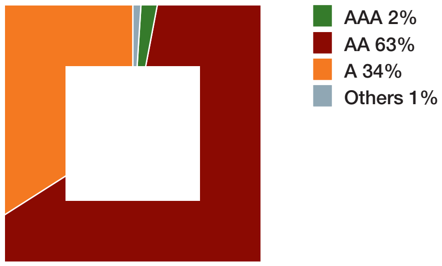
3.5.2 Reinsurance counterparty risk

Group support for establishing the entities' treaties is provided through the selection of the best reinsurance counterparties, rated A or above. The highest exposures are placed with top tier reinsurers.



Analysis of technical reserves* assigned by rating of the reinsurer (the scope covered represents 92% of the reserves considered out of the group total at 31 December 2005)

AAA	10.8
AA	328.4
A	175.6
Others**	4.7
TOTAL	**519.5**

** Provisions for unearned premiums/claims reserves assigned.*

*** Excluding the entire assignment guaranteed for €8.9m.*

3.6 - Capital risk

The risk function, in conjunction with the group's main shareholder, has initiated the implementation of risk measurement procedures aimed at establishing the capital needed to cover the group's activity. These measures also form the basis for the calculation of economic added value, one of the performance indicators of each entity.

The calculation of insurance risk is a prerequisite for the definition of an internal model for credit insurance. It is the trickiest to implement as it must reflect all contract parameters, debtors and risk transfers. The classification of debtors by rating, together with a probability of bankruptcy, is used as the basis of a complex process aimed at simulating the actual insurance risk exposure.

A detailed calculation is thus performed by each entity. The individual results must subsequently be aggregated and adjusted to reflect the impact of diversification (on the entities and the various risk categories). The work currently being undertaken aims to improve the internal approach used up to now, which refers to the method applied by S&P.

The existing internal model, based on the S&P method, assigns risk factors to the various balance sheet items. Securities in the financial portfolio are thus classified by rating, as are the exposures to reinsurers. The insurance and reserve risk is deduced by directly applying factors to the amounts after reinsurance of net premiums and claims reserves respectively.

The amounts simulated by this method are shown in the following table:

	2005	2004
C1: Equity risk	73.9	55.9
C1: Other financial risks	65.2	62.3
C1: Financial risks	145.7	122.7
C2: Counterparty risk	9.2	19.3
C4: Premium risk	742.9	666.0
C5: Reserve risk	170.0	174.7
Simulated S&P risk-adjusted capital (RAC)	**1,432.9**	**1,318.8**

** RAC: C1+C2+140%(C4+C5).*

The Euler Hermes group operates in many countries and each entity is subject to local regulatory constraints. The amount consolidated arising from local constraints is significantly less than the group's consolidated shareholders' equity.

Stress tests

In addition to the capital risk calculations, the group also regularly performs a series of stress tests designed to ensure consistency of the protection afforded and the group's sensitivity to certain scenarios involving a deterioration in risk.

Equity and bond portfolio risk at December 2005 (€'m)	Market value at 31 December 2005	Impact of a 100bp* rise in interest rates*	Impact of a 10% fall in the equity markets	impact of a 10% fall in USD	impact of a 10% fall in GBP
Bonds	2,015	-66.5		-17.1	-21.0
Equities	495	-	-49.5	-2.4	-2.7
Total	**2,510**	**-66.5**	**-49.5**	**-19.6**	**-23.7**

** Average sensibility of 3.3% calculated based on the main subsidiaries, which represent more than 95% of the bond portfolio.*

At just over three years, the duration of the bond portfolio limits the impact of a 100 basis point rise in interest rates to €66.5 million. Scenarios for other financial assets involve measuring the impact of a 10% change in the assets concerned.

The sensitivity to foreign currencies is due to the amounts invested by the local entities as a function of the size of their respective investment portfolios.

	2005 net income	10% fall in premiums	10% rise in 2005 cost of claims	10% increase in claims handling expenses
Change in net income	**286.1**	**-48.5**	**-35.6**	**-46.6**

The first scenario of a decline in premiums involves applying constant claims-to-premiums ratios and overheads. The scenario of an increase in the cost of claims is based on a change in the amounts for the year, with no change in the amounts of claims for prior years. The 10% increase in costs covers all overheads excluding brokerage fees.

The scenarios showing the sensitivity of net income to fluctuations in the main aggregates of the profit and loss accounts are also a tool that can be used to ascertain the impact of an exceptional situation and the assumptions used are highly conservative, to take into account sudden changes. For each scenario, the sensitivity measured refers to an amplitude that must, in an actual scenario, be combined with other changes, that may partially or fully offset the impact.

3.7 - Operational risks

Financial and insurance risks are often the first risks identified in a risk management process that lies at the heart of the group's activity. Operational risks are inherent to any structure and their occurrence may have significant consequences for any structure that does not sufficiently recognise them. Operational risks may be the consequence of internal or external problems or malicious actions that result in losses for the business and may even include disruption of activity.

Through its geographical distribution, Euler Hermes, has long applied a clear management approach to its operational situation in order to reduce related risks.

Operational risks are very broad and permeate all echelons of the organisation. Identified risks include the risk of fraud, legal risks, commercial risks, IT risks, security and damage risks, etc.

Apart from the constraints imposed by legislation, the group's subsidiaries that have major responsibility for monitoring these risks have, for some years now, implemented significant initiatives and investments at local level. Furthermore, the group has taken certain measures to ensure the continuity of activity in the event of major disasters and now has in place business continuity plans and back-up sites for each entity.

The internal control function, apart from reporting on the management of the business continuity process, has been strengthened through the introduction of the Sarbanes Oxley Act, which is applicable to the group's main entities.

Each subsidiary carries out its own assessment of its main risks. This assessment identifies all possible risks, estimates their impact and provides a basis for considering the possibility of their occurrence and the impact on each subsidiary and on the group of the main risks thus identified.

3.7.1 Insurance of goods and persons

The protection of assets and the risks of civil liability are analysed for each subsidiary in order to control the quality of cover and the possible financial consequences. Insurance programmes, established with experts, are underwritten with major insurance companies and include claims ceilings set at levels to limit the impact of any claims.

3.7.2 Regulatory framework

The subsidiaries have the necessary structures to comply with the regulations of the countries in which they are located. They apply the appropriate legislative measures and respond to requests made by the authorities and local supervisory bodies, and comply with specific prudence rules. In addition, each entity has appointed a contact person for the implementation of the European Directive on data protection and the group has strengthened the control structure covering the application of regulations.

3.8 Claims reserves

The purpose of claims reserves is to cover claims that have been notified or those that have not yet been notified but which relate to the financial year. They are estimated on a claim-by-claim basis or by the application of statistical methods based on historical data and claims trends. Claims reserves are not discounted.

As shown by the table below, the group's claims for the financial year are similar to those of previous years.

Claims-to-premiums ratio

	2001	2002	2003	2004	2004*	**2005***
Claims-to-premiums ratio	58.5%	65.3%	44.1%	39.8%	45.9%	47.5%

** According to IFRS.*

Determining claims reserves

Due to their insurance activity, the group's subsidiaries are required to establish sufficient reserves to guarantee future claims payments. As provided for in the policy, in the event of payment default by a debtor to a policyholder or the former's insolvency, the latter declares this default to the company, which, in turn, establishes a reserve for a sufficient amount to cover the future claims payment. A collection procedure is implemented as soon as the declaration has been made. After the claim has been settled, the loss may also be subject to collection services. The claims handling process thus involves three quite separate phases.

First of all, claims relating to the financial year but not yet declared are subject to IBNR (incurred but not reported) estimates to cover future claims payments and costs.

Reported claims are analysed based on the insurance cover granted. On receiving the specific claims notification, a cover analysis is performed to determine the amount of the provision to be recorded for this claim. Next, the amount reserved for a claim is updated for each new notification or recovery to cover potential payments on this claim. The reserve for a given claim is cancelled when the claim is fully settled or fully recovered prior to the assumed claim settlement date. Technical reserves are thus established on a claim-by-claim basis.

Once the claim has been settled, the sums may be partially or fully recovered. An estimate of related future cash flows should thus be established.

Reserves for reported claims are established based on the information that is available at the balance sheet date. Claims are settled rapidly in the field of credit insurance. In addition, based on the aggregate individual reserve amounts of each claim, the estimates are made using statistical methods that are applied in all group entities in order to achieve a more accurate estimate of the final cost that corresponds to the sum of amounts settled and received on final closure of the claim.

The estimate of reserves for claims incurred but not yet reported must distinguish two criteria that have a considerable bearing on the split of claims costs between provision and claims paid:
- First and foremost, the type of cover provided by the contracts: the two main types of cover offered in credit insurance are "declared insolvency" and "payment default". Insurance cover based purely on insolvency covers the policyholder's exposure only in the event of insolvency. An analysis of debtor defaults enables the group to identify bankruptcies and thus reduce the uncertainty regarding the potential claim amounts.
If the insurance cover is in force when the invoice is issued or on delivery, actual payment default must take place before determining the amounts concerned and receipt of the claim notification from the policyholder. The period of uncertainty includes the time taken for payment, which varies depending on the countries or sectors concerned, and the time taken to notify the claim.
The estimate of reserves for claims incurred but not yet reported draws on statistical methods and includes economic data on claims trends. The portion of reserves subject to this calculation bears the greatest uncertainty and, de facto, necessitates a relatively large margin of prudence in order to avoid shortfalls in reserves.

- The second parameter relates to the claims payment period.
At the time they are estimated, the reserves take account of the likelihood of claims occurring, the possible impact of local regulations and expected changes in the economic environment. Nevertheless, due to their nature, the reserves include a certain level of uncertainty and ongoing controls are performed to maintain the reserves already established at an adequate level. Specific technical reserve control committees have been set up in all subsidiaries to ensure the consistency and adequacy of the

methods used to determine the reserves established in relation to the risk to be covered.

The main methods applied by group subsidiaries are Chain Ladder, Bernhuton Ferguson and the so-called bootstrap method. The Chain Ladder method is based on calculations of the development of claims triangles. The Bernhuton Ferguson method draws on a projection of the claims-to-premiums ratio. The so-called bootstrap method is an extension of the Chain Ladder method, using multiple simulations to determine the margins of error.

The initial estimate of the final cost includes a certain margin of prudence. To consider a reasonable estimate timeframe, apart from the uncertainties to be included at the time of the calculation, account must also be taken of a gradual improvement in experience and the position of reserves for previous years. As demonstrated by the development of claims, it should be noted that the uncertainty stems mainly from the first year of development when minimal information is available and additions to reserves for claims incurred but not yet reported are at their highest.

This uncertainty in the first year is due to the specific nature of IBNR provisions in credit insurance. In fact, claims relating to the financial year must be estimated when the bankruptcy has yet to occur. This is because claims are related to the premium for the period. The risk arising on the issue of the invoice, which is also the basis for the premium, and the bankruptcy followed by notification of the claim can occur only some months later.

Recoveries after indemnification also cover a long period of time and are more difficult to forecast beyond a certain horizon. They may thus have a positive impact on the development of claims when they tend to be higher than the amounts projected in the reserves.

Claims expenses

(€'000)

	2005			2004		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Cost of claims for the present year	**1,002,692**	**(349,311)**	**653,381**	**984,363**	**(378,711)**	**605,653**
of which claims paid	279,203	(116,540)	162,663	230,651	(99,905)	130,746
of which claims reserves	659,252	(231,058)	428,194	691,726	(278,606)	413,120
of which claims handling expenses	64,238	(1,713)	62,524	61,987	(200)	61,786
Recoveries for the present year	**(63,323)**	**19,759**	**(43,564)**	**(56,366)**	**18,388**	**(37,978)**
Recoveries received	(16,336)	6,985	(9,350)	(12,335)	5,251	(7,084)
Change in reserves for recoveries	(46,987)	12,774	(34,214)	(44,031)	13,137	(30,894)
Cost of claims from prior year	**(242,790)**	**110,772**	**(132,018)**	**(309,106)**	**154,385**	**(154,721)**
of which claims paid	506,927	(196,694)	310,234	564,045	(224,546)	339,499
of which claims reserves	(744,195)	316,740	(427,455)	(861,058)	386,986	(474,072)
of which claims handling expenses	(5,522)	(9,275)	(14,797)	(12,093)	(8,055)	(20,148)
Recoveries from prior year	**(87,450)**	**31,167**	**(56,283)**	**(83,988)**	**33,252**	**(50,735)**
Recoveries received	(127,172)	42,872	(84,300)	(129,803)	41,871	(87,932)
Change in reserves for recoveries	39,722	(11,705)	28,018	45,816	(8,619)	37,197
Cost of claims	**609,129**	**(187,613)**	**421,516**	**534,904**	**(172,685)**	**362,219**

Claims expense increased slightly compared with the previous year. As reinsurance assignments of claims held steady, the changes before and after reinsurance were similar. The reduction in the claims reserve surplus for prior years was partially offset by the increase in recoveries after indemnification. Part of the increase in claims experience is reflected in the higher claims paid.

Claims reserves

(€'000)

	31-12-2005 Gross	31-12-2005 Reinsurance	31-12-2005 Net	31-12-2004 Gross	31-12-2004 Reinsurance	31-12-2004 Net
Claims reserves gross of recoveries						
Present year	689,673	(244,728)	444,945	712,073	(280,577)	431,496
Prior years	573,540	(240,187)	333,353	607,086	(278,639)	328,447
Recoveries to be received						
Present year	(49,683)	13,459	(36,224)	(46,159)	12,374	(33,784)
Prior years	(90,168)	28,264	(61,904)	(83,425)	26,281	(57,144)
Claims reserves	**1,123,362**	**(443,191)**	**680,170**	**1,189,575**	**(520,561)**	**669,014**

Breakdown by type of reserve

(€'000)

	31-12-2005 Gross	31-12-2005 Reinsurance	31-12-2005 Net	31-12-2004 Gross	31-12-2004 Reinsurance	31-12-2004 Net
Reserves for unearned premiums	254,586	(72,272)	182,314	211,390	(61,108)	150,282
Claims reserves	1,123,362	(443,191)	680,170	1,189,575	(520,561)	669,014
of which reserves for known claims	888,290	(471,362)	416,928	964,808	(551,261)	413,547
of which reserves for late claims	274,721	46	274,767	258,435	(1,788)	256,647
of which reserves for claims handling expenses	98,811	(13,599)	85,212	94,011	(5,775)	88,236
of which other technical reserves	1,391	-	1,391	1,905	-	1,905
of which recoveries to be received	(139,851)	41,724	(98,128)	(129,584)	38,655	(90,928)
No-claims bonus and rebates	119,216	(29,448)	89,768	110,628	(26,784)	83,843
Technical reserves	**1,497,164**	**(544,912)**	**952,252**	**1,511,593**	**(608,453)**	**903,140**

Development of claims reserves

For a given year, claims for that year follow the process of notification and settlement, possibly followed by collection action. Claims reserves and payments reflect the cost of claims and related cash flows, with a sharp reduction in reserves as from the second year and an increase in claims paid.

The initial estimate of the final cost of claims includes a degree of uncertainty, resulting in a surplus on prior years, reflecting not only a lack of information but also a margin of prudence. Large claims at the end of the year have impacted the development of claims reserves. Major claims such as Moulinex and Kmart that occurred in 2001 and Parmalat in 2003 initially impacted the ultimate cost before reinsurance of a given year and represented up to 10% of the estimated final gross cost of claims even though the cost net of reinsurance could have been reduced further. The collection or cancellation of claims reserves in subsequent periods generated substantial surplus reserves.

Estimate of the final cost of claims for the main group entities (before reinsurance)

(€'000)

Accident/development year	1	2	3	4	5	difference	% difference
2001	1,251,152	1,135,029	1,079,191	1,038,930	1,016,065	235,087	18.8%
2002	1,115,259	911,696	900,827	838,428		276,831	24.8%
2003	1,000,664	740,042	686,112			314,552	31.4%
2004	771,163	608,234				162,929	21.1%
2005	793,188						

** Variance: surplus or shortfall of the initial reserve over the current estimate of the final cost for the year in question.*

** The aggregate tables of claims development, excluding elimination of cash flows between entities, cover more than 90% of the technical reserves of all group entities.*

The initial estimate of the ultimate cost of claims is calculated using techniques based on past trends in the cost of claims. The uncertainty in the first year of development on claims not yet reported, a prudent estimate of the ultimate cost, recoveries after indemnification, and the Parmalat claim in 2003 are some of the factors that explain the variance of 31.4% observed in the 2003 insurance year.

Development triangle for cumulative claims paid net of recourse for the main group entities (before reinsurance)

(€'000)

Accident/development year	1	2	3	4	5
2001	305,495	880,227	969,301	981,543	982,965
2002	312,692	695,396	776,995	793,340	
2003	237,067	547,194	593,129		
2004	209,022	479,939			
2005	245,724				

The short-term nature of credit insurance is illustrated by the development of claims payments, which are concentrated mainly in the first two years.

4 - TRANSITION TO IFRS

4.1 - Presentation of the new financial statements

IAS 1 sets out the information to be presented in the balance sheet and income statement. Other standards (IFRS 4 and IAS 32-39) provide further details on the presentation of information in the financial statements. The financial statements presented in the consolidated financial statements were prepared in accordance with CNC recommendation no. 2005-R-01 of 24 March 2005, which lays down the format for financial statements prepared by insurance firms under international accounting standards.

The main changes in the new presentation are as follows:

■ Balance sheet:
- a distinction is made between investment property, as defined by IAS 40, and other operating property covered by IAS 16, with operating property being moved lower down the balance sheet;
- presentation on a separate line of acquisition costs capitalised;
- presentation on separate lines of deferred and current tax (in both assets and liabilities);
- discontinued use of "accrued income and prepaid expenses" and "deferred income and accrued expenses".

■ Income statement:
- inclusion of the concept of "income from ordinary activities" by way of an aggregate (see § 2.3.21);
- contract administration expenses and acquisition costs (previously included within management expense) are presented on separate lines;
- discontinued use of the concept of exceptional income and expense.

In the transitional balance sheets and income statements presented in this section, Transition to IFRS, the "reclassifications" column shows the changes required by the new presentation under IFRS. These reclassifications facilitate an item-by-item analysis of the impact of the transition to IFRS.

4.2 - Reclassifications made under the old accounting framework

The comments provided below relate to the transitional balance sheets and income statements presented in sections 4.6, 4.7 and 4.9.

4.2.1 Reclassifications relating to the factoring activityv

The financial statements of Eurofactor and of its subsidiaries have been combined in the income statement in a separate line entit led "Gain (loss) after tax from discontinued activities", as the entire business was sold to Crédit Agricole on 14 December 2004. The income statement for the year ended 31 December 2005 can therefore be more readily compared with the income statement for the year ended 31 December 2004 excluding the "Factoring" activity. The same method has been applied regarding the cash flow statement since the cash flows related to Eurofactor have been agregated within the heading cash flows relating to changes in consolidation scope.

4.2.2 Reclassifications relating to the insurance activity

Balance sheet

From: (published version)	To: (IFRS version)	01-Jan-2004 €'m	31-Dec-2004 €'m
Investment property	Operating property	193	186
Other assets	Other property and equipment	39	35
		232	**221**
Operating property and other property and equipment have been combined under the same heading: "Operating property and other property and equipment			
Accrued income and prepaid expenses	Insurance and reinsurance receivables	20	23
‘’	Acquisition costs capitalised	23	32
‘’	Financial investments	33	34
‘’	Other assets	33	28
		109	**117**
Accrued income and prepaid expenses have been reclassified within the above headings.			
Other receivables	Current tax receivable	38	37
‘’	Deferred tax assets	63	20
		101	**57**
Tax receivables are presented under separate headings.			
Provision for risks and charges	Deferred tax liabilities	158	91
Other liabilities	Other borrowings	219	90
‘’	Current tax liability	62	15
		281	**105**
Tax liabilities are presented under separate headings.			
Deferred income and accrued expenses	Liabilities on accepted insurance and reinsurance transactions	14	16
‘’	Other liabilities	37	31
		51	**47**
Deferred income and accrued expenses have been reclassified within the above headings.			

Income statement

From (published version)	To (IFRS version)	31-Dec-2004 €'m
Premium-related fees	Other ordinary operating revenues and expenses	(8)
This adjustment concerns revenues that cannot be treated as turnover within the meaning of IFRS standards.		
Net financial income	Other ordinary operating revenues and expenses	5
	Financing expense	22
		27
Operating property expenses are reclassified within "Other ordinary operating revenues and expenses". Financing expense is presented in a separate line.		
Management expense	Contract acquisition expense	(275)
	Administration expense	(185)
	Other ordinary operating revenues and expenses	(223)
	Impairment of portfolio securities	(2)
	Net reinsurance income or expense	(1)
		(686)
Contract acquisition expense and administration expense are presented on separate lines. Other underwriting expense is reclassified within "Other ordinary operating revenues and expenses".		
Exceptional items	Other ordinary operating revenues and expenses	(5)
	Net income from activities abandoned	(15)
		(20)
The exceptional items reported under the old framework are reclassified within "Other ordinary operating revenues and expenses". The capital gain on the disposal of Eurofactor (December 2004) is presented in the line "Net income from activities abandoned".		
Other income	Impairment of portfolio securities	(2)
Goodwill amortisation	Other operating revenues and expenses	(5)

4.3 - Application of IFRS

4.3.1 Presentation of standards applied

The standards applied are presented in the section 2.1.

4.3.2 First-time adoption of IFRS

4.3.2.1 Application subsequent to the first-time application of IFRS by the Allianz group

Euler Hermes is consolidated by the Allianz group, which has prepared its consolidated financial statements under IAS and IFRS since 1998. The Euler Hermes group, which, like its core shareholder AGF, is adopting IFRS for the first time at a later date than that applied by the Allianz group to which it belongs, had the choice, in accordance with IFRS 1 § 24, between two options for measuring its assets and liabilities:

a) "at the value that would be recognised in the consolidated financial statements of Allianz, based on the date of transition to IFRS by Allianz, excluding adjustments made relating to the consolidation or as a result of the business combination under which Allianz acquired the subsidiary";

b) "at the value that would be recognised through the application of other provisions of this standard, based on the date of transition to IFRS by Euler Hermes".

The Euler Hermes group elected for the option given in paragraph 24a of IFRS 1 relating to the first-time adoption of IFRS. This option, together with the election made by Euler Hermes to retroactively restate business combinations as from 31 March 1998 (the date on which Allianz took control of the AGF group), had the following impact on the corporate acquisitions made by the group:

<u>Acquisitions prior to 31 March 1998:</u>

Acquisitions of subsidiaries prior to 31 March 1998 (including that of Euler Hermes in the UK and in the US) have not been retroactively restated through the application of the option under IFRS 1 that permits the retroactive restatement date of acquisitions to be determined. Goodwill calculated when these subsidiaries were first included in the consolidation scope has been retained as an asset at the amount net of amortisation at 31 December 2003, subject to impairment tests. Network values determined on first consolidation have been transferred to goodwill, net of the amortisation calculated between 31 March 1998 and 31 December 2003. The assets and liabilities of the entities concerned are restated where necessary in order to ensure consistency with the IFRS of Euler Hermes as applied by the group.

<u>Acquisitions made subsequent to 31 March 1998 from the Allianz group</u>

The only acquisition concerned is that of Euler Hermes Kreditversicherungs AG and its subsidiaries during the second half of 2002. The restatement of this acquisition involved replacing the values appearing in the published consolidated financial statements prepared under French accounting standards using the "fair value method" (also known as the Purchase GAAP method) with the assets and liabilities appearing in the Allianz group's consolidated financial statements prepared under IFRS (including for goodwill). The resulting variances were recognised in shareholders' equity at 1st January 2004. In particular, the net acquisition goodwill and network values (reclassified within goodwill) relating to this company and its subsidiaries were cancelled, with a corresponding entry to shareholders' equity. At the level of the Allianz group, this acquisition involved a transaction between joint ventures that had been adjusted using the values in the consolidated financial statements (historical values) and therefore did not generate any goodwill.

The assets and liabilities of the entities concerned were also restated, where applicable, in order to ensure consistency with the IFRS as applied by the Euler Hermes group.

<u>Acquisitions made subsequent to 31 March 1998 from non-Allianz group entities</u>

Less material acquisitions were made subsequent to 31 March 1998 and have been restated in accordance with IFRS 3.

4.3.2.2 Other consequences

<u>Translation differences</u>

Pursuant to the exemption provided for in paragraph 22 of IFRS1, translation differences that appeared as a separate item within consolidated shareholders' equity under French accounting standards at 31 December 2003 have been transferred to consolidated reserves without any impact on the total amount of shareholders' equity. In the event that the subsidiaries concerned are subsequently sold, only those translation differences arising after 1st January 2004 will impact the income statement.

In addition, goodwill on non-euro zone foreign subsidiaries (after reclassification of network values) has been retroactively recalculated in order to comply with the requirements of IAS 21.

<u>Share-based payments (IFRS 2)</u>

IFRS 2 is applied retroactively to all measures concerned that are granted after 7 November 2002.

Application of IFRS 4 relating to insurance contracts
Insurance contracts are valued in accordance with the French accounting standards provided for in CRC Regulation no. 2000–05.

Valuation of buildings
The group has elected to apply the option to recognise buildings at historical cost, in accordance with the cost model.

Employee benefits
The corridor method is used for the recognition of actuarial variances arising on the measurement of commitments in respect of post-employment benefits, which include notably lump-sum retirement payments.

4.4 - Changes made to the 2004 balance sheet and income statement as at 1st of January 2004 and December 2004

The comparative balance sheets at 1st January 2004 and 31 December 2004 and the income statement for the year ended 31 December 2004 published in the interim consolidated financial statements for the period ended 30 June 2005 were amended in respect of the following items:

1) Reclassifications for the purpose of uniformity
A more detailed analysis of the classification of the chart of accounts subsequent to 30 June 2005 highlighted the need to reclassify certain items.

2) Impairment of available-for-sale securities
Interpretations issued by the IFRIC in June 2005 on the impairment of financial instruments could not be taken into account in the consolidated financial statements for the first half of 2005 due to the time required to calculate the impact.

At 31 December 2005, the impairment of available-for-sale shareholders' equity instruments was calculated by applying, with retroactive effect from the date on which the securities were acquired, the following rules:
- significant impairment is presumed when the fair value of an available-for-sale equity is more than 20% less than the average acquisition cost of the securities at the quarter end;
- lasting impairment is presumed when the fair value is less than the acquisition cost for more than 9 months.

In addition, any subsequent decrease in the fair value of a security already written down results in the recognition of an additional impairment through the income statement. This change of accounting method resulted in a post-tax increase in unrealised reserves and decrease in consolidated reserves in the opening IFRS balance sheet of €17.6 million. Income for the year ended 31 December 2004 was increased by €3.8 million in comparision with the one published in the interim consolidated financial statements for the period ended 30 June 2005.

3) Activities carried out on behalf of the German State:
Revenues relating to the credit insurance activity carried out on behalf of the German State were reclassified in premium-related fees in accordance with IAS/IFRS requirements. These amounted to €44.8 million for the year ended 31 December 2004 and €45.4 million for the year ended 31 December 2005.

(€'000)

	2004 IFRS as published at 30 June 2005	Reclassifications (1)	New method of impairment (2)	Activity carried out on behalf of the Government (3)	2004 IFRS definitive figures
Premiums written	1,610,729	-	-	-	1,610,729
Change in unearned premiums	(32,624)	-	-	-	(32,624)
Earned premiums	1,578,105	-	-	-	1,578,105
Premium-related revenues	256,137	-	-	44,887	301,024
Turnover	**1,834,242**	**-**	**-**	**44,887**	**1,879,129**
Net financial income (excluding financing expense)	**87,921**	**(2,970)**	**5,169**	**-**	**90,120**
Total ordinary revenues	**1,922,163**	**(2,970)**	**5,169**	**44,887**	**1,969,249**
Insurance services expense	(608,462)	-	-	-	(608,462)
Net reinsurance income or expense	(285,467)	-	-	-	(285,467)
Contract acquisition expense	(276,970)	49	-	-	(276,921)
Impairment of portfolio securities and similar	(1,676)	-	-	-	(1,676)
Administration expense	(182,704)	1,087	-	-	(181,617)
Other ordinary operating income and expense	(214,677)	1,833	-	(44,887)	(257,730)
Total other ordinary revenues and expense	**(1,569,956)**	**2,970**	**-**	**(44,887)**	**(1,611,874)**
Ordinary operating income	**352,207**	**-**	**5,169**	**-**	**357,375**
Other operating income and expense	(10,162)		-	-	(10,162)
Operating income	**342,045**	**-**	**5,169**	**-**	**347,213**
Financing expense	(22,000)	-	-	-	(22,000)
Income from companies accounted for by the equity method	5,349	-	-	-	5,349
Corporation tax	(109,272)	-	(1,408)	-	(110,679)
Net income from discontinued activities	**25,713**	**-**	**-**	**-**	**25,713**
Consolidated net income	**241,835**	**-**	**3,762**	**-**	**245,596**
Minority interests	(2,611)			-	(2,613)
Net income, group share	**239,224**	**-**	**3,762**	**-**	**242,983**

4.5 - Reconciliation of shareholders' equity under French GAAP with shareholders' equity under IFRS at 31 December 2004

(€'000)

	Notes	1st January 2004	Net income the period	Capital Increase	Dividend distribution	Translation differences	Revaluation reserve	Consolidated reserves	31 Dec 2004	Minority interests	Total shareholders' equity
Shareholders' equity French GAAP		1,049,207	206,437	62,121	(72,437)	(5,534)	-	(6,784)	1,233,010	22,911	1,255,921
Adoption of IFRS 1 option 24a	§ 4.3.2.1	(261,876)	7					397	(261,472)	(397)	(261,869)
First-time application of IFRS/ translation difference	§ 4.3.2.2	12,639				(2,525)		-	10,114		10,114
Goodwill (IFRS 3)	§ 2.3.6	(31,029)	(6,707)					88	(37,648)	(67)	(37,715)
Property, plant and equipment (IAS 16 and IAS 40)	§ 2.3.7	(606)	1,360					(341)	413	(647)	(234)
Financial instruments: recognition and measurement (IAS39)	§ 2.3.9.1	7,167	(5,597)					175	1 745		1,745
New impairment rule for financial assets	§ 2.3.9.1	(17,599)	3,759					(41)	(13,881)		(13,881)
Consolidation scope/treatment of mutual funds (IAS27, IAS28)	§ 2.2	(23,106)	3,549					49	(19,508)	253	(19,255)
Insurance contracts (cancellation of equalisation reserves)	§ 2.3.19	300,949	42,099					4,827	347,875	2,220	350,095
Insurance liabilities	§ 4.3.2.1	5,951	(5,463)					-	488	-	488
Derivatives (IAS39)	§ 2.3.9.2	(5,008)	3,532					-	(1,476)	(24)	(1,500)
Employee benefits (IAS19)	§ 2.3.17	13,015	1,398					(478)	13,935		13,935
Share-based payments (IFRS 2)	§ 2.3.18	88	(1,472)					1,306	(78)		(78)
Effects of changes in foreign exchange rates (IAS 21)	§ 2.3.4	(25)	(1,064)					-	(1,089)		(1,089)
Other		1 203	1,145			(3,592)		2,947	1,703	35	1,738
Total IAS/IFRS adjustments, net of tax but before impact on revaluation reserves		**1,763**	**36,546**	**-**	**-**	**(6,117)**	**-**	**8,929**	**41,121**	**1,373**	**42,494**
Impact of adjustments on revaluation reserves		**78,769**					**24,933**		**103,702**	**599**	**104,301**
Shareholders' equity IFRS		**1,129,739**	**242,983**	**62,121**	**(72,437)**	**(11,651)**	**24,933**	**2,145**	**1,377,833**	**24,883**	**1,402,716**

Impact of each IFRS adjustment on current and deferred tax

	01-Jan-04		31-Dec-04	
IFRS adjustments	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Adoption of IFRS 1 option 24a		17,302		16,209
Property, plant and equipment (IAS 16 and IAS 40)	(326)	1,934	2,118	(1,092)
Financial instruments: recognition and measurement (IAS 39)	9,304	(37,199)	8,551	(45,730)
Consolidation scope/treatment of mutual funds (IAS27, IAS 28)	4,415	(8,880)	5,065	(15,926)
Insurance contracts (cancellation of equalisation reserves)	(789)	(176,795)	(1,020)	(197,577)
Insurance liabilities		(4,249)		(312)
Derivatives (IAS 39)	2,788		3,449	(1,815)
Employee benefits (IAS 19)	(206)	(9,241)		(8,713)
Share-based payments (IFRS 2)	11	(76)	57	(15)
Effects of changes in foreign exchange rates (IAS 21)		(100)	701	
Other	2,936	(5,151)	(1,743)	793
Total	**18,133**	**(222,355)**	**16,377**	**(253,477)**

4.6 - Balance sheet as at 1/1/2004 - restatement from French GAAP to IFRS

(€'000)

ASSETS	Notes	French GAAP	Reclass.	French GAAP reclass	IFRS transition impact	IFRS	of which IFRS 1	of which Other impact
Goodwill	(a)	54,899	-	54,899	59,716	114,615	(237,355)	297,071
Other intangible assets	(b)	349,609	-	349,609	(317,207)	32,402	-	(317,207)
Intangible assets		**404,508**	**-**	**404,508**	**(257,491)**	**147,017**	**(237,355)**	**(20,136)**
Investment property	(c)	284,574	(191,208)	93,366	1,742	95,108	(1,035)	2,777
Financial investments	(d)	2,250,768	32,638	2,283,406	76,282	2,359,688	15,650	60,632
Derivatives	(e)		-		185	185		185
Investments- insurance businesses		**2,535,342**	**(158,570)**	**2,376,772**	**78,209**	**2,454,981**	**14,615**	**63,594**
Investments - banking sector businesses		**2,171**	**(1,664)**	**507**	**-**	**507**	**-**	**-**
Investments accounted for by the equity method	**(f)**	**29,532**	**-**	**29,532**	**908**	**30,440**	**-**	**908**
Share of assignees and reinsurers in the technical reserves and financial liabilities	**(g)**	**709,601**	**-**	**709,601**	**(3,287)**	**706,314**	**-**	**(3,287)**
Claims on customers of banking environment companies		1,870,443	-	1,870,443	-	1,870,443	-	-
Receivables relating to insurance and reinsurance transactions	(h)	448,434	19,761	468,195	3,073	471,268	-	3,073
Other receivables	(i)	183,931	(100,284)	83,647	6	83,653	-	6
Operating receivables		**2,502,808**	**(80,523)**	**2,422,285**	**3,079**	**2,425,364**	**-**	**3,079**
Operating property and other property and equipment	(j)	-	231,832	231 832	(50,319)	181,513	(40,693)	(9,626)
Acquisition costs capitalised		-	23,219	23 219	-	23,219	-	-
Corporation tax receivables		-	37,826	37,826	-	37,826	-	-
Deferred tax assets	(k)	-	63,348	63,348	18,134	81,482	(239)	18,373
Other assets	(l)	39,326	(6,764)	32,562	(15,123)	17,439	(14,162)	(961)
Accruals and prepayments		108,704	(108,704)	-	-	-	-	-
Other assets		**148,030**	**240,757**	**388,787**	**(47,307)**	**341,480**	**(55,094)**	**7,787**
Cash and cash equivalents	**(m)**	**156,737**	**-**	**156,737**	**610**	**157,347**	**-**	**610**
Total assets		**6,488,729**	**-**	**6,488,729**	**(225,278)**	**6,263,450**	**(277,834)**	**52,556**

(€'000)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	French GAAP	Reclass.	French GAAP reclass	IFRS transition impact	IFRS	of which IFRS 1	of which Other impact
Capital stock		13,297	-	13,297	-	13,297		-
Additional paid-in capital		292,288	-	292,288	-	292,288		-
Consolidated reserves		812,968	(146,145)	666,823	(54,074)	612,749	(235,940)	181,866
Net income, group share			146,145	146,145	79,013	225,158		
Revaluation reserve			-	-	78,769	78,769	5,253	73,516
Other		(69,346)	-	(69,346)	(23,176)	(92,522)		(23,176)
Shareholders' equity, group share		**1,049,207**	**-**	**1,049,207**	**80,532**	**1,129,739**	**(230,687)**	**311,219**
Minority interests		24,283	-	24,283	1,731	26,014		1,731
Total shareholders' equity		**1,073,490**	**-**	**1,073,490**	**82,263**	**1,155,753**	**(230,687)**	**312,950**
Provisions for risks and charges	**(n)**	**304,117**	**(158,172)**	**145,945**	**(41,919)**	**104,026**	**(36,861)**	**(5,058)**
Subordinated borrowings		81,973	-	81,973	-	81,973	-	-
Borrowings from banking sector businesses		840,250	-	840,250	-	840,250	-	-
Other borrowings		-	219,058	219,058	-	219,058		-
Liabilities to banking sector business		830 626	-	830 626	-	830 626	-	-
Liabilities represented by securities		324 640	-	324 640	-	324 640	-	-
Borrowings		**2,077,489**	**219,058**	**2,296,547**	**-**	**2,296,547**	**-**	**-**
Gross non-life technical reserves	(o)	2,144,616	-	2,144,616	(496,594)	1,648,022	(10,200)	(486,394)
Liabilities related to contracts		**2,144,616**	**-**	**2,144,616**	**(496,594)**	**1,648,022**	**(10,200)**	**(486,394)**
Liabilities related to inwards insurance and reinsurance transactions		169,005	13,924	182,929	-	182,929	-	-
Liabilities related to outwards reinsurance transactions		130,987	-	130,987	-	130,987	-	-
Other operating liabilities	(p)	538,231	(281,393)	256,838	36	256,874	-	36
Operating liabilities		**838,223**	**(267,468)**	**570,754**	**36**	**570,790**	**-**	**36**
Derivatives	(q)	-	-		8,581	8,581		8,581
Deferred tax liabilities	(r)	-	158,173	158,173	222,355	380,528	(86)	222,441
Corporation tax payables		-	62,334	62,334	-	62 334	-	-
Other liabilities		-	36,870	36,870	-	36,870	-	-
Accruals and prepayments		50,794	(50,794)	-	-	-	-	-
Other liabilities		**50,794**	**206,583**	**257,377**	**230,936**	**488,313**	**(86)**	**231 022**
Total shareholders' equity and liabilities		**6,488,729**	**-**	**6,488,729**	**(225,278)**	**6,263,450**	**(277,834)**	**52,556**

4.7 - Balance sheet as at 31/12/2004 - restatement from French GAAP to IFRS

(€'000)

ASSETS	Notes	French GAAP	Reclass.	French GAAP reclass.	IFRS transition impact	IFRS
Goodwill	(a)	53,040	-	53,040	49,801	102,841
Other intangible assets	(b)	341,192	2,704	343,896	(314,051)	29,845
Intangible assets		**394,232**	**2,704**	**396,936**	**(264,250)**	**132,686**
Investment property	(c)	279,833	(186,063)	93,770	2,678	96,448
Financial investments	(d)	2,380,131	34,017	2,414,148	118,254	2,532,402
Derivatives	(e)		-	-	1,271	1,271
Investments - insurance businesses		**2,659,964**	**(152,046)**	**2,507,918**	**122,203**	**2,630,121**
Investments - banking sector businesses		**-**	**-**	**-**	**-**	**-**
Investments accounted for by the equity method	**(f)**	**34,797**	**-**	**34,797**	**2,851**	**37,648**
Share of assignees and reinsurers in the technical reserves and financial liabilities	**(g)**	**608,453**	**-**	**608,453**	**-**	**608,453**
Receivables relating to insurance and reinsurance transactions	(h)	433,210	23,162	456,372	-	456,372
Other receivables	(i)	200,939	(57,527)	143,412	19	143,431
Operating receivables		**634,149**	**(34,365)**	**599,784**	**19**	**599,803**
Operating property and other property and equipment	(j)	-	218,031	218,031	(47,105)	170,927
Acquisition costs capitalised		-	32,689	32,689	-	32,689
Corporation tax receivables		-	36,901	36,901	-	36,901
Deferred tax assets	(k)	-	20,011	20,011	16,377	36,388
Other assets	(l)	34,830	(7,104)	27,726	(13,951)	13,775
Accruals and prepayments		116,821	(116,821)	-	-	-
Other assets		**151,651**	**183,707**	**335,358**	**(44,679)**	**290,680**
Cash and cash equivalents	**(m)**	**101,577**	**-**	**101,577**	**1,121**	**102,698**
Total asset		**4,584,823**	**-**	**4,584,823**	**(182,735)**	**4,402,088**

Notes to consolidated financial statements

(€'000)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	French GAAP	Reclass.	French GAAP reclass.	IFRS transition impact	IFRS
Capital stock		13,794	-	13,794	-	13,794
Additional paid-in capital		353,912	-	353,912	-	353,912
Reserves		940,184	(206,437)	733,747	32,864	766,612
Net income, group share			206,437	206,437	36,547	242,983
Revaluation reserve			-	-	103,702	103,702
Other		(74,880)	-	(74,880)	(28,290)	(103,170)
Shareholders' equity, group share		**1,233,010**	**-**	**1,233,010**	**144,823**	**1,377,833**
Minority interests		22,911	-	22,911	1,972	24,883
Total shareholders' equity		**1,255,921**	**-**	**1,255,921**	**146,795**	**1,402,716**
Provisions for risks and charges	**(n)**	**223,998**	**(95,613)**	**128,385**	**(43,556)**	**84,828**
Subordinated borrowings		13,377	-	13,377	-	13,377
Borrowings from banking sector businesses		250,319	-	250,319	-	250,319
Other borrowings		-	89,878	89,878	-	89,878
Borrowings		**263,696**	**89,878**	**353,574**	**-**	**353,574**
Gross non-life technical reserves	(o)	2,061,084	-	2,061,084	(549,491)	1,511,593
Liabilities related to contracts		**2,061,084**	**-**	**2,061,084**	**(549,491)**	**1,511,593**
Liabilities related to inwards insurance and reinsurance transactions		181,251	16,124	197,374	-	197,374
Liabilities related to outwards reinsurance transactions		175,206	-	175,206	-	175,206
Other operating liabilities	(p)	377,016	(104,922)	272,094	25	272,119
Operating liabilities		**733,472**	**(88,799)**	**644,674**	**25**	**644,699**
Derivatives	(q)	-			10,016	10,016
Deferred tax liabilities	(r)	-	90,751	90,751	253,477	344,228
Corporation tax payables		-	19,904	19,904	-	19,904
Other liabilities		-	30,530	30,530	-	30,530
Accruals and prepayments		46,652	(46,652)	-	-	-
Other liabilities		**46,652**	**94,533**	**141,185**	**263,493**	**404,678**
Total shareholders' equity and liabilities		**4,584,823**	**-**	**4,584,823**	**(182,735)**	**4,402,088**

4.8 - Notes on the impact on the balance sheet

Goodwill

(€'000)

	01-Jan-04	31-Dec-04
Network values - reclassification	316,730	316,730
Network values - amortisation	(31,747)	(31,747)
Network values and goodwill - cancellation	(239,074)	(239,074)
Goodwill amortisation - cancellation	1,719	2,870
Negative goodwill	206	185
Goodwill - cancellation of amortisation		3,735
Goodwill - translation difference	12,639	10,115
Goodwill - provision		(10,162)
Goodwill - reclassification	(757)	(2,851)
Total adjustment	**59,716**	**49,801**

Network values of €316.7 million recognised as an asset under French accounting standards have been reclassified as goodwill under IFRS. They had been amortised retroactively over 20 years from the date on which they were acquired by Allianz (31 March 1998) at 31 December 2003. The amount of this restatement is €31.7 million.

Euler Hermes elected to apply option 24a of IFRS 1. As such, network values amounting to €216 million recorded in respect of the subsidiaries of Hermes acquired in 2002 have been cancelled, as has the residual goodwill of €23 million on Euler Hermes Kreditversicherungs AG. The total impact of this adjustment is €239 million.
The accumulated goodwill amortisation relating to Euler Hermes Kreditversicherungs AG was cancelled, representing an amount of €1.7 million in the opening balance sheet and €1.1 million over the year ended 31 December 2004. With effect from 1st January 2004, and in accordance with IFRS, goodwill is no longer amortised. The impact of this restatement represents a positive value of €3.7 million at 31 December 2004.

Goodwill on foreign subsidiaries (after reclassification of network values) has been recalculated in foreign currency retrospectively in order to comply with the requirements of IAS 21. The impact of this restatement is €12.6 million at 1st January 2004.

Notes to consolidated financial statements

In accordance with IFRS 3, goodwill is subject to an annual impairment test. An impairment was recognised in respect of Euler Hermes in the United Kingdom amounting to €10 million for the year ended 31 December 2004.

Other intangible assets

(€'000)

	01-Jan-04	31-Dec-04
Network values	(316,730)	(316,730)
Software	(477)	2,679
Total adjustment	**(317,207)**	**(314,051)**

Network values of €316.7 million recognised as an asset under French accounting standards have been reclassified as goodwill under IFRS. The other adjustments concern software developed in-house.

Investment property

(€'000)

	01-Jan-04	31-Dec-04
Depreciated historical cost - components	2,777	3,712
Depreciated historical cost - valuation difference	(1,035)	(1,034)
Total ajustement	**1,742**	**2,678**

Property has been recognised using the cost model in accordance with the component-based method. Following the application of option 24a of IFRS 1, a valuation difference of €1 million has been cancelled in the financial statements of Euler Hermes Kreditversicherungs AG.

Financial investments

(€'000)

	01-Jan-2004	31-Dec-2004
Available-for-sale investments	109,242	127,252
Impairment	(25,146)	(21,512)
Impact of exchange rate movements	(25)	(1,690)
Mutual funds	(7,815)	14,168
Other adjustments	26	36
Total adjustment	**76,282**	**118,254**

Available-for-sale financial investments have been recognised at fair value. This restatement had an impact of €109 million in the opening balance sheet at 1st January 2004, and €127 million in the closing balance sheet at 31 December 2004. Furthermore, the overall provisions on investment securities recognised in the previously published financial statements have been cancelled in the IFRS presentation, representing €25 million and €22 million respectively in the opening and closing balance sheets.

IAS 21 has been applied to the financial statements of the Euler Hermes group, resulting in an impact of €1.7 million at 31 December 2004.

The other adjustments stem from the inclusion of mutual funds in the consolidation scope following the application of IAS 27 and the SIC 12 interpretation.

Derivatives

(€'000)

	01-Jan-04	31-Dec-04
Derivatives	**185**	**1,271**

Derivatives have been recognised in accordance with IAS 39 revised. This restatement had an impact on assets of €185,000 at 1st January 2004, and €1.3 million at 31 December 2004. Under the old accounting framework, these instruments were presented under off-balance sheet commitments.

Investments accounted for by the equity method

(€'000)

	01-Jan-04	31-Dec-04
Available-for-sale investments	151	
Goodwill - reclassification	757	2,851
Total adjustment	**908**	**2,851**

The mark-to-market of available-for-sale investments impacted the shareholders' equity of companies accounted for by the equity method. Furthermore, in accordance with the new presentation format required under IFRS, goodwill recognised in respect of equity-accounted companies has been reclassified within investments accounted for by the equity method.

Share of assignees and reinsurers in the technical reserves and financial liabilities

(€'000)

	01-Jan-04	31-Dec-04
Technical reserves	**(3, 287)**	**-**

Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Receivables related to insurance transactions

(€'000)

	01-Jan-04	31-Dec-04
Receivables related to reinsurance transactions	**3,073**	**-**

Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Other receivables

(€'000)

	01-Jan-04	31-Dec-04
Various adjustments	**6**	**19**

The minor impact on other receivables arises from miscellaneous restatements of amounts that are immaterial on an individual basis.

Property and equipment

(€'000)

	01-Jan-04	31-Dec-04
Operating property	**(50,319)**	**(47,105)**

Euler Hermes elected to apply option 24a of IFRS 1. This had an impact on operating property of €41.7 million in relation to Euler Hermes Kreditversicherungs AG on the opening balance sheet at 1st January 2004. The other adjustments relate to the adoption of the component-based approach by all group companies.

Deferred tax assets

(€'000)

	01-Jan-04	31-Dec-04
Mutual funds	4,415	5,065
Other IFRS adjustments	13,719	11,312
Total adjustment	**18,134**	**16,377**

The main changes compared with the previously published financial statements concern the recognition, with a corresponding entry to the revaluation reserve, of deferred tax relating to the mark-to-market of available-for-sale assets and the recognition of a tax effect on the IFRS restatements. The consolidation of the mutual funds also had an impact on the deferred tax assets.

Other assets

(€'000)

	01-Jan-04	31-Dec-04
Retirement commitments	(16,617)	(14,162)
Other adjustments	185	42
Mutual funds	1,309	169
Total adjustment	**(15,123)**	**(13,951)**

This restatement concerns reclassifications within assets relating to retirement commitments amounting to €16.6 million on the opening balance sheet and €14.2 million at 31 December 2004.

Cash and cash equivalents

(€'000)

	01-Jan-04	31-Dec-04
Mutual funds	**610**	**1,121**

The inclusion of the mutual funds in the consolidation scope of Euler Hermes had an impact on cash and cash equivalents as the mutual funds hold some of their investments in cash.

Provisions for risks and charges

(€'000)

	01-Jan-04	31-Dec-04
Retirement commitments	(39,079)	(36,810)
Loan hedging instruments	0	(5,195)
Provisions for major repairs	(1,673)	(1,439)
Other adjustments	(1,167)	(112)
Total adjustment	**(41,919)**	**(43,556)**

With regard to retirement commitments, the adjustments concern:
- the impact of the application of § 24a of IFRS 1 for companies acquired from Allianz, which resulted in the recognition of a corridor of €22 million and therefore a write-back of provisions for risks for this same amount;
- a reclassification amounting to €16.6 million in the opening balance sheet and €14.2 million in the closing balance sheet.

In addition, as part of the component-based approach, the provisions for major repairs recognised in the financial statements under French accounting standards have been cancelled.

The recognition of derivatives at market value resulted in the write-back of the provision for risks amounting to €5.2 million recognised in the consolidated financial statements of the Euler Hermes group under French accounting standards at 31 December 2004.

The other adjustments relate mainly to the review of the accounting treatment of the Retail activity of Euler Hermes in Belgium.

Liabilities related to contracts: gross non-life technical reserves

(€'000)

	01-Jan-04	31-Dec-04
Equalisation reserves	(478,928)	(534,164)
Other technical reserves	(7,466)	(14,527)
Reserves for current risks	(10,200)	(800)
Total adjustment	**(496,594)**	**(549,491)**

Pursuant to the application of IFRS 4, equalisation provisions have been cancelled in the IFRS financial statements of Euler Hermes. Other adjustments have been made in respect of other technical reserves, notably the provision for current risks relating to Euler Hermes Kreditversicherungs AG, which was cancelled, representing an amount of €10 million in the balance sheet at 1st January 2004.

Other liabilities

(€'000)

	01-Jan-04	31-Dec-04
Derivatives	**36**	**25**

The recognition of derivatives impacted other operating liabilities in the consolidated financial statements of the Euler Hermes group.

Derivatives

(€'000)

	01-Jan-04	31-Dec-04
Cash flow hedges	694	2,378
Loan hedging instruments	7,426	7,514
AFS hedges	461	124
Total adjustment	**8,581**	**10,016**

In accordance with IAS 39, hedging derivatives (fair value, borrowings and AFS) have been remeasured at fair value. This restatement had an impact on liabilities of €8.6 million at 1st January 2004 and €10 million at 31 December 2004.

Deferred tax liabilities

(€'000)

	01-Jan-04	31-Dec-04
Mutual funds	8,880	15,926
Other IFRS restatements	213,475	237,551
o/w equalisation reserve	*176,806*	*193,404*
Total adjustment	**222,355**	**253,477**

The main changes compared with the previously published financial statements concern the recognition, with a corresponding entry to the revaluation reserve, of deferred tax relating to the mark-to-market of available-for-sale assets and the recognition of a tax effect on the IFRS restatements, the main one being the cancellation of the equalisation provision in accordance with IFRS 4. The consolidation of the mutual funds also had an impact on the deferred tax liabilities in the IFRS financial statements of Euler Hermes.

4.9 - Income statement showing the restatement from French GAAP to IFRS for the year ended 31 December 2004

(€'000)

	Notes on impact	French GAAP	Reclassifications Eurofactor	Credit ins.	French GAAP reclass.	IFRS transition impact	Average rate impact	IFRS
Premiums written		1,594,349		-	1,594,349	-	16,379	1,610,729
Change in unearned premiums	(a)	(27,899)		-	(27,899)	(5,071)	347	(32,624)
Earned premiums		1,566,450		-	1,566,450	(5,071)	16,726	1,578,105
Revenues from banking operations		97,977	(97,977)	-		-		
Premium-related revenues	(b)	307,274		(8,220)	299,054	1,300	670	301,024
Turnover		**1,971,701**	**(97,977)**	**(8,220)**	**1,865,504**	**(3,771)**	**17,396**	**1,879,129**
Net financial income (excluding financing expense)	(c)	68,522		26,861	95,383	(6,214)	952	90,120
Total ordinary revenues		**2,040,223**	**(97,977)**	**18,641**	**1,960,887**	**(9,985)**	**18,348**	**1,969,249**
Insurance services expense	(d)	(650,897)		-	(650,897)	47,951	(5,515)	(608,462)
Net reinsurance income or expense	(e)	(289,055)		(990)	(290,045)	6,557	(1,979)	(285,467)
Banking operations expense		(29,573)	29,573	-	-	-	-	-
Management charges		(736,142)	50,119	686,023	-	-	-	-
Contract acquisition expense	(f)	-		(275,299)	(275,299)	2,129	(3,750)	(276,921)
Impairment of portfolio securities and similar		-		(1,663)	(1,663)	-	(13)	(1,676)
Administration expense	(g)	-		(184,632)	(184,632)	5,555	(2,540)	(181,617)
Other ordinary operating income and expense	(h)	(51,631)	(1,874)	(214,632)	(268,137)	11,304	(897)	(257,730)
Exceptional items		19,866	424	(20,290)	-	-	-	-
Total other ordinary revenues and expense		**(1,737,433)**	**78,242**	**(11,483)**	**(1,670,673)**	**73,495**	**(14,694)**	**(1,611,874)**
Ordinary operating income		**302,790**	**(19,735)**	**7,158**	**290,214**	**63,510**	**3,653**	**357,375**
Other operating income and expense	(i)	-	-	(4,764)	(4,764)	(5,398)	-	(10,162)
Operating income		**302 790**	**(19 735)**	**2 394**	**285 449**	**58 112**	**3 653**	**347 213**
Financing expense	(j)	-		(21,944)	(21,944)	(55)	(1)	(22,000)
Income from companies accounted for by the equity method		5,466	(132)	-	5,334	-	15	5,349
Goodwill amortisation		(4,836)	72	4,764	-	-		-
Corporation tax	(k)	(94,470)	8,922	-	(85,548)	(24,070)	(1,061)	(110,679)
Net income from discontinued activities	**(l)**		**10,873**	**14,786**	**25,659**	**72**	**(18)**	**25,713**
Consolidated net income		**208,950**	**-**	**-**	**208,950**	**34,058**	**2,589**	**245,596**
Minority interests	(m)	(2,513)			(2,513)	(102)	2	(2,613)
Net income, group share		**206,437**	**-**	**-**	**206,437**	**33,956**	**2,591**	**242,983**

4.10 - Impact of the average exchange rate

In the previously published financial statements, the consolidated net income was calculated using the closing exchange rate. Following the transition to IFRS, the consolidated net income is now translated at the exchange rate prevailing on the transaction dates.

For practical purposes, an average exchange rate is used. This change resulted in an increase in net income of €2.6 million at 31 December 2004, of which €1.9 million concerned the consolidated financial statements prior to the transition to IFRS.

4.11 - Notes on the impact on the income statement

Change in unearned premiums

(€'000)

	2004
Premiums written not yet earned	(5, 071)

Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Other operating revenues

(€'000)

	2004
Premiums written not yet earned	1,300

Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Net financial income (excluding financing cost)

(€'000)

		2004
Available-for-sale investments	(i)	(7,329)
Depreciated cost - property	(ii)	1,054
Mutual funds	(iii)	6,328
Non-monetary assets	(iv)	(1,665)
Foreign exchange impact on dividend	(v)	306
Other adjustments	(vi)	(4,908)
Total adjustment		**(6,214)**

i) The remeasurement of investments at market value had an impact on the calculation of capital gains and losses on available-for-sale investment securities in 2004. Furthermore, financial investments are subject to impairment testing in accordance with IAS 39 revised, which, where applicable, impacts the income statement. The total impact of these various restatements was €7.3 million for the year ended 31 December 2004.

ii) The write-downs that were calculated in accordance with the cost method and using the component-based approach had a positive impact of €1 million in 2004.

iii) Dividends paid by the mutual funds were cancelled on consolidation, as were the provisions for impairment, thereby reducing the net income by €2.7 million in 2004. Furthermore, the inclusion of the mutual funds within the consolidation scope increased net financial income.

iv) The application of IAS 21 reduced net income by €1.7 million due to the impact of exchange rate movements in Euler Hermes group companies.

v) Exchange differences on dividends previously recognised as a separate component of shareholders' equity now impact foreign exchange income and expense. This adjustment increased the income for 2004 by €0.3 million.

vi) The other adjustments relate mainly to the cancellation of notional rent from operating property for companies that own such property. This rent was estimated based on the charge that the business would pay for a similar property if it did not have its own property, or the income that it would receive if the property were rented out to a third party.

Insurance services expense

(€'000)

	2004
Cancellation of equalisation reserve	54,305
Other technical reserves	(6,354)
Total adjustment	**47,951**

Following the application of IFRS 4, equalisation provisions have been cancelled in the IFRS financial statements of Euler Hermes representing an amount of €54.3 million in 2004. The other adjustments concern other technical reserves. No-claims bonuses due to policyholders are currently included in insurance services expense.

Net reinsurance income or expense

(€'000)

	2004
Premiums written not yet earned	6,557

Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Contract acquisition expense

(€'000)

	2004
Contract acquisition expense	2,129

Adjustments concerning contract acquisition expense relate to the cancellation of notional rent from operating property for companies that own such property. This rent was estimated based on the charge that the business would pay for a similar property if it did not have its own property, or the income that it would receive if the property were rented out to a third party.

Administration expense

(€'000)

	2004
Administration expense	5,555

The adjustments concerning administration expense relate mainly to the cancellation of notional rent from operating property for companies that own such property. This rent was estimated based on the charge that the business would pay for a similar property if it did not have its own property, or the income that it would receive if the property were rented out to a third party.

Notes to consolidated financial statements

Other ordinary operating revenues and expenses

(€'000)

		2004
Hedging instruments - Loans	(i)	5,195
LIP capital increase/options	(ii)	(1,634)
Retirement commitments	(iii)	874
Unearned premiums	(iv)	2,505
Other adjustments	(v)	4,364
Total adjustment		**11,304**

i) The provision on the unrealised loss of €5.2 million on the interest rate swap previously recognised in the financial statements prepared under French accounting standards was written back in 2004 in the IFRS financial statements of Euler Hermes. Pursuant to the application of IAS 39, derivatives eligible for future cash flow hedge accounting are recognised at fair value and the share of the change in fair value on the hedging instrument that is considered to constitute an effective hedge is recognised with a corresponding entry in shareholders' equity.
ii) In accordance with IFRS 2, benefits granted to group employees involving the delivery of instruments representing shareholders' equity in group companies on preferential terms are now considered as additional remuneration and are recognised in expenses at their fair value on the grant date with a corresponding entry to reserves. This restatement reduced the 2004 income by €1.6 million.
iii) IAS 19 was previously applied by the Euler Hermes group, which used the corridor method to recognise actuarial variances. This restatement increased the net income for 2004 by €0.9 million following additional adjustments made to the retirement commitment provision by Euler Hermes companies in Germany.
iv) Following the application of IFRS, it proved necessary to review the accounting treatment of the Retail activity managed by Euler Hermes in Belgium.

Other operating revenues and expenses

(€'000)

	2004
Goodwill amortisation	4,764
Impairment provision, EHUK	(10,162)
Total adjustment	**(5,398)**

Goodwill amortisation recognised in 2004 has been cancelled, representing an amount of €4.8 million. Furthermore, in accordance with IFRS 3, goodwill is subject to annual impairment testing. As such, an impairment provision was recognised in respect of Euler Hermes UK plc amounting to €10.2 million in 2004.

Financing charges

(€'000)

	2004
Mutual funds	(55)

The recognition of mutual funds impacted financing charges for 2004.

Tax

(€'000)

	2004
Deferred tax	(24,070)

The recognition of the tax effect of the IFRS adjustments reduced 2004 net income by €24.07 million.

Net income or loss from discontinued activities

(€'000)

	2004
GW or BW correction	72

The cancellation of goodwill amortisation in 2004 impacted the results of the factoring companies. The consolidated gain previously recognised in the published financial statements prepared under French accounting standards for the year ended 31 December 2004 was reduced by a similar amount.

Minority interests

(€'000)

	2004
Minority interests	(102)

Minority interests in the net income were impacted by the IFRS adjustments made in 2004.

5 - NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Goodwill

(€'000)

	France	Italy	UK	US	Benelux countries	Other	31-Dec-05 Total	31-Dec-04 Total
At 1st January								
Gross value	484	6,229	69,423	24,112	7,978	4,777	113,003	114,615
Total impairment	-	-	(10,162)	-	-	-	(10,162)	-
Net book value	484	6,229	59,261	24,112	7,978	4,777	102,841	114,615
Change during the year								
Net book value at 1st January	484	6,229	59,261	24,112	7,978	4,777	102,841	114,615
Increase in gross value	-	-	-	-	-	-	-	2,298
Disposals and available for sale investments	-	-	-	-	-	-	-	(1,378)
Other changes	(91)	-	-	-	-	-	(91)	156
Reclassifications	-	-	-	-	-	-	-	
Foreign exchange differences	-	-	1,721	4,544	-	151	6,416	(2,688)
Impairment	-	-	-	-	-	-	-	(10 162)
Net book value at 31 December	393	6,229	60,982	28,656	7,978	4,928	109,166	102,841
At 31 December								
Gross value	393	6,229	71,144	28,656	7,978	4,928	119,328	113,003
Total impairment	-	-	(10,162)	-	-	-	(10,162)	(10,162)
Net book value	**393**	**6,229**	**60,982**	**28,656**	**7,978**	**4,928**	**109,166**	**102,841**

In accordance with IFRS 3, goodwill is not amortised but instead is subject to annual impairment testing (see § 2.3.6.3).

Note 2 - Other intangible assets and Contract portfolio

(€'000)

	31-Dec-05				31-Dec-04			
	Contracts portfolio	IT development and software	Other intangible assets	TOTAL	Contracts portfolio	IT development and software	Other intangible assets	TOTAL
At 1st January								
Gross value	2,409	67,449	8,736	78,594	2,573	73,261	8,832	84,666
Amortisation	(1,616)	(41,405)	(4,965)	(47,986)	(1,617)	(46,686)	-	(48,303)
Impairment	(763)	-	-	(763)	(561)	-	(3,400)	(3,961)
Net book value	30	26,044	3,771	29,845	395	26,575	5,432	32,402
Change during the year								
Net book value at 1st January	30	26,044	3,771	29,845	395	26,575	5,432	32,402
Acquisitions	-	18,628	274	18,902	-	16,526	126	16,652
Expenses capitalised	-	4,605	-	4,605	-	4,125	-	4,125
Changes in the consolidation scope	-	(467)	(18)	(485)	-	69	128	197
Disposals and available for sale investments	-	(9,923)	-	(9,923)	(165)	(23,108)	(596)	(23,869)
Reclassifications	-	(705)	705	-	-	-	-	-
Foreign exchange differences	-	78	(4)	74	-	(75)	5	(70)
Net amortisation	-	(9,698)	(1,003)	(10,701)	-	4,237	-	4,237
Net provisions for impairment	(30)	-	-	(30)	(201)	-	(1,550)	(1,751)
Other changes	-	316	-	316	1	(2,305)	226	(2,078)
Net book value at 31 December	-	28,878	3,725	32,603	30	26,044	3,771	29,845
At 31 December								
Gross value	2,473	79,392	9,704	91,569	2,409	67,449	8,736	78,594
Amortisation	(1,662)	(50,514)	(5,979)	(58,155)	(1,616)	(41,405)	(4,965)	(47,986)
Impairment	(811)	-	-	(811)	(763)	-	-	(763)
Net book value	**-**	**28,878**	**3,725**	**32,603**	**30**	**26,044**	**3,771**	**29,845**

The amortisation charge for the year is recognised in "Other ordinary operating revenues and expenses".
Software costs were transferred at 31 December 2004 from "Other property and equipment" for an amount of €2.7 million (see also Note 9).

Note 3 - Investment and operating property

Although presented in the balance sheet in "Operating property and other property and equipment" (Note 9), details of operating property are provided below for comparative purposes.

(€'000)

	31-Dec-05		31-Dec-04	
	Investment property	Operating property	Investment property	Operating property
At 1st January				
Gross value	107,070	189,156	103,868	193,600
Depreciation	(10,622)	(51,723)	(8,760)	(50,206)
Impairment	-	-	-	-
Net book value	96,448	137,433	95,108	143,394
Change during the year				
Net book value at 1st January	96,448	137,433	95,108	143,393
Acquisitions	45	3 469	6 270	493
Changes in the consolidation scope	-	-	-	-
Disposal of property	(1,330)	(292)	(2,407)	(4,560)
Reclassification	1,377	(1,377)	(297)	297
Foreign exchange differences	9	9	24	51
Net depreciation	(2,637)	(3,147)	(2,001)	(1,594)
Net provisions for impairment	-	(10,014)	(187)	-
Other changes	137	-	(62)	(647)
Net book value at 31 December	**94,049**	**126,081**	**96,448**	**137,433**
At 31 December				
Gross value	107,302	192,123	107,070	189,156
Depreciation	(13,253)	(56,028)	(10,622)	(51,723)
Impairment	-	(10,014)	-	-
Net book value	**94,049**	**126,081**	**96,448**	**137,433**
Fair value	**117,614**	**212,373**	**113,633**	**260,129**

The fair value of buildings is estimated based on market prices, adjusted where applicable to take into account the nature, location and other features specific to the building concerned.

The reduction in the fair value of operating properties is due mainly to a valuation carried out by Euler Hermes Kreditversicherungs AG based on the rental costs index. Given the excess supply of office space for rental in Germany, this index has declined sharply.

Amounts recorded in the income statement:	Investment property	Operating property	Investment property	Operating property
Rental revenues from investment property:	9,559	-	10,076	-
Direct operating expenses relating to property:	(2,990)	-	(3,077)	-

Note 4 - Financial investments

Classification by accounting method

(€'000)

	31-Dec-05					31-Dec-04				
	Amortised cost	Revaluation reserve	Net value	Fair value	Unrealised gain or loss	Amortised cost	Revaluation reserve	Net value	Fair value	Unrealised gain or loss
Held-to-maturity assets										
Bonds:	33,821	-	33,821	34,300	479	33,082	-	33,082	34,231	1,149
- listed				10,347					9,652	
- not listed				23,953					24,579	
Total held-to-maturity assets	**33,821**	**-**	**33,821**	**34,300**	**479**	**33,082**	**-**	**33,082**	**34,231**	**1,149**
Available-for-sale assets										
Equities	337,872	155,289	493,161	493,161	-	275,029	98,065	373,094	373,094	-
Bonds	1,917,090	60,926	1,978,016	1,978,016	-	1,778,134	65,168	1,843,302	1,843,302	-
- listed				2,231,201					1,948,419	
- not listed				239,976					267,977	
Total available-for-sale assets	**2,254,962**	**216,215**	**2,471,177**	**2,471,177**	**-**	**2,053,163**	**163,233**	**2,216,396**	**2,216,396**	**-**
Trading assets										
Equities:	1,799	-	1,799	1,799	-	866	-	866	866	-
Bonds:	3,000	-	3,000	3,000	-	-	-	-	-	-
- listed				3,000				-		
- not listed				1 799					866	
Total trading assets	**4,799**	**-**	**4,799**	**4,799**	**-**	**866**	**-**	**866**	**866**	**-**
Loans, depositis and other financial investments	**294,363**	**-**	**294,363**	**294,363**	**-**	**282,058**	**-**	**282,058**	**282,058**	**-**
Total loans, deposits 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**	**2,533,551**	**1,149**

For an instrument that is listed on an active market, the fair value is the bid price on the valuation date for an asset held or a liability to be issued and the sell price for an asset intended to be purchased or a liability intended to be held. If such prices are not available, the fair value is estimated based on the most recent transaction price.

If there is no active market for a given financial instrument, the group estimates the fair value using a valuation technique. Valuation techniques include the use of recent transactions under normal competitive conditions between informed and consenting parties, where available, reference to the current fair value of another instrument that is identical in substance, the analysis of discounted cash flows and option valuation models.

Classification by investment category

(€'000)

	31-Dec-05					31-Dec-04				
	Amortised cost	Revaluation reserve	Net value	Fair value	Unrealised gain or loss	Amortised cost	Revaluation reserve	Net value	Fair value	Unrealised gain or loss
- Equities:	339,671	155,289	464,960	494,960	-	275,895	98,065	373,960	373,960	-
- Bonds:	1,953,911	60,926	2,014,837	2,015,316	479	1,811,216	65,168	1,876,384	1,877,533	1,149
- Loans and other 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**	**2,533,551**	**1,149**

Movements in investments

(€'000)

	31-Dec-05					31-Dec-04
	Held-to-maturity investments	Available-for-sale investments	Trading investments	Loans, deposits and other financial investments	TOTAL	TOTAL
Net book value at 1st January	**33,082**	**2,216,396**	**866**	**282,058**	**2,532,402**	**2,359,687**
Increase	2,213	726,766	3,230	205,096	937,305	593,610
Decrease	(1,081)	(559,912)	1	(175,045)	(736,037)	(454,078)
Revaluation	-	52,982	-	-	52,982	44,159
Impairment	24	174	-	(8)	190	5,149
Foreign exchange differences	(386)	31,675	120	2,585	33,994	(4,828)
Reclassification	-	-	-	(15,432)	(15,432)	-
Other changes	(31)	3,096	582	(4,891)	(1,244)	(11,297)
Net book value at 31 December	**33,821**	**2,471,177**	**4,799**	**294,363**	**2,804,160**	**2,532,402**

In order to comply with the group's definition of cash, an amount of €15 million was reclassified from "Other investments" to "Cash and cash equivalents" in the balance sheet (note 12).

Note 5 - Derivatives

The Euler Hermes group uses derivatives in its cash flow hedging strategy (cash flow hedges).

(€'000)

At 31 December 2005	Nominal value	Market value	Interest-rate sensitivity (*)
Euler Hermes SA	**110,000**	**(1,200)**	
- Interest-rate swap - maturing 2008	55,000	(600)	913
- Interest-rate swap - maturing 2008	55,000	(600)	913
Euler Hermes Credit Insurance	**5,400**	**(20)**	
- Interest-rate swap - maturing 2006	3,502	(8)	(1)
- Interest-rate swap - maturing 2007	1,898	(12)	(2)
Total	**115,400**	**(1,220)**	**1,824**

(*) Sensitivity to interest rates is calculated as the change in market value in the event of a 100-basis point rise in rates.

(€'000)

	Nominal value	Market value	Unrealised gains and losses	Maturity of nominal: One year or less	Maturity of nominal: Over one year and less than five years	Counterparty risk du nominal: AAA	Counterparty risk du nominal: AA	Counterparty risk du nominal: A	Counterparty risk du nominal: <BB	Issuer: OECD credit institutions	Issuer: Clients	Issuer: Govt., central banks
Total	**115,400**	**(1,220)**	**(1,220)**	**3,502**	**111,898**	**-**	**60,400**	**55,000**	**-**	**115,400**	**-**	**-**
Hedging	**115,400**	**(1,220)**	**(1,220)**	**3,502**	**111,898**	**-**	**60,400**	**55,000**	**-**	**115,400**	**-**	**-**
Pay fixed rate/ receive variable rate	**115,400**	**(1,220)**	**(1,220)**	**3,502**	**111,898**	**-**	**60,400**	**55,000**	**-**	**115,400**	**-**	**-**
CIC swap	55,000	(600)	(600)	-	55,000	-	-	55,000	-	55,000	-	-
CARDIF swap	55,000	(600)	(600)	-	55,000	-	55,000	-	-	55,000	-	-
Dexia	5,400	(20)	(20)	3,502	1,898	-	5,400	-	-	5,400	-	-

The group uses financial instruments to manage its exposure to the foreign-exchange and interest-rate risks arising in the course of its activities. The group's policy is not to operate on the markets for speculative purposes. The financial instruments used are mainly swaps.

Other swaps with a nominal value of €5,400 thousands are intended to hedge the financing of the Retail activities of Euler Hermes in Belgium.

Foreign exchange hedging: the group had no foreign exchange hedges at 31 December 2005.

(€'000)

At 31 December 2004	Nominal value	Market value	Interest-rate sensitivity (*)
Euler Hermes SA	**345,000**	**(9,753)**	
- Interest-rate swap - maturing 2005	50,000	(1,551)	381
- Interest-rate swap - maturing 2006	185,000	(5,824)	4,358
- Interest-rate swap - maturing 2007	55,000	(1,189)	1,423
- Interest-rate swap - maturing 2008	55,000	(1,189)	1,423
Euler Hermes Credit Insurance (Belgium)	**10,464**	**(123)**	
- Interest-rate swap - maturing 2005	5,064	(18)	8
- Interest-rate swap - maturing 2006	3,502	(71)	40
- Interest-rate swap - maturing 2007	1,898	(34)	40
Total	**355,464**	**(9,876)**	**-**

(€'000)

	Nominal value	Market value	Unrealised gains and losses	Maturity of nominal: One year or less	Maturity of nominal: Over one year and less than five years	Counterparty risk: AAA	Counterparty risk: AA	Counterparty risk: A	Counterparty risk: <BB	Issuer: OECD credit institutions	Issuer: Clients	Issuer: Govt., central banks
Total	**355,464**	**(9,876)**	**(9,876)**	**55,064**	**300,400**	**-**	**300,464**	**55,000**	**-**	**355,464**	**-**	**-**
Hedging	**170,464**	**(4,052)**	**(4,052)**	**55,064**	**115,400**	**-**	**115,464**	**55,000**	**-**	**170,464**	**-**	**-**
Pay fixed rate/ receive variable rate/	**170,464**	**(4,052)**	**(4,052)**	**55,064**	**115,400**	**-**	**115,464**	**55,000**	**-**	**170,464**	**-**	**-**
HSBC CCF Swap	50,000	(1,551)	(1,551)	50,000	-	-	50,000	-	-	50,000	-	-
CIC Swap	55,000	(1,189)	(1,189)	-	55,000	-	-	55,000	-	55,000	-	-
CARDIF Swap	55,000	(1,189)	(1,189)	-	55,000	-	55,000	-	-	55,000	-	-
Dexia Bank	10,464	(123)	(123)	5,064	5,400	-	10,464	-	-	10,464	-	-
Trading	**185,000**	**(5,824)**	**(5,824)**	**-**	**185,000**	**-**	**185,000**	**-**	**-**	**185,000**	**-**	**-**
Pay fixed rate/ receive variable rate	**185,000**	**(5,824)**	**(5,824)**	**-**	**185,000**	**-**	**185,000**	**-**	**-**	**185,000**	**-**	**-**
Deutsche Bank Swap	185,000	(5,824)	(5,824)	-	185,000	-	185,000	-	-	185,000	-	-

(*) Sensitivity to interest rates is calculated as the change in market value in the event of a 100-basis point rise in rates.

Note 6 - Investments accounted for by the equity method

Information on companies accounted for by the equity method:

(€'000)

			31-Dec-05			
			Shareholders'			% of capital
Company	Country	Assets	equity	Turnover	Net income	held
Prisma Kreditversicherungs AG	Austria	50,107	18,942	37,634	4,418	49,00%
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	6,138	2,157	5,553	1,177	100,00%
Bürgel Wirtschaftsinformationen GmbH & Co. KG	Germany	20,084	17,897	20,467	2,012	50,10%
Lietuvos Draudimo Kreditu Draudimas	Lithuania	5,860	3,518	1,955	135	51,00%
Graydon Holding NV	The Netherlands	49,238	18,390	65,161	9,141	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	103,060	33,679	14,811	2,853	41,43%
		234,487	**94,583**	**145,581**	**19,736**	

(€'000)

			31-Dec-04			
			Shareholders'			% of capital
Company	Country	Assets	equity	Turnover	Net income	held
Prisma Kreditversicherungs AG	Austria	30,180	15,424	34,990	2,266	49,00%
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	2,611	846	1,952	166	100,00%
Bürgel Wirtschaftsinformationen GmbH & Co. KG	Germany	20,261	18,322	19,576	2,046	50,10%
Lietuvos Draudimo Kreditu Draudimas	Lithuania	5,656	3,384	795	173	51,00%
Graydon Holding NV	The Netherlands	13,152	16,749	61,783	7,341	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	111,182	27,629	15,915	2,234	41,43%
		183,042	**82,354**	**135,011**	**14,226**	

Movements during the year:

(€'000)

Company	**2005**	2004
Net book value at 1st January	**37,648**	**30,440**
Increases	-	11,205
Decreases	-	(3,315)
Reclassification	-	(3,632)
Share of income for the year	8,056	5,349
Dividends paid	(4,155)	(4,448)
Foreign exchange differences	216	(70)
Other changes	1,756	2,119
Net book value at 31 December	**43,521**	**37,648**

The reclassifications correspond to changes in the consolidation method: in 2004, Euler Hermes Acmar, Hermes Kredit Service SRO and Euler Hermes Emporiki SA were fully consolidated.

Notes to consolidated financial statements

Contribution to shareholders' equity:

(€'000)

Company	Country	31-Dec-05	31-Dec-04
Prisma Kreditversicherungs AG	Austria	7,554	6,884
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	1,230	832
Bürgel Wirtschaftsinformationen GmbH & Co. KG	Germany	7,393	7,589
Lietuvos Draudimo Kreditu Draudimas	Lithuania	2,232	2,143
Graydon Holding NV	The Netherlands	2,543	2,587
Companhia de Seguro de Creditos SA (COSEC)	Portugal	14,513	12,264
Share of shareholders' equity		**35,465**	**32,299**

Contribution to profit:

(€'000)

Company	Country	31-Dec-05	31-Dec-04
Prisma Kreditversicherungs AG	Austria	2,165	1,110
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	1,119	181
Bürgel Wirtschaftsinformationen GmbH & Co. KG	Germany	1,008	1,025
Lietuvos Draudimo Kreditu Draudimas	Lithuania	69	88
Graydon Holding NV	The Netherlands	2,514	2,019
Companhia de Seguro de Creditos SA (COSEC)	Portugal	1,181	926
Contribution to income		**8,056**	**5,349**

Note 7 - Insurance and reinsurance receivables

Breakdown by type:

(€'000)

		31-Dec-05		31-Dec-04
	Gross	Provisions	Net	Net
Receivables from policyholders and agents	198,849	(14,477)	184,372	163,649
Earned premiums not yet written	134,736	-	134,736	136,178
Receivables from guaranteed debtors	76,995	-	76,995	78,584
Receivables from reinsurance transactions	77,877	(507)	77,370	77,961
Total credit insurance receivables	**488,457**	**(14,984)**	**473,473**	**456,372**

Breakdown of net receivables from guaranteed debtors:

(€'000)

		31-Dec-05		31-Dec-04
	Gross	Provisions	Net	Net
Gross receivables	76,995	-	76,995	78,584
Reinsurers' share	(24,287)	-	(24,287)	(25,873)
Net receivables from guaranteed debtors	**52,708**	**-**	**52,708**	**52,711**

These concern receivables recognised by Euler Hermes Credit Insurance (Belgium) in respect of the personal loan activity.

Breakdown by maturity:

(€'000)

	31-Dec-05				
	<3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Gross receivables	317,800	1,308	-	-	319,108
Reinsurers' share	102,324	(3,456)	2,789	-	101,657
Net receivables from guaranteed debtors	8,442	12,556	24,843	6,867	52,708
Total credit insurance receivables	**428,566**	**10,408**	**27,632**	**6,867**	**473,473**

Receivables due in more than one year from the Retail activity have been discounted.

Note 8 - Other receivables

Breakdown by type:

(€'000)

	31-Dec-05			31-Dec-04
	Gross	Provisions	Net	Net
Current account receivables	68,460	-	68,460	55,572
Other taxes receivable	14,228	-	14,228	10,995
Other	47,956	(2,141)	45,815	76,864
Total other receivables	**130,644**	**(2,141)**	**128,503**	**143,431**

Breakdown by maturity:

(€'000)

	31-Dec-05				
	<3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total other receivables net of provisions	**107,714**	**20,789**	**-**	**-**	**128,503**

Allianz issued a seller's guarantee in favour of Euler Hermes SA at the time of the acquisition of Euler Hermes Kreditversicherungs AG. In 2005, the latter was subject to a tax audit covering the financial years 1997 to 2000. To date, this audit has identified various adjustments to the tax bases for these years, the overall impact being €13.2 million (including late payment penalties and interest).

Euler Hermes SA benefits from a liabilities guarantee issued by Allianz at the time of acquisition of Euler Hermes Kreditversicherungs AG covering any negative adjustments stemming from additional tax assessments. As the above items were covered by the liabilities guarantee, Euler Hermes decided to make a call on this guarantee from Allianz and recognise accrued income of the same amount after tax in the consolidated financial statements for the year ended 31 December 2005.

As agreed with Allianz, this receivable will be cleared once the official assessments have been received from the German authorities and paid by Euler Hermes Kreditversicherungs AG.

Note 9 - Operating property and other property and equipment

(€'000)

	31-Dec-05			31-Dec-04		
	Operating property	Other property and equipment	Total	Operating property	Other property and equipment	Total
At 1 January						
Gross value	189,156	169,857	359,013	193,600	177,880	371,480
Depreciation	(51,723)	(136,363)	(188,086)	(50,206)	(139,760)	(189,966)
Impairment	-	-	-	-	-	-
Net book value	137,433	33,494	170,927	143,394	38,120	181,514
Change during the year						
Net book value at 1 January	137,433	33,494	170,927	143,394	38,120	181,514
Acquisitions	3,469	12,543	16,012	493	10,045	10,538
Changes in the consolidation scope	-	(135)	(135)	-	864	864
Disposal of property	(292)	(14,193)	(14,485)	(4,560)	(20,687)	(25,247)
Reclassification	(1,377)	-	(1,377)	297	-	297
Foreign exchange differences	9	613	622	51	97	148
Net depreciation	(3,147)	(2,222)	(5,369)	(1,594)	4,867	3,273
Net provisions for impairment	(10,014)	-	(10 014)	-	-	-
Other changes	-	(670)	(670)	(648)	188	(460)
Net book value at 31 December	126,081	29,430	155,511	137,433	33,494	170,927
At 31 December						
Gross value	192,123	166,810	358,933	189,156	169,857	359,013
Depreciation	(56,028)	(137,380)	(193,408)	(51,723)	(136,363)	(188,086)
Impairment	(10,014)	-	(10,014)	-	-	-
Net book value	**126,081**	**29,430**	**155,511**	**137,433**	**33,494**	**170,927**

Software costs were transferred at 31 December 2004 from "Other property and equipment" to "Software" for an amount of €2.7 million (see Note 2).

Note 10 - Deferred tax

Breakdown by type of tax

(€'000)

	31-Dec-05	31-Dec-04
Deferred tax assets	109,719	102,938
Deferred tax liabilities	(464,955)	(410,778)
Net deferred tax	**(355,236)**	**(307,840)**
Deferred tax assets		
Tax losses	193	4,530
Deferred tax assets linked to revaluation of AFS investments	1,297	465
Deferred tax assets - provisions for retirement commitments	4,413	3,892
Deferred tax assets - technical reserves	32,054	30,047
Other deferred tax assets	71,762	64,004
Total	**109,719**	**102,938**
Deferred tax liabilities		
Deferred tax liabilities linked to revaluation of AFS investments	(72,091)	(45,720)
Deferred tax liabilities - provisions for retirement commitments	(8,470)	(5,790)
Deferred tax liabilities - technical reserves	(299,253)	(253,322)
Other deferred tax liabilities	(85,141)	(105,946)
Total	**(464,955)**	**(410,778)**
Net deferred tax	**(355,236)**	**(307,840)**
After offsetting deferred tax assets and liabilities by tax entity		
Deferred tax assets	16,732	36,388
Deferred tax liabilities	(371,968)	(344,228)

Movement in tax by geographical region

(€'000)

Geographic area	31-Dec-04	Foreign exchange difference	Change relating to revaluation of AFS	Change through income statement	Other movements	31-Dec-05
Germany	(139,013)	-	2,296	(33,454)	173	(169,998)
France	(147,895)	-	(18,116)	1,827	(52)	(164,236)
Italy	(6,549)	-	36	961	64	(5,488)
UK	(8,860)	(457)	1,365	316	(590)	(8,226)
United States	3,599	710	169	(533)	-	3,945
Benelux countries	(12,008)	-	(285)	2,774	(126)	(9,645)
Other countries	135	132	(21)	(2,861)	-	(2,615)
Group services/Holdings	2,751	35	-	(1,341)	(418)	1,027
	(307,840)	**420**	**(14,556)**	**(32,311)**	**(949)**	**(355,236)**

With regard to Germany, the deferred tax charge was due mainly to the cancellation under IFRS of the equalisation reserve.

Change in standard tax rate

(€'000)

	31-Dec-05	31-Dec-04
Group rate	36.29%	31.78%
France	34.93%	35.43%
Germany	40.38%	40.38%
Italy	37.25%	37.25%
United Kingdom	30.00%	30.00%
United States	35.00%	35.00%
The Netherlands	31.50%	34.50%
Belgium	33.99%	33.99%
Switzerland	33.54%	33.54%

The group tax rate corresponds to the effective tax rate, i.e. the tax charge recognised in the income statement compared with the gross income before tax and adjusted for the profits of companies accounted for by the equity method. A reconciliation between the tax rate of the parent company Euler Hermes SA and the effective tax rate at 31 December 2005 is provided in note 27.

Note 11 - Other assets

(€'000)

	31-Dec-05			31-Dec-04
	Gross	Provisions	Net	Net
Prepaid expenses	9,814	-	9,814	9,118
Accrued income	4,030	-	4,030	4,373
Other	660	-	660	284
Total other assets	**14,504**	**-**	**14,504**	**13,775**

Note 12 - Cash and cash equivalents

Balance sheet

(€'000)

	31-Dec-05	31-Dec-04
In bank and at hand	221,678	102,698
Total cash and cash equivalents	**221,678**	**102,698**

Reconciliation with the cash flow statement

(€'000)

	31-Dec-05	31-Dec-04
Total cash on the balance sheet	221,678	102,698
cash equivalents	58,037	148,490
Total cash and cash equivalents	**279,715**	**251,188**

The amounts not taken into account in the balance sheet cash position correspond to cash equivalents (investments with a maturity of less than three months).

Note 13 - Revaluation reserve

Available-for-sale investments and hedging derivatives are remeasured at fair value. The table below provides a reconciliation of the unrealised gains and losses, the tax amount and the impact on the revaluation reserve.

	Investments	Hedges	Associated companies	Tax	Other	Foreign exchange difference	Minority interests	Revaluation reserve
At 1 January 2005	163,233	(2,378)	-	(56,238)	-	-	(915)	103,702
Movement during the year	52,982	1,178	1,756	(17,387)	(584)	123	693	38,761
At 31 December 2005	216,215	(1,200)	1,756	(73,625)	(584)	123	(222)	142,463

The impact of €1,200 thousands corresponds to the revaluation of Euler Hermes SA's hedging swap. The impact of the revaluation of AFS investments of companies accounted for by the equity method was €1,756 thousands and concerned Companhia de Seguro de Creditos SA (COSEC).

Note 14 - Minority interests

Movements during the year

(€'000)

	31-Dec-05	31-Dec-2004
Minority interests at start of period	**24,883**	**26,014**
Buy out of minority interests		
Buy out of minority interests in Euler Hermes Credit Insurance Belgium SA (NV)	(16,674)	-
Buy out of minority interests in Codinf Services	-	(164)
Buy out of minority interests in Euler Hermes Cescob Pojist'ovna, AS	-	(2,119)
Disposals		
Disposal of minority interests in Euler Hermes Guarantee plc	-	(2,016)
Internal disposal of Interborg	(186)	-
Capital increase		
Capital increase by Euler Hermes Emporiki SA	-	1,474
Reserve movements		
Reserve movements at Euler Hermes Credit Insurance Belgium SA (NV)	-	97
Reserve movements at Mundialis SA (NV)	-	(19)
Reserve movements at Euro Gestion	-	172
Reserve movements at Euler Hermes Emporiki SA	(104)	-
Reserve movements at Euler Hermes SIAC (LDS - Logica)	-	(146)
Reserve movements at Euler Hermes Kredietverzekering NV	-	323
Reserve movements at Euler Hermes Acmar	-	139
Reserve movements at Euler Hermes Magyar Hitelbiztosito Rt	-	(387)
Reserve movements at Interpolis Kreditverzekeringen	-	12
Change of consolidation method		
Change of consolidation method for Euler Hermes Acmar	-	1,896
Change of consolidation method for Euler Hermes Emporiki SA	-	642
Other movements		
Foreign currency translation differences	39	67
Minority interests in companies that left the consolidation scope (Mundialis SA (NV))	(99)	(3,138)
Dividends paid to minority shareholders	(233)	(548)
Capital increases and other movements	134	(29)
Minority shareholders' share of net income	109	2 613
Minority interests at end of period	**7,869**	**24,883**

Breakdown by company

(€'000)

	31-Dec-05	31-Dec-04
Euler Hermes in Belgium	-	14,302
Euler Hermes in the Netherlands	404	2,638
Euler Hermes in France	708	1,004
Euler Hermes in Hungary	1,740	1,546
Euler Hermes in Germany	20	16
Euler Hermes in the UK	1,364	1,114
Euler Hermes in Morocco	1,838	2,043
Euler Hermes in Greece	1,795	2,132
Euler Hermes in the Czech Republic	-	88
Minority interests	**7,869**	**24,883**

Note 15 - Provisions for risks and charges

The main provision items concern retirement plans, details of which are set out in note 16. Provisions for other staff benefits concern an early retirement programme in Belgium and Germany that matures at the end of 2007.

At 31 December 2004, the provision for the defined benefit pension plan in Italy was recognised in other liabilities for €10.9 million and that concerning CARDIF in provisions for employee benefits for €0.8 million.

(€'000)	31-Dec-04	Provision	Write back		Reclassification	31-Dec-05
			Provision used	Provision not used		
Retirement scheme						
Defined benefit retirement schemes	37,406	13,903	(5,170)	(1,755)	5,109	49,493
Defined contribution retirement schemes	1,684	-	(131)	-	254	1,807
Total	**39,090**	**13,903**	**(5,301)**	**(1,755)**	**5,363**	**51,300**
Other provisions for risks and charges						
Provision for tax liabilities	834	252	-	28	-	1,114
Provision for tax reassessment in Germany	4,712	12,983	(732)	-	-	16,963
Provisions for employee benefits	23,181	4,744	(1,163)	(8,172)	(3,060)	15,530
Provisions for reinsurer default	1,943	-	-	-	-	1,943
Provisions for policyholder disputes	1,137	-	(18)	-	-	1,119
Provisions for debtor disputes	3,881	1,412	-	-	-	5,293
Guarantee of liabilities	879	-	-	-	-	879
Provisions for restructuring	751	321	(515)	-	-	557
Provisions for sundry disputes	8,420	1,795	(498)	(2,135)	(4,231)	3,351
Total	**45,738**	**21,507**	**(2,926)**	**(10,279)**	**(7,291)**	**46,749**
Overall total	**84,828**	**35,410**	**(8,227)**	**(12,034)**	**(1,928)**	**98,049**

The provision of €37,406 thousands as at December 2004 correspond to the net commitments of retirement indemnities, PSAD, Germany and Belgium given in the note 16 as at December 2004.

The provision of €49,493 thousands as at December 2005 correspond to the amount given in the note 16 as at December 2005 restated of the positive net commitment of the United Kingdom.

Note 16 - Employee benefits

Defined contribution plans

General description of the plans:

■ La Mondiale (France): insurance firms are required to pay 1% of their annual payroll into a capitalisation pension plan. The funds are managed by La Mondiale, an insurance firm.

■ Euler American Credit Indemnity Company Associates Retirement Savings Plan: this is a defined contribution plan for full-time employees of Euler American Credit Indemnity who have completed at least one hour of service. A provision must be raised pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).

■ United Kingdom: the company makes contributions on behalf of its employees amounting to 8% of salaries. The cash is invested in the names of the employees, who receive rights according to the return on investment generated.

■ Scandinavia:
- Sweden: a multi-employer plan that is managed by SPP, one of the largest life insurance companies.
- Denmark: the plan is managed by Danica, a Danish life insurance company.
- Norway: a multi-employer plan that is managed by Vital, a Norwegian life insurance company.
- Finland: the plan is managed by Varma, a Finnish insurance company.

	France	United States	United Kingdom	Scandinavia	Total
Provision at 31 December 2005	-	(1,807)	-		(1,807)
Expense booked in 2005	(392)	(2,019)	(495)	(866)	(3,772)
Provision at 31 December 2004	-	(1,684)	-		(1,684)
Expense booked in 2004	(498)	(1,694)	(597)	(821)	(3,610)

Defined benefit plans

General description of the plans:

■ Retirement benefits: the rights in respect of retirement benefits are defined by the insurance companies' collective agreement. This plan is financed partly by a policy taken out with an insurance company.

■ PSAD: this is a supplementary retirement benefit plan that was closed in 1978 and covers executives of Euler Hermes Sfac. Contributions are paid by the company to beneficiaries or their surviving spouse (reversion) until their death. The plan is managed by BCAC, which informs the company quarterly of the contributions to be paid. At the beginning of the year there were 22 beneficiaries.

■ CARDIF: Employees who are members of the Group Management Board or corporate officers are eligible for a supplementary pension plan provided that they have completed at least five years' service on retirement.

■ TFR: Trattamento di Fine Rapporto is a pension plan established by Italian legislation that is similar to a defined benefit pension plan. It is valued in accordance with IAS 19 by an independent actuary.
The following items were taken into account when measuring the commitment at the year end:
- The retirement age has been taken as 60 years for women and 65 years for men.
- The probability of leaving the company within the next five years for employees under 40 years of age has been determined based on historical data.
- The average life expectancy has been determined based on current statistics.
- The probability of an early request for TFR has also been calculated using historical data available within the company.
The assets covering the actuarial liability are included along with the company's other investments and are not identified separately.

■ EHUK Defined Benefit Plan: Euler Hermes in the UK operates a defined benefit pension plan that covers all employees who had joined the company by 31 December 2001. Under this plan, employees will be granted a pension on retirement (the normal age being 63 years), which will be a fraction of their salary upon retirement and based on their length of service within the company. The company funds these rights through a dedicated fund. The retirement rights are revalued annually based on the constraints set by law, which provides for the mandatory application of different revaluation rates according to the vesting date of the rights.

The revaluation of certain rights, notably those earned prior to 6 April 1997, is not covered by a legal obligation, but is discretionary. At 31 December 2005, the company revised downwards the revaluation assumption applied to these discretionary increases.

This took into account the company's recent practice and the current position of the fund, factors that tend to reduce the probability of such discretionary revaluations being granted in the future. As a result of this revised assumption, the liability was reduced by approximately £8 million.
At 31 December 2005, the present value of pension commitments in respect of this plan came to £94.6 million, funded partly by the fund as the market value of the assets stood at £85.7 million.

■ AVK/APV EPV: Euler Hermes Kreditversicherungs AG, Euler Hermes Forderungsmanagement GmbH, Euler Hermes Risk Management & Co.KG and Euler Hermes Rating Gmbh have implemented a defined benefit pension plan for all their employees. The beneficiaries will receive an annuity upon retirement at 63 years of age. This plan is managed in part by external companies, namely Pensionskasse AVK and Unterstützungskasse APV. Employees who could leave the company prior to the date provided for may benefit from an annuity of a lower amount than that provided for initially. At 31 December 2005, the plan covered 2,051 beneficiaries and 649 retirees.

■ Euler Hermes Credit Insurance Belgium has implemented a plan that covers the payment to employees of Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium of a fixed capital sum, being a multiple of their salary at age 60. It also provides coverage in the event of the death, being a multiple of their salary based on the composition of their family, or invalidity of the employee.

■ Euler Hermes Kredietverzekeringen NV (the Netherlands) has implemented a defined benefit pension plan for its employees that is managed by Delta Lloyd.

Defined benefit plans

31 December 2005	France			Italy	United Kingdom	Germany	Belgium	Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
Value of actuarial liability at start of period	**(4,508)**	**(5,032)**	**(3,505)**	**(10,938)**	**(122,581)**	**(271,361)**	**(11,341)**	**(1,691)**	**(430,957)**
- Cost of services provided during the period	(276)	-	(603)	(1,352)	(3,352)	(6,579)	(666)	(316)	(13,144)
- Interest expense	(203)	(196)	(185)	(213)	(6,758)	(13,298)	(537)	(79)	(21,469)
- Employee contributions	-	-	-	-	-	(2,613)	(148)	-	(2,761)
- Change of pension scheme	(114)	-	-	-	-	564	-	-	450
- Acquisitions/disposals of subsidiaries	(341)	-	-	-	-	-	-	-	(341)
- Reductions of pension plans	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Actuarial gains (losses)	78	(288)	(390)	-	(3,969)	(49,245)	(1,420)	(195)	(55,429)
- Benefits paid	213	480	11	1,896	2,182	9,925	119	1	14,826
- Translation differences	-	-	-	-	(3,533)	-	-	-	(3,533)
- Other	19	-	-	-	(31)	-	(726)	-	(738)
Value of actuarial liability at end of period	**(5,132)**	**(5,036)**	**(4,672)**	**(10,608)**	**(138,042)**	**(332,607)**	**(14,719)**	**(2,280)**	**(513,095)**
Fair value of assets at start of period	**803**	**-**	**2,688**	**-**	**105,181**	**216,581**	**6,535**	**1,016**	**332,804**
- Actual return on plan assets	29	-	194	-	15,243	28,221	333	281	44,301
- Employee contributions	-	-	-	-	-	2 613	148	19	2 780
- Employer contributions	228	-	1,801	-	3,880	4,971	440	402	11,722
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-
- Reductions of pension plans	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Benefits paid	(213)	-	(11)	-	(2,182)	(7,065)	(119)	(1)	(9,591)
- Translation differences	-	-	-	-	3,031	-	-	-	3,031
- Other	11	-	-	-	-	-	756	(53)	714
Fair value of assets at end of period	**858**	**-**	**4,672**	**-**	**125,154**	**245,321**	**8,093**	**1,664**	**385,762**
Actuarial differences still to be amortised	**(333)**	**-**	**-**	**-**	**(23,817)**	**(63,145)**	**(1,489)**	**16**	**(88,768)**
Net commitments	**(3,941)**	**(5,036)**	**-**	**(10,608)**	**10,930**	**(24,141)**	**(5,137)**	**(632)**	**(38,565)**

The €49,493 thousands of the note 15 correspond to the total of net commitments as at December 2005 (€38,565 thousands) restated of the net positive commitment of €10,930 thousands of the United Kingdom.

31 December 2005	France			Italy	United Kingdom	Germany	Belgium	Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
Expenses for the period	**(450)**	**(484)**	**(985)**	**(1,565)**	**(4,707)**	**(7,977)**	**(870)**	**(349)**	**(17,388)**
- Cost of services provided during the period	(276)	-	(603)	(1,352)	(3,352)	(6,616)	(666)	(292)	(13,157)
- Financial cost (discounting effect)	(203)	(196)	(185)	(213)	(6,758)	(13,298)	(537)	(79)	(21,469)
- Expected return on plan assets	29	-	194	-	6,982	11,696	333	49	19,283
- Expected return on all other assets	-	-	-	-	-	-	-	-	-
- Amortisation of actuarial gains and losses	-	(288)	(391)	-	(1,550)	(357)	-	-	(2,586)
- Amortisation of past service costs	-	-	-	-	-	598	-	-	598
- Amortisation of initial unrecognised liability	-	-	-	-	-	-	-	-	-
- Profit or loss resulting from reduction or liquidation	-	-	-	-	-	-	-	-	-
- Asset ceiling	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Other	-	-	-	-	(31)	-	-	(27)	(58)
Actuarial assumptions									
- Discount rate	4.0%	4.0%	4.0%	3.5%	4.8%	4.1%	3.7%	4.0%	
- Rate of inflation	2.0%	2.0%	-	2.0%	2.6%	1.3%	2.0%	2.0%	
- Expected rate of return on plan assets	4.0%	-	4.0%	-	6.1%	5.0%	3.7%	4.0%	
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	na	-	
- Expected rate of salary increases	3.0%	-	-	2.5%	3.6%	2.4%	3.5%	2.0%	
- Rate of increase in medical costs	-	-	-	-	2.6%	-	na	2.0%	
- Rate of increase in annuities	-	1.9%	-	-	0.4%	1.3%	na	-	
- Retirement age	60	0	60	60-65	63	63	60	62	
- Remaining length of service	10	0	5	0	20	15	14	28	
- Other major assumptions used(1)	-	60.0%	-	-	-	-	-	-	

(1) The 60% on the PSAD plan corresponds to the reversion rate.

Structure of plan assets									
- Equities	-	-	23.0%	-	50.0%	16.5%	-	-	
- Bonds	100.0%	100.0%	27.0%	100.0%	50.0%	80.3%	-	-	
- Property	-	-	-	-	-	2.7%	-	-	
- Other	-	-	50.0%	-	-	0.4%	100.0%	100.0%	

Defined benefit plans

31 December 2004	France			Italy	United Kingdom	Germany	Belgium	Total
	Retirement indemnities	PSAD	CARDIF					
Value of actuarial liability at start of period	**(4,057)**	**(5,308)**		**(11,056)**	**(100,930)**	**(248,468)**	**(10,345)**	**(380,164)**
- Cost of services provided during the period	(247)	-		(1,202)	(3,641)	(6,006)	(785)	(11,881)
- Interest expense	(203)	-		(207)	(5,490)	(13,666)	(559)	(20,125)
- Employee contributions		(196)				(2,492)		(2,688)
- Change of pension scheme	-	-			(421)			(421)
- Acquisitions/disposals of subsidiaries		-		-			-	-
- reductions of pension plans		-		-		-	-	-
- Disposals of pension plans		-		-		-	-	-
- Exceptional events	-	-		-		-	-	-
- Actuarial gains (losses)	(98)	-			(10,937)	(10,322)	-	(21,357)
- Benefits paid	97	472		1,527	(1,162)	9,210	348	10,492
- Translation differences								-
- Other	-	-		-		383	-	383
Value of actuarial liability at end of period	**(4,508)**	**(5,032)**	**(3,505)**	**(10,938)**	**(122,581)**	**(271,361)**	**(11,341)**	**(429,266)**
Fair value of assets at start of period	**709**	**-**			**72,028**	**203,812**	**6,231**	**282,780**
- Actual return on plan assets	26	-			15,227	12,229	320	27,802
- Employee contributions	-	-		-		2,492	636	3,128
- Employer contributions	165	-	817		19,088	3,844	157	24,071
- Acquisitions/disposals of subsidiaries	-	-		-		-	-	-
- Reductions of pension plans	-	-		-		(2)	-	(2)
- Disposals of pension plans	-	-		-		-	-	-
- Benefits paid	(97)	-			(1,162)	(6,625)	(348)	(8,232)
- Translation differences	-	-		-		-	-	-
- Other	-	-		-		831	(461)	370
Fair value of assets at end of period	**803**	**-**	**2,688**		**105,181**	**216,581**	**6,535**	**331,788**
Actuarial differences still to be amortised	**(97)**	**-**			**(28,828)**	**(30,820)**		**(59,745)**
Net commitments	**(3,608)**	**(5,032)**	**(817)**	**(10,938)**	**11,428**	**(23,960)**	**(4,806)**	**(37,733)**
Expenses for the period	**(424)**	**(196)**		**(1,409)**	**(6,252)**	**(7,443)**	**(1,196)**	**(16,920)**
- Cost of services provided during the period	(247)	-		(1,202)	(3,641)	(6,006)	(785)	(11,881)
- Financial cost (discounting effect)	(203)	(196)		(207)	(5,490)	(13,666)	(559)	(20,321)
- Expected return on plan assets	26	-			4,750	12,229	320	17,325
- Expected return on all other assets	-	-		-		-	-	-
- Amortisation of actuarial gains and losses	-				(1,450)		-	(1,450)
- Amortisation of past service costs	-	-		-			-	-
- Amortisation of initial unrecognised liability	-	-		-		-	-	-
- Profit or loss resulting from reduction or liquidation	-	-		-		-	-	-
- Asset ceiling	-	-		-		-	-	-
- Exceptional events	-	-		-		-	-	-
- Other	-	-			(421)	-	(172)	(593)

The €37,406 thousands of the note 15 correspond to the net commitments of retirement indemnities (€3,608 thousands), PSAD, (€5,032 thousands), Germany (€23,960 thousands) and Belgium (€4,806 thousands).

31 December 2004		France		Italy	United Kingdom	Germany	Belgium
	Retirement indemnities	PSAD	CARDIF				
Actuarial assumptions							
- Discount rate	5.0%	4.0%		4.0%	6.0%	5.0%	6.0%
- Rate of inflation	2.0%	2.0%		1.50%	3.0%	-	2.0%
- Expected rate of return on plan assets	5.0%	-			7.0%	5.0%	5.0%
- Expected rate of return on all reimbursement rights	-	-			-	-	5.0%
- Expected rate of salary increases	3.0%	-		2.50%	4.0%	2.0%	4.0%
- Rate of increase in medical costs	-	-			3.0%	-	na
- Rate of increase in annuities	-	2.0%			3.0%	2.0%	na
- Retirement age	60			60-65	63	63	60
- Remaining length of service	10	0			20	15	14
- Other major assumptions used[1]	-	60.0%			-	-	3.0%

(1) The 60% on the PSAD plan corresponds to the reversion rate.

Structure of plan assets							
- Equities	-	-			52.0%	14.0%	-
- Bonds	100.0%	100.0%		100.0%	47.0%	82.0%	-
- Property	-	-			-	3.0%	-
- Other	-	-			1.0%	1.0%	100.0%

No detailed actuarial analysis had been performed of the CARDIF pension plan nor of the defined benefit pension plan in the Netherlands at 31 December 2004.

Note 17 - Borrowings

Breakdown by type

(€'000)

	31-Dec-05	31-Dec-04
Subordinated debt	**140**	**13,377**
Term loans and other term borrowings	110,244	250,319
Sight accounts	-	-
Borrowings from banking sector businesses	**110,244**	**250,319**
Other borrowings	**226,435**	**89,878**
Total borrowings	**336,819**	**353,574**

"Other borrowings" include two loans to Euler Hermes SA from AGF amounting to €225 million (see note 31 "Related parties"). The €110 million syndicated loan managed by Société Générale includes a margin adjustment clause applicable as a function of the long term rating assigned by one of the rating agencies.

Breakdown by maturity

(€'000)

			31-Dec-05		
	3 months or less	3 months or less 1 year	1 to 5 years	Over 5 years	Total
Total borrowings	**1,002**	**817**	**335,000**	**-**	**336,819**

Note 18 - Technical reserves

(€'000)

	31-Dec-04	Provision	Write back	Foreign exchange differences	Other changes	31-Dec-05
Reserve for unearned premiums	211,390	31,289	(6)	9,948	1,965	254,586
Reserve for claims	1,189,575	667,711	(741,744)	11,957	(4,138)	1,123,361
Reserve for no-claims bonuses and rebates	110,628	8,284	(91)	195	201	119,217
Gross technical reserves	**1,511,593**	**707,284**	**(741,841)**	**22,100**	**(1,972)**	**1,497,164**
Reserve for unearned premiums	61,108	14,113	(3,801)	957	(105)	72,272
Reserve for claims	520,561	(42,211)	(43,156)	4,240	3,758	443,192
Reserve for no-claims bonuses and rebates	26,784	2,307	(29)	69	317	29,448
Reinsurers' share of technical reserves	**608,453**	**(25,791)**	**(46,986)**	**5,266**	**3,970**	**544,912**
Net technical reserves	**903,140**	**733,075**	**(694,855)**	**16,834**	**(5,942)**	**952,252**

Additional information is provided in section 3.8 under Risk management.

Note 19 - Insurance and reinsurance liabilities

Breakdown by type

(€'000)

	31-Dec-05	31-Dec-04
Policyholders' guarantee deposits and miscellaneous	132,664	131,495
Due to policyholders and agents	79,411	65,879
Liabilities arising from inwards insurance and reinsurance transactions	**212,075**	**197,374**
Due to reinsurers and assignors	86,906	103,759
Deposits received from reinsurers	72,659	71,447
Net outwards reinsurance liabilities	**159,565**	**175,206**
Total insurance and reinsurance liabilities	**371,640**	**372,580**

Breakdown by maturity

(€'000)

	31-Dec-05				
	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total insurance and reinsurance liabilities	**279,249**	**74,392**	**17,814**	**185**	**371,640**

Liabilities due in more than one year correspond to deposit guarantees to be repaid in an average of two years' time.

Note 20 - Other operating liabilities

Breakdown by type

(€'000)

	31-Dec-05	31-Dec-04
Policyholders' guarantee deposits and miscellaneous	103,929	104,254
Due to policyholders and agents	125,312	167,865
Total other operating liabilities	**229,241**	**272,119**

Breakdown by maturity

(€'000)

	31-Dec-05				
	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total other operating liabilities	**168,847**	**55,466**	**4,928**	**-**	**229,241**

Note 21 - Other liabilities

(€'000)

	31-Dec-05	31-Dec-04
Deferred income	8,711	18,576
Accrued expenses	5,374	5,025
Other liabilities	4,106	6,929
Total other liabilities	**18,191**	**30,530**

Note 22 - Breakdown of income net of reinsurance

(€'000)

	2005			2004		
	Gross	Outwards reinsurance	Net	Gross	Outwards reinsurance	Net
Premiums and commissions on direct business	*1,630,023*	*(666,872)*	*963,151*	*1,525,341*	*(670,480)*	*854,861*
Premiums on inwards reinsurance	*89,965*	*(42,572)*	*47,393*	*85,388*	*(41,029)*	*44,359*
Gross premiums written - credit insurance	1,719,988	(709,444)	1,010,544	1,610,729	(711,509)	899,220
Change in unearned premiums	(30,527)	10,497	(20,030)	(32,624)	14,258	(18,366)
Earned premiums	1,689,461	(698,947)	990,514	1,578,105	(697,251)	880,854
Premium-related revenues	318,488	-	318,488	301,024	-	301,024
Turnover	**2,007,949**	**(698,947)**	**1,309,002**	**1,879,129**	**(697,251)**	**1,181,878**
Net financial income	**125,922**	**-**	**125,922**	**90,120**	**-**	**90,120**
Total ordinary revenues	**2,133,871**	**(698,947)**	**1,434,924**	**1,969,249**	**(697,251)**	**1,271,998**
Claims paid	*(642,622)*	*267,073*	*(375,549)*	*(652,558)*	*280,057*	*(372,501)*
Reserves for claims	*92,209*	*(79,461)*	*12,748*	*167,548*	*(107,372)*	*60,176*
Claims handling expenses	*(58,716)*	*-*	*(58,716)*	*(49,894)*	*-*	*(49,894)*
No-claims bonuses	*(80,580)*	*31,364*	*(49,216)*	*(73,558)*	*31,232*	*(42,326)*
Insurance services expense	**(689,709)**	**218,976**	**(470,733)**	**(608,462)**	**203,917**	**(404,545)**
Brokerage commissions	*(203,833)*	*-*	*(203,833)*	*(188,234)*	*-*	*(188,234)*
Other acquisition costs	*(84,327)*	*-*	*(84,327)*	*(95,673)*	*-*	*(95,673)*
Change in acquisition costs capitalised	*4,158*	*-*	*4,158*	*6,986*	*-*	*6,986*
Contract acquisition expense	**(284,002)**	**-**	**(284,002)**	**(276,921)**	**-**	**(276,921)**
Impairment of portfolio securities and similar	**(708)**	**-**	**(708)**	**(1,676)**	**-**	**(1,676)**
Administration expense	**(188,138)**	**-**	**(188,138)**	**(181,617)**	**-**	**(181,617)**
Commissions received from reinsurers	**-**	**232,491**	**232,491**	**-**	**208,856**	**208,856**
Other ordinary operating revenues and expense	**(274,748)**	**(2,442)**	**(277,190)**	**(257,730)**	**(989)**	**(258,719)**
Total other ordinary revenues and expense	**(1,437,305)**	**449,025**	**(988,280)**	**(1,326,406)**	**411,784**	**(914,622)**
Ordinary operating income	**696,566**	**(249,922)**	**446,644**	**642,843**	**(285,467)**	**357,376**

Note 23 - Net financial income

(€'000)

	2005	2004
Revenues from investment property	9,559	10,198
Revenues from securities	83,636	77,953
Revenues from other financial investments	10,567	8,917
Other financial revenues	11,399	10,335
Depreciation of investment property	(2,954)	(2,772)
Management expenses	(11,165)	(11,221)
Interest paid to reinsurers	(1,498)	(1,390)
Other financial expenses	(9,032)	(10,245)
Net investment revenues	**90,512**	**81,775**
Profits on sales of property	1,409	2,082
Profits on sales of securities	42,854	20,475
Profits on sales of participating interests	-	2,506
Write backs of investment impairment reserves	1,283	19,297
Losses on sales of property	-	-
Losses on sales of securities	(7,580)	(8,181)
Losses on sales of participating interests	(71)	(5,453)
Net gains (losses) on sales of investment assets	**37,895**	**30,726**
Change in the fair value of investments recognised at fair value through the income statement	**-**	**-**
Reserve for impairment of investments	(2,485)	(22,381)
Change in impairment of investment assets	**(2,485)**	**(22,381)**
Net financial income (excluding financing expense)	**125,922**	**90,120**

Note 24 - Operating leases

(€'000)

	2005			
	United Kingdom	The Netherlands	Scandinavia	France
Less than 1 year	4,014	721	284	131
1 to 5 years	15,118	-	423	149
More than 5 years	1,819	-	-	-
Total	**20,951**	**721**	**707**	**280**

	2004			
	United Kingdom	The Netherlands	Scandinavia	France
Less than 1 year	3,813	724	275	149
1 to 5 years	15,240	-	404	297
More than 5 years	4,694	-	-	-
Total	**23,747**	**724**	**679**	**446**

Certain subsidiaries of the Euler Hermes group, particularly in the United Kingdom, lease their office accommodation.

Note 25 - Other operating revenues and expenses

In accordance with IFRS 3, goodwill is subject to annual impairment testing. As such, an impairment of goodwill was recognised in respect of Euler Hermes UK plc amounting to €10.2 million in 2004.

Note 26 - Financing expense

The cash generated from the sale of Eurofactor in 2004 contributed to the reduction in the group's debt, thereby sharply reducing financing expense.

Note 27 - Corporation tax

Breakdown of tax charge	2005
Tax payable	
Corporation tax	121,960
Adjustments relating to prior years	4,123
Total	**126,083**
Deferred tax	
Timing differences	26,616
Change in tax rate or new tax	665
Change in accounting method or correction of an error	134
Tax benefits relating to prior years	4,981
Other	(85)
Total	**32,311**
Total tax charge in the income statement	**158,394**

Tax proof	2005	
Income before tax	436,523	
Tax at theoretical tax rate	152,478	34.93%
Impact of differences between group and local tax rates	6,521	1.49%
Impact of permanent differences between taxable and accounting income	(6,859)	-1.57%
Impact of particular tax situations	2,867	0.66%
Impact of income taxed at reduced rates	2,722	0.62%
Impact of using the liability method	665	0.15%
Tax at effective tax rate	**158,394**	**36.29%**

Note 28 - Net income after tax from activities sold

Eurofactor generated net income of €10.7 million in 2004.

The total capital gain of €14.8 million after tax on the disposal of Eurofactor on December, 14 is also reported within this heading.

Note 29 - Earnings per share and dividend per share

Earnings per share

	2005	2004
Distributable net income (€'000)	286,076	242,982
Weighted average number of shares	42,468,142	40,701,196
Earnings per share (€)	**6.74**	**5.97**

	2005	2004
Distributable net income (€'000)	286,076	242,982
Weighted average number of shares	42,767,665	40,914,386
Diluted earnings per share (€)	**6.69**	**5.94**

The dilution impact takes into account the exercise of options. The average number of shares resulting from the dilution is 299,522 in 2005 (213,190 in 2004).

The group share of net income is used as the basis for this calculation.

Dividend per share

The dividend paid in 2005 totalled €103,621,000, i.e. €2.50 per share.

A dividend of €151,522 thousands, i.e. €3.50 per share, will be proposed at the next Ordinary General Meeting on 22 May 2006.

Note 30 - Sectoral data

First-level information: geographic region
Profit (loss) by sector:

	2005									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
Premiums written	688,359	372,644	182,933	201,329	154,356	105,026	106,273	-	(90,932)	1,719,988
Change in unearned premiums	(11,021)	(87)	(817)	2,063	(5,300)	(3,560)	(17,507)	-	5,702	(30,527)
Earned premiums – outside group	677,338	372,557	182,116	203,392	149,056	101,466	88,766	-	(85,230)	1,689,461
Premium-related revenues – outside group	145,874	75,288	43,855	25,938	20,579	22,225	35,944	-	(51,215)	318,488
Turnover – outside group	**823,212**	**447,845**	**225,971**	**229,330**	**169,635**	**123,691**	**124,710**	**-**	**(136,445)**	**2,007,949**
Net financial income	45,962	49,601	7,125	13,457	6,141	3,241	4,506	111,926	(116,037)	125,922
Of which dividends	2,216	379	-	49	-	-	-	52,643	(55,287)	-
Total ordinary revenues	**869,174**	**497,446**	**233,096**	**242,787**	**175,776**	**126,932**	**129,216**	**111,926**	**(252,482)**	**2,133,871**
Insurance services expense	(242,362)	(188,302)	(71,195)	(67,495)	(44,472)	(53,702)	(53,888)	-	31,707	(689,709)
Outwards reinsurance expense	(371,321)	(63,208)	(77,139)	(87,558)	(65,685)	(46,066)	(70,501)	-	82,531	(698,947)
Outwards reinsurance revenues	229,541	47,456	39,608	57,755	41,740	28,661	65,380	-	(61,116)	449,025
Other revenues and expense	(311,045)	(170,134)	(101,116)	(96,763)	(61,411)	(38,320)	(56,358)	6,233	81,318	(747,596)
Total other ordinary revenues and expense	**(695,187)**	**(374,188)**	**(209,842)**	**(194,061)**	**(129,828)**	**(109,427)**	**(115,367)**	**6,233**	**134,440**	**(1,687,227)**
Ordinary operating income	**173,987**	**123,258**	**23,254**	**48,726**	**45,948**	**17,505**	**13,849**	**118,159**	**(118,042)**	**446,644**
Other operating income and expense	-	-	-	-	-	-	-	-	-	-
Operating income	**173,987**	**123,258**	**23,254**	**48,726**	**45,948**	**17,505**	**13,849**	**118,159**	**(118,042)**	**446,644**
Financing expense	-	(3)	-	-	-	(14)	(8)	(10,096)	-	(10,121)
Income from companies accounted for by the equity method	4,360	-	-	-	-	2,514	1,182	-	-	8,056
Corporation tax	(69,600)	(43,029)	(10,564)	(13,460)	(16,750)	(5,941)	(4,208)	5,158	-	(158,394)
Consolidated net income	**108,747**	**80,226**	**12,690**	**35,266**	**29,198**	**14,064**	**10,815**	**113,221**	**(118,042)**	**286,185**
Minority interests	(4)	(234)	-	(203)	-	(52)	384	-	-	(109)
Net income, group share	**108,743**	**79,992**	**12,690**	**35,063**	**29,198**	**14,012**	**11,199**	**113,221**	**(118,042)**	**286,076**

	2004									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
Premiums written	649,480	360,126	171,014	201,840	128,071	97,218	75,009	-	(72,029)	1,610,729
Change in unearned premiums	(3,815)	(1,185)	-	(6,031)	(6,234)	(5,542)	(10,935)	-	1,118	(32,624)
Earned premiums – outside group	645,665	358,941	171,014	195,809	121,837	91,676	64,074	-	(70,911)	1,578,105
Premium-related revenues – outside group	133,410	73,997	40,848	24,005	16,109	23,799	26,793	-	(37,937)	301,024
Turnover – outside group	**779,075**	**432,938**	**211,862**	**219,814**	**137,946**	**115,475**	**90,867**	**-**	**(108,848)**	**1,879,129**
Net financial income	23,920	37,686	5,719	10,540	9,139	3,444	3,197	56,028	(59,553)	90,120
Of which dividends	*4,690*	*1*	-	*60*	-	*47*	-	*75,543*	*(80,341)*	-
Total ordinary revenues	**802,995**	**470,624**	**217,581**	**230,354**	**147,085**	**118,919**	**94,064**	**56,028**	**(168,401)**	**1,969,249**
Insurance services expense	(250,245)	(145,116)	(57,321)	(43,145)	(48,196)	(62,417)	(30,102)	-	28,080	(608,462)
Outwards reinsurance expense	(390,883)	(62,072)	(79,077)	(81,811)	(58,440)	(44,480)	(48,339)	-	68,550	(696,552)
Outwards reinsurance revenues	221,755	41,955	36,049	48,113	41,546	37,650	35,922	-	(51,905)	411,085
Other revenues and expense	(272,001)	(161,771)	(91,220)	(108,372)	(55,486)	(41,511)	(43,415)	(8,921)	64,753	(717,944)
Total other ordinary revenues and expense	**(691,374)**	**(327,004)**	**(191,569)**	**(185,215)**	**(120,576)**	**(110,758)**	**(85,934)**	**(8,921)**	**109,478**	**(1,611,873)**
Ordinary operating income	**111,621**	**143,620**	**26,012**	**45,139**	**26,509**	**8,161**	**8,130**	**47,107**	**(58,923)**	**357,376**
Other operating income and expense	-	-	-	(10,162)	-	-	-	-	-	(10,162)
Operating income	**111,621**	**143,620**	**26,012**	**34,977**	**26,509**	**8,161**	**8,130**	**47,107**	**(58,923)**	**347,214**
Financing expense	-	(132)	-	(21)	-	(191)	(13)	(21,850)	207	(22,000)
Income from companies accounted for by the equity method	2,404	-	-	-	-	2,019	926	-	-	5,349
Corporation tax	(26,057)	(49,395)	(11,471)	(13,213)	(7,652)	(2,342)	(2,683)	2,133	-	(110,680)
Net income from discontinued activities	**1,578**	**(193)**	**-**	**(508)**	**-**	**109**	**9,941**	**14,786**	**-**	**25,713**
Consolidated net income	**89,546**	**93,900**	**14,541**	**21,235**	**18,857**	**7,756**	**16,301**	**42,176**	**(58,716)**	**245,596**
Minority interests	(39)	(253)	-	(147)	-	(1,534)	(603)	(37)	-	(2,613)
Net income, group share	**89,507**	**93,647**	**14,541**	**21,088**	**18,857**	**6,222**	**15,698**	**42,139**	**(58,716)**	**242,983**

Depreciation, amortisation and provisions by sector:

(€'000)

		Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
						2005					
Provisions for loans and receivables		(549)	(3,974)	(24)	(603)	-	(225)	-	(3,188)	4,024	(4,539)
Amortisation and depreciation of non-current assets	*(Note 2, 3, 9)*	(502)	(1,147)	(913)	(161)	(619)	(289)	(178)	(624)	-	(4,433)
Impairment		(9,973)	-	-	-	-	(51)	(158)	-	-	(10,182)
Goodwill	*(Note 1)*	-	-	-	-	-	-	-	-	-	-
Intangible assets	*(Note 2)*	-	-	-	-	-	-	*(158)*	-	-	*(158)*
Property and equipment	*(Note 9)*	*(9,973)*	-	-	-	-	*(51)*	-	-	-	*(10,024)*

(€'000)

		Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
						2004					
Reserves for loans and receivables		(10,886)	(7,373)	(543)	-	-	(36)	(41)	(28,424)	22,271	(25,032)
Amortisation and depreciation of non-current assets	*(Note 2, 3, 9)*	(3,268)	(1,197)	(1,106)	(349)	-	(928)	(64)	-	-	(6,912)
Impairment		-	-	-	(10,162)	-	(98)	(81)	-	-	(10,341)
Goodwill	*(Note 1)*	-	-	-	*(10,162)*	-	*1*	*(4)*	-	-	*(10,165)*
Intangible assets	*(Note 2)*	-	-	-	-	-	-	-	-	-	-
Property and equipment	*(Note 9)*	-	-	-	-	-	*(99)*	*(77)*	-	-	*(176)*

Assets and liabilities by sector:

(€'000)

	2005									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
Goodwill	(139)	393	6,229	60,982	28,655	7,978	5,068	-	-	109,166
Other intangible assets	11,197	7,824	5,005	1,484	827	552	1,094	4,620	-	32,603
Investments - insurance businesses	851,281	1,130,955	275,108	317,807	206,687	132,866	78,871	1,323,676	(1,417,623)	2,899,628
Investments accounted for by the equity method	22,769	-	-	-	-	5,057	15,695	-	-	43,521
Share of assignees and reinsurers in the technical reserves and financial liabilities	242,510	38,985	150,878	58,110	20,015	40,161	59,392	-	(65,139)	544,912
Insurance and reinsurance receivables	93,747	129,973	106,480	14,325	53,680	67,283	30,802	-	(22,817)	473,473
Other assets	201,866	137,102	49,376	47,743	41,586	25,921	38,985	119,849	(67,537)	594,891
Total assets	**1,423,231**	**1,445,232**	**593,076**	**500,451**	**351,450**	**279,818**	**229,907**	**1,448,145**	**(1,573,116)**	**4,698,194**
Technical reserves net of reinsurance	481,354	319,901	314,607	146,257	107,554	107,574	82,845	-	(62,928)	1,497,164
Liabilities related to inwards insurance and reinsurance transactions	29,614	83,264	64,012	21,640	7,563	4,980	5,894	-	(4,892)	212,075
Liabilities related to outwards reinsurance transactions	33,998	34,748	35,957	9,340	16,182	29,889	27,853	-	(28,402)	159,565
Other liabilities	296,430	278,986	54,416	42,159	32,535	47,978	23,896	382,428	(74,360)	1,084,468
Total liabilities	**841,396**	**716,899**	**468,992**	**219,396**	**163,834**	**190,421**	**140,488**	**382,428**	**(170,582)**	**2,953,272**

(€'000)

	2004									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter sector eliminations	GROUP
Goodwill	-	484	6,229	59,261	24,112	7,978	4,777	-		102,841
Other intangible assets	2,964	11,004	5,135	63,684	1,109	740	890	(55,681)		29,845
Investments - insurance businesses	723,482	1,113,363	274,951	289,684	144,992	106,737	66,576	1,291,196	(1,380,860)	2,630,121
Investments accounted for by the equity method	19,854	-	-	-	-	4,606	13,188	-	-	37,648
Share of assignees and reinsurers in the technical reserves and financial liabilities	289,859	38,609	172,825	63,705	20,390	45,054	41,495	-	(63,484)	608,453
Insurance and reinsurance receivables	79,627	132,179	108,850	18,437	43,572	72,904	19,009	(18)	(18,188)	456,372
Other assets	268,499	105,913	32,138	39,131	45,728	33,908	33,663	27,712	(49,884)	536,808
Total assets	**1,384,285**	**1,401,552**	**600,128**	**533,902**	**279,903**	**271,927**	**179,598**	**1,263,209**	**(1,512,416)**	**4,402,088**
Technical reserves net of reinsurance	544,551	308,618	325,707	152,464	94,895	90,355	54,782	1	(59,780)	1,511,593
Liabilities related to inwards insurance and reinsurance transactions	26,252	89,438	47,678	18,179	6,635	6,774	8,011	(1)	(5,592)	197,374
Liabilities related to outwards reinsurance transactions	31,953	31,364	49,487	13,703	18,294	37,594	17,964	-	(25,153)	175,206
Other liabilities	274,850	289,730	54,345	47,750	19,888	54,949	20,751	410,394	(57,458)	1,115,199
Total liabilities	**877,606**	**719,150**	**477,217**	**232,096**	**139,712**	**189,672**	**101,508**	**410,394**	**(147,983)**	**2,999,372**

Second-level information: sectors of activity

(€'000)

Turnover	2005	2004
Credit insurance	1,747,045	1,621,886
Other	260,904	257,243
Total	**2,007,949**	**1,879,129**

(€'000)

Total assets	2005	2004
Credit insurance	3,185,276	3,100,707
Other	1,512,918	1,301,381
Total	**4,698,194**	**4,402,088**

(€'000)

Acquisitions of fixed assets by sector	2005	2004
Credit insurance	34,597	15,594
Other	377	932
Total	**34,974**	**16,526**

Note 31 - Related parties

Group EH is held to 68,58% by the group AGF, which is held by the Allianz group.

The breakdown of the percentage holdings of the AGF group in the Euler Hermes group is as follows:

- AGF Vie: 3,879,818 shares, i.e. 8.66% of the shares
- AGF: 5,442,448 shares, i.e. 12.14% of the shares
- AGF Holding: 21,421,782 shares, i.e. 47.78% of the shares

Transactions, receivables and liabilities with related parties

(€'000)

Transactions

	2005			2004		
	Allianz AG	AGF	Related companies and joint ventures	Allianz AG	AGF	Related companies and joint ventures
Operating revenues	-	-	22,590	278	-	18,807
Insurance services expenses	-	-	(14,236)	(297)	-	(21,350)
Net revenue or expense on reinsurance	(54,105)	-	(7)	(43,402)	-	(87)
Financing expenses	-	(3,661)	-	-	(7,819)	-
Other revenues and expenses	15,949	8	(11,184)	719	2,193	(5,426)

Receivables and liabilities

	2005			2004		
	Allianz AG	AGF	Related companies and joint ventures	Allianz AG	AGF	Related companies and joint ventures
Current account	60,392	20	(255)	40,289	11	4,243
Net operating receivables	472	-	6,046	1,528	-	2,133
(including provisions on operating receivables)	-	-	(8)	-	-	(19)
Borrowings	-	225,197	-	-	103,315	-
Operating liabilities	12,937	-	5,389	56,302	-	1,657

The current account with Allianz corresponds to part of the group's cash position, which is centralised by Allianz under a cash pooling arrangement.

Borrowings correspond to two borrowings contracted with AGF:
- 2004 borrowing for €90 million maturing on 19 December 2008, remunerated at 3-month Euribor + 30 basis points
- 2005 borrowing for €135 million maturing on 24 June 2010, remunerated at 6-month Euribor + 20 basis points

The balance of the subordinated borrowing, i.e. €13 million in 2004, was repaid during 2005.

Remuneration of the main executives

(€'000)

Members of the Group Management Board

	2005	2004*
- salaries and other short term benefits	2,937	2,149
Share based paiement (in number of shares)		
- Euler Hermes options	42,000	32,000
- SAR	29,268	21,840

** For harmonization purpose, salaries of the Group Management Board is given according to its composition as at December 2005.*

Members of the Supervisory Board

	2005	2004
- salaries and other short term benefits	8,245	-
- severance indemnities	-	-
	8,245	**-**
Share based paiement (in number of shares)		
- AGF options	280,000	100,000
- SAR/RSU	77,537	41,683

The salaries of the members of the Supervisory Board have been collected for the first time in 2005.

In addition, some corporate officers may be members of an additional pension scheme. The maximum allocated under the scheme may not exceed 20% of the average fixed and variable remuneration received over the last three years before the retirement from the company. The maximum a corporate officer may be allocated under various pension schemes may not exceed 50% of the total average remuneration received over the last three years.
To benefit from this plan, the beneficiary must be aged 60 or above on the retirement date, have an employment contract or be a company officer, have worked for the company for at least five years and be in receipt of retirement payments under the general social security scheme.

The corporate officers, members of the Group Management Board, who are eligible for the additional pension scheme are: Messrs Clemens von Weichs, Jean-Marc Pillu, Nicolas Hein and Michel Mollard.

Details of the actuarial assumptions and the benefits provided by this plan are described in note 16 to the consolidated financial statements.
The premium paid, including the 6% tax levied, in connection with this plan amounted to €1.1 million in 2005.

Messrs. Clemens von Weichs and Gerd-Uwe Baden, members of the Group Management Board, are also members of the Allianz group supplementary retirement benefits plan.

Note 32 - Group employees

	2005	2004	2003
Euler Hermes ACI (United States)	308	313	319
Euler Hermes Credit Insurance (Belgium)	215	216	230
Euler Hermes Credit Insurance Kredietverzekering (Netherlands)	97	82	73
Euler Hermes Servicios (Spain)	90	76	50
Euler Hermes Serviços (Brazil)	14	12	12
Euler Hermes Seguro de Credito S.A. (Mexico)	16		
Euler Hermes SFAC (France)	941	968	987
Euler Hermes SIAC (Italy)	454	458	490
Euler Hermes United Kingdom	475	517	553
Eurofactor group			423
Sub-total	*2,610*	*2,642*	*3,137*
Euler Hermes Cescob AS (Czech Republic)	33	31	31
Euler Hermes Credit Services (Japan)	7	13	14
Euler Hermes Guarantee PLC	31	29	20
Euler Hermes Magyer Hitelbiztosito (Hungary)	50	49	44
Euler Hermes Credit Insurance Nordic 1.B (Sweden)	115	113	98
Euler Hermes Kreditversicherungs (Germany)	2,058	2,123	2,054
Euler Hermes Kreditversicherungs Service (Switzerland)	40	32	23
Euler Hermes Zarzadzanie Ryzykiem Sp.Z.o.o. (Poland)	263	256	177
Euler Hermes Emporiki SA (Greece)	52	41	-
Euler Hermes Acmar (Morocco)	23	20	-
Euler Hermes Services (HK) Ltd	14		
Sub-total	*2,686*	*2,707*	*2,461*
Total	**5,296**	**5,349**	**5,598**

Staff costs totalled €332,683 million for the year ended 31 December 2005. Remuneration paid to members of the Group Management Board during the year came to €2,937 million and €8,245 million for members of the Supervisory Board.

Note 33 - Commitments given and received

The table below shows all the off-balance sheet commitments of the Euler Hermes group. In accordance with the application of IFRS, financial instruments no longer appear as commitments given and received items, but are presented in note 5.

(€'000)

Commitments received and given	31-Dec-05	31-Dec-04
Commitments received	**7,118**	**11,552**
* Deposits, sureties and other guarantees	7,118	11,552
Commitments given	**45,788**	**56,366**
* Deposits, sureties and other guarantees	38,188	46,366
Of which: - Commitments associated with membership of an EIG	9,725	11,046
- Securities buyback agreement	1,789	2,117
Maximum guarantee commitment in favour of Crédit Agricole	7,600	10,000

Euler Hermes has given a guarantee commitment in favour of Crédit Agricole for up to €10 million to cover any additional tax assessments concerning Eurofactor SA. This corresponds to a tax risk of €22 million given the excess of €1 million. In the event of a total or partial writeback, on or after 1st January 2004, of the provisions included in the consolidated financial statements of Eurofactor at 31 December 2003 in respect of the Salvat et Matussières and Forest cases, the amount effectively due by Euler Hermes in respect of the tax guarantee will be reduced by 49.09% of the after-tax total of the writebacks. Any amount claimed by Crédit Agricole must be paid by Euler Hermes within 30 days and carries interest at EONIA plus 100 basis points.

Note 34 - Stock option plans

Several agreements for share-based payments exist within the Euler Hermes group

I. Stock option plans

I.1. Share subscription options plan

■ *Share subscription options plan approved by the Extraordinary General Meeting of Euler Hermes held on 29 April 1997*

■ The Extraordinary General Meeting of 29 April 1997 approved a stock subscription options plan for the management staff of Euler Hermes and its subsidiaries.

■ Sundry restrictions

The options allocated in 1998 and 1999 cannot be exercised for a period of at least five years as from the allocation date except in the event of resignation, dismissal, retirement, incapacity, death, or change of control. The shares are transferable as from the exercise date.

■ The plan duration is 10 years.

■ There were 74,682 options still outstanding at 31 December 2005:

Allocation date	April 1997	August 1998	April 1999
Number of options outstanding	17,980	53,602	3,100
End of subscription period	April 2007	August 2008	April 2009

	2005					2004				
	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)
Start of period	17.64	122,580				18.12	178,538			
Allocation		-					-			
Exercice	17.48	47,898	66.56			19.02	51,721	47.13		
Cancellation		-				21.12	4,237			
End of period	17.73	74,682		2.3	15.55 - 21.12	17.64	122,580		3.3	15.55 - 21.12

■ Fair value

The fair value of the options allocated is calculated using the "Cox Ross Rubinstein" valuation method.

The following table shows the fair value of the options allocated and the assumptions used:

	April 1997	August 1998	April 1999
Fair value of options allocated (€)	4.68	5.22	5.41
Assumptions:			
Risk-free interest rate	5.64%	5.10%	4.04%
Expected volatility	20%	20%	20%
Rate of return on shares	2%	2%	2%

■ Impact on the consolidated financial statements:

No impact has been recognised in the consolidated financial statements for the years ended 31 December 2004 or 2005 as the rights vesting period ended on 31 December 2004.

■ *Share subscription options plan approved by the Extraordinary General Meeting of Euler Hermes held on 23 April 2003*

■ The Extraordinary General Meeting of 23 April 2003 approved a share subscription options plan for executives at Euler Hermes and its subsidiaries. The first allocation concerned 0.625% of the capital or 250,000 shares. Six beneficiaries waived their rights to 10,200 options. The Supervisory Board meeting of 25 May 2004 approved the distribution of 130,000 new subscription options under the plan approved on 23 April 2003. Four beneficiaries waived their rights to 4,700 options. The Supervisory Board meeting of 24 May 2005 approved the distribution of 160,000 new subscription options under the plan approved on 23 April 2003

■ Restrictions

The beneficiaries must have six months of service with the company on the allocation date. They may be on permanent or fixed-term contracts. The shares obtained by the exercise of the options are registeered in the shareholder's name. They can be transferred freely after an initial period of four years as from the allocation date. This vesting period does not apply in certain cases such as loss of employment, retirement, incapacity or death of the beneficiary.

■ The vesting period is two years.

■ The plan duration is eight years.

■ There were 490,250 options still outstanding at 31 December 2005:

Allocation date	July 2003	July 2004	**June 2005**
Number of options outstanding	206,150	124,100	160,000
End of subscription period	July 2011	July 2012	June 2013

■ Changes in the plan in 2005:

	2005					2004				
	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)
Start of period	33.47	349,100				27.35	239,800			
Allocation	63.08	160,000				44.41	125,300			
Exercice	27.35	15,650	67.20				0			
Cancellation	44.41	3,200				27.35	16,000			
End of period	43.33	490,250		6.4	27.35 - 63.08	33.47	349,100		6.9	27.35 - 44.41

■ Fair value

The fair value of the options allocated is calculated using the "Cox Ross Rubinstein" valuation method. The following table shows the fair value of the options allocated and the assumptions used:

	July 2003	July 2004	**June 2005**
Fair value of options allocated (€)	8.93	11.66	13.10
Weighted average assumptions:			
Risk-free interest rate	3.80%	4.16%	3.01
Expected volatility	30%	30%	25%
Rate of return on shares	2.81%	4.14%	3.98%

■ Impact of share subscription options plan on the consolidated financial statements at 31 December 2005

The expense booked for the year ended 31 December 2005 was €1,747 thousand.

	2005	2004
Expense booked in respect of stock subscription options allocated on 8 July 2003	500	941
Expense booked in respect of stock subscription options allocated on 6 July 2004	723	365
Expense booked in respect of stock subscription options allocated on 27 June 2005	524	
Total	**1,747**	**1,306**

I. 2. Share purchase options plan

■ *Share purchase options plan approved by the Extraordinary General Meeting of Euler Hermes held on 7 April 2000*

The Extraordinary General Meeting of Shareholders of 7 April 2000 authorised the allocation of share purchase options to all Euler Hermes employees in the context of a general stock option plan and to certain executives of its subsidiaries under a discretionary scheme.

■ Restrictions
The beneficaires of the scheme are all the employees and corporate officers of Euler Hermes SA with permanent or fixed-term employment contracts and at least six months length of service on the options allocation date. The shares purchased are transferable either immediately or after a period of four years from the date of the offer (other than in the event of loss of employment, retirement, incapacity or death), depending on the country.

■ Vesting period: two or three years depending on the country.

■ Plan duration: eight years.

■ There were 213,725 options still outstanding at 31 December 2005:

Allocation date	April 2000	February 2001
Number of options outstanding	130,996	82,729
End of subscription period	April 2008	February 2009

■ Changes in the plan in 2005 were as follows:

	2005					2004				
	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)	Average exercise price (€)	Number of options	Average price of EH share on exercise date (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)
Start of period	51.49	427,378				51.54	457,734			
Allocation							0			
Exercice	51.74	213,106	64.91				0			
Cancellation	51.16	547				52.3	30,356			
End of period	51.24	213,725		2.7	49.31 - 52.74	51.49	427,378		3.6	49.31- 52.74

■ Impact on the consolidated financial statements

No impact has been recognised in the consolidated financial statements for the years ended 31 December 2004 or 2005 as the rights vesting period ended on 31 December 2004.

■ Fair value

The fair value of the options allocated is calculated using the "Cox Ross Rubinstein" valuation method.

The following table shows the fair value of the options allocated and the assumptions used:

	April 2000	February 2001
Fair value of options allocated (€)	14.77	12.74
Weighted average assumptions:		
Risk free interest rate	5.63%	5.09%
Expected volatility	23%	20%
Rate of return on shares	2.63%	2.65%

II. Allianz Group Equity Incentives plans

The schemes set in place under the Allianz Group Equity Incentives plan concern executives of Allianz and its subsidiaries worldwide. In 1999, Allianz issued Stock Appreciation Rights (SAR) whose remuneration is entirely and directly a function of Allianz's share price performance. In 2003, Allianz issued Restricted Stock Units (RSU) with a vesting period of five years. The remuneration is granted by each entity concerned in accordance with the conditions set by Allianz. The reference price of SAR and RSU for the remuneration of the executives is the average trading price of Allianz shares over the ten trading days immediately preceding Allianz's Annual General Meeting of shareholders.

II. 1. SAR Plan

■ § After a vesting period of two years, the SAR can be exercised at any time between the second anniversary date and the seventh anniversary date under the following conditions:

- if during the contractual period, the Allianz share price has outperformed the Dow Jones index at least once for a period of five consecutive days;
- if the Allianz share price exceeds the reference price by at least 20% on the exercise date.

In these conditions, the Allianz group companies must pay in cash the difference between the reference price and the Allianz share price on the exercise date.

SAR at 31 December 2005 :

Allocation date	Vesting period in years	Reference price (€)	SAR allocated	SAR cancelled	SAR exercised
April 1999	2	264.23	9,173	-	-
April 2000	2	332.1	9,734	-	-
April 2001	2	322.14	10,264	-	-
April 2002	2	239.8	11,250	-	-
May 2003	2	65.91	11,338	-	-
May 2004	2	83.47	39,538	-	-
May 2005	2	92.87	49,597	-	-

■ Fair value of rights and impact on the consolidated financial statements as at 31 December 2005

The fair value of the liabilities resulting from the SAR plan is reassessed at each balance sheet date based on the Allianz share price, until expiry of the obligation. The fair value of the SAR is calculated using the Cox-Ross-Rubinstein binomial valuation model. The expense is booked as the rights are acquired and is therefore spread over two years. At 31 December 2005, the liabilities relating to the 140,894 SAR still outstanding amounted to €2,892 thousand.

in euros	April 1999	April 2000	April 2001	April 2002	May 2003	May 2004	**May 2005**	Total
Fair value of SAR at 31 December 2005	0.01	0.01	0.01	1.05	61.43	48.60	46.40	
Total commitment	92	97	103	11,812.5	696,493	1,921,547	2,301,301	4,931,445
Commitment at start of period	0	0	0	0	283,869	162,512	-	446,382
Expense booked during the year	26	35	42	3,342	412,624	1,358,712	671,213	2,445,995
Commitment at end of period	26	35	42	3,342.15	696,493	1,521,225	671,213	2,892,377

II. 2. Restricted Stock Units (RSU) Plan

■ 3,645 RSU allocated in May 2003 had not yet been exercised as at 31 December 2005. On the exercise date, after a five-year vesting period, Allianz can choose to remunerate the RSU in cash or by allocating Allianz shares or other securities granting access to the capital. If it opts for a cash remuneration, payment will be made based on the average price of the Allianz share over the ten trading days prior to the end of the vesting period.

RSU at 31 December 2005 :

Allocation date	Vesting period in years	RSU allocated	RSU cancelled	RSU exercised
May 2003	5	3,645	-	-

▪ Fair value of rights and impact on the consolidated financial statements as at 31 December 2005

The fair value of the liabilities resulting from the RSU plan is reassessed at each balance sheet date based on the Allianz share price, until expiry of the obligation. The fair value of the RSU is calculated using the Cox-Ross-Rubinstein binomial valuation model. At each balance sheet date, the liability is calculated by multiplying the number of RSU still to be exercised by the fair value of the RSU taking into account the residual rights acquisition period. The expense is thus spread over five years. At 31 December 2005, the liability relating to the 3,645 RSU still to be exercised amounted to €231 thousand.

in euros	May 2003
Fair value of RSU at 31 December 2005	122,78
Total commitment	447,533
Commitment at start of period	116,496
Expense booked during the year	114,743
Commitment at end of period	231,239

Note 35 - Post-balance sheet events

No major events occurred within the group subsequent to the closing of the consolidated financial statements for the year ended 31 December 2005.

Report by the independent auditors on the consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meetings, we have audited the consolidated financial statements of Euler Hermes SA for the year ended 31 December 2005, as attached to this report.

The consolidated financial statements have been drawn up by the Group Management Board. We are required to express an opinion on these financial statements, on the basis of our audit. The financial statements were drawn up for the first time in compliance with the IFRS, as adopted within the European Union. To facilitate comparison, figures for 2004 have been restated to bring them in line with the IFRS.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we perform such tests and procedures so as to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and any significant estimates made in drawing up the financial statements, and an evaluation of the overall presentation of those statements. We believe that our audit provides a reasonable basis for the opinion expressed below.

In our opinion, having regard to the IFRS adopted within the European Union, the consolidated financial statements for the financial year present fairly the assets and liabilities, financial position and results of the group formed by the entities and companies included in the consolidation scope.

2. Substantiation of assessments

Pursuant to the provisions of article L. 823-9 of the Commercial Code relating to the substantiation of our assessments, we hereby give you the following information:

- Your company books technical reserves to cover its commitments as shown in Note 2.3.19.2. to the consolidated financial statements. Our assessment of the technical reserves is based on an analysis of the methodology used for calculations and a review of the assumptions made in the calculations performed by the various group companies. In the context of our assessments, we satisfied ourselves that these estimates were reasonable.
- The financial assets have been recognised and measured using the methods described in Note 2.3.9.1. to the consolidated financial statements. We have satisfied ourselves that the valuation methods were correctly implemented and also checked that the classification system used was consistent with group documents.
- The recoverability of goodwill is tested at the time of each statement of assets and liabilities in accordance with the methods described in Note 2.3.6.3. to the consolidated financial statements. We assessed the consistency of the assumptions made and reviewed the calculations performed by the group. In the context of our assessments, we satisfied ourselves that the assumptions and valuations made on the basis of those assumptions were reasonable.

The assessments thus made form part of our procedure for auditing the consolidated financial statements taken as a whole and therefore contributed to the formation of our opinion without any qualifications as expressed in the first half of this report.

3. Specific checks

Furthermore, we also checked the information given in the report on the management of the group. We have no observations to make on the accuracy of such information or whether it is consistent with the consolidated financial statements.

Neuilly-sur-Seine, Paris-la Défense and Paris, 3 May 2006

The Independent Auditors

PRICEWATERHOUSECOOPERS AUDIT	KPMG AUDIT A division of KPMG SA	ACE AUDIT
Christine Bouvry	Xavier Dupuy	Alain Auvray

Parent Company Financial Statements at 31 December 2005

Content

Income statement

(in euros)

	Notes	2005	2004	2003
Operating and financial revenues				
Revenues from equity investments	4.1	112,711,686	75,557,853	38,541,826
Revenues from other securities and non-current asset receivables		0	348,416	400,690
Net income from sale of securities		294,317	93,743	52,099
Reversal of provisions for impairment of treasury shares	3.3.1	3,017,068	22,954,592	31,187,844
Reversal of provisions for impairment of equity investments	3.2.2	6,111,232	0	0
Reversal of provisions for exchange losses		0	0	42,571
Other financial income	4.2	8,249,695	9,149,884	7,608,355
Sundry services	4.3	2,612,115	531,790	147,085
Capitalised costs	3.1.1	1,969,596	962,610	1,006,161
Total I		**134,965,709**	**109,598,888**	**78,986,631**
Operating and financial expenses				
External charges	4.4	11,031,644	11,006,119	5,689,440
Taxes, duties and similar payments		464,093	5,258,535	65,980
Payroll and social security contributions	4.5	1,398,261	1,354,033	580,328
Other ordinary management expenses	5.2	260,000	260,000	260,000
Depreciation and amortisation of fixed assets	3.1.2	624,082	2,898,188	630,937
Provisions for impairment of equity investments	3.3	3,123,577	20,795,000	0
Other financial expenses	4.6	25,896,793	30,202,475	30,974,448
Total II		**42,798,451**	**71,774,350**	**38,201,133**
Ordinary income (I - II)		**92,167,259**	**37,824,538**	**40,785,498**
Exceptional income				
Proceeds from sale of equity investments	4.7	20,849,782	189,217,258	0
Proceeds from sale of intangible assets	3.1.1	1,807,860	0	0
Other exceptional income	4.8	3,509,518	723,199	22,024
Reversal of provisions for risks and charges	3.7	5,194,983	8,211,994	243,736
Total III		**31,362,142**	**198,152,451**	**265,760**
Exceptional charges				
Book value of equity investments sold	4.7	26,902,240	176,889,906	0
Book value of intangible assets sold	3.1.1	1,807,860	0	0
Other exceptional charges	4.8	433,626	5,770,361	1,158,429
Provisions for risks and charges	3.7	365,737	5,194,983	3,099,122
Total IV		**29,509,463**	**187,855,250**	**4,257,551**
Net exceptional income (charge) (III - IV)		**1,852,679**	**10,297,201**	**(3,991,791)**
Corporation tax	**4.9**	**5,297,550**	**1,952,460**	**(625,032)**
Net income		**99,317,488**	**50,074,199**	**36,168,675**

Balance sheet as at 31 December 2005

(in euros)

	Notes	Gross	Amort & prov	**Net 31-12-2005**	Net 31-12-2004	Net 31-12-2003
ASSETS						
Intangible assets	**3.1**	**8,048,898**	**3,479,422**	**4,569,476**	**4,970,382**	**6,775,921**
Property and equipment	**3.1**	**1,202,239**	**1,074,785**	**127,454**	**9,280**	**137,891**
Long-term investments						
Equity investments	3.2	1,295,724,813	17,807,345	1,277,917,468	1,226,929,584	1,423,379,343
Other long-term investments	3.3	92,287,364		92,287,364	89,573,953	78,154,405
Fixed assets		**1,397,263,315**	**22,361,551**	**1,374,901,763**	**1,321,483,199**	**1,508,447,560**
Receivables	3.4	24,476,969		24,476,969	18,197,923	23,576,903
Cash and cash equivalents	3.5	7,329,753		7,329,753	4,675,510	3,282,378
Current assets		**31,806,722**		**31,806,722**	**22,873,433**	**26,859,281**
Translation differences		**0**		**0**	**0**	**0**
Total assets		**1,429,070,036**	**22,361,551**	**1,406,708,485**	**1,344,356,632**	**1,535,306,841**
Off-balance sheet commitments received:	5.3			110,000,000	345,000,000	370,000,000

(in euros)

	Notes	**31-12-2005**	31-12-2004	31-12-2003
SHAREHOLDERS' EQUITY AND LIABILITIES				
Capital stock	3.6.1	14,345,678	13,793,815	13,296,576
Additional paid-in capital		444,985,453	353,912,260	292,288,394
Reserves				
- legal reserve		1,379,382	1,329,658	1,289,275
- special reserve for long-term capital gains		0	178,243,227	178,243,227
- general reserve		77,473,535	77,473,535	77,473,534
- reserve for treasury shares		92,589,093	92,589,093	92,589,093
- other reserves		173,799,647	0	0
Retained earnings brought forward		140,818,268	189,970,879	230,723,010
Net income for the year		99,317,488	50,074,199	36,168,675
Shareholders' equity	**3.6.2**	**1,044,708,542**	**957,386,666**	**922,071,784**
Provisions for risks and charges	**3.7**	**1,244,737**	**6,073,983**	**9,090,994**
Borrowings and other financial liabilities	3.8	335,443,003	353,635,744	553,281,855
Trade payables	3.9	1,083,439	3,927,987	470,109
Social security, tax and other liabilities	3.10	24,225,359	23,328,878	49,849,259
Liabilities		**360,751,801**	**380,892,609**	**603,601,223**
Translation differences		**3,405**	**3,374**	**542,840**
Total shareholders' equity and liabilities		**1,406,708,485**	**1,344,356,632**	**1,535,306,841**
Off-balance sheet commitments given:	5.3	121,506,337	358,156,682	379,830,148

Notes to the parent company financial statements

These notes should be read in conjunction with the balance sheet before allocation of the net income for the year ended 31 December 2005, which shows total assets of €1,406,708,485, and the income statement, which shows net income of €99,317,488.

The financial year covers the twelve months from 1st January to 31 December 2005.

These notes comprise:

- accounting principles and methods
- significant events during the year
- notes to the balance sheet
- notes to the income statement
- other information

These notes and tables form an integral part of the annual financial statements as approved by the Group Management Board and reviewed by the Supervisory Board at its meeting of 22 March 2006.

1. ACCOUNTING PRINCIPLES AND METHODS

The 2005 parent company financial statements have been prepared in accordance with Articles L. 123-12 to L. 123-28 of the French Commercial Code, the provisions of application decree No. 83 – 1020 of 29 November 1983, the regulations of the Comité de la Réglementation Comptable (French Accounting Regulations Committee), and in particular with CRC regulation No. 99 – 03 of 29 April 1999 relating to the revision of the French general chart of accounts.

In addition, Euler Hermes applied CNC notice No. 2004-15 of 23 June 2004 relating to the definition, recording and valuation of assets in advance of its mandatory application date.

2. SIGNIFICANT EVENTS DURING THE YEAR

The following events occurred during 2005:

Reorganisation of equity investments

Euler Hermes continued the reorganisation of its equity investments during 2005 (see Note 3.2.1 Equity investments) with:

- the buyout of minority interests in Euler Hermes Credit Insurance Belgium;
- the creation of a direct 100% shareholding in Euler Hermes Kreditversicherungs-AG as a result of the merger-absorption of Euler Hermes Kreditversicherungs-AG and Euler Hermes Germany GmbH;
- conclusion of the implementation of the International Development Centres with the transfer to Euler Hermes SFAC of the equity investments in Euler Hermes Emporiki (Greece), Euler Hermes Credito Compania de Seguros y Reaseguros (Spain) and Euler Hermes Acmar (Morocco), and the transfer to Euler Hermes ACI of the equity investments in the Brazilian companies Euler Hermes Serviçios de Gestao de Riscos Ltda, Euler Hermes Seguros de Credito SA and Euler Hermes Seguros de Credito a Exportaceo SA;
- the formation of Euler Hermes Reinsurance AG in Switzerland.

Provision for impairment of equity investments

The valuation method applied to the shares in Euler Hermes UK plc in the parent company financial statements was brought into line with that used for consolidation purposes. This resulted in the writeback of €6,111,000 of the impairment provision of €20,795,000 recognised for this company.

In addition, the valuation of the shares in Euler Hermes Credit Insurance Belgium based on recent transactions resulted in recognition of an impairment provision of €3,124,000.

IRP system

Development of the IRP system, the group's standardised management system for Information, Risk and Policies, continued in 2005. Development costs corresponding to the share of costs of companies not included in the cost-sharing agreement were capitalised *(see Note 3.1 Intangible assets, property and equipment and Note 4.4 External charges)*.

Since 2002 the IRP system has been rolled out at Euler Hermes Credit Insurance Belgium, Euler Hermes Services BV (Netherlands), Euler Hermes SFAC Crédit, Euler Hermes ACI and Euler Hermes UK, and was extended in 2005 to Euler Hermes SIAC *(see Note 3.1.1 Intangible assets, property and equipment)*.

Moreover, as Euler Hermes Risk Management (Germany) has entered into the cost-sharing agreement the proportion of IRP development costs already incurred and attributable to that company have been reallocated to it, resulting in a reduction in intangible assets of €1,808,000 *(see Note 3.1.1 Intangible assets, property and equipment)* and the re-billing of non-capitalised costs of €3,169,000 *(see Note 4.8 Other exceptional income and charges)*.

Capital increase

The Annual General Meeting held on 22 April 2005 offered shareholders the option to receive their dividend in cash or in shares. Some 87% of the dividend payment was thus made in shares, thereby increasing shareholders' equity by €90,360,000 *(see Note 3.6.1 Composition of the capital stock)*.

Exercise of stock options

49.86% of all options granted under the share purchase option plans were exercised in 2005 *(see Note 3.3 Other long-term investments)*.

3. NOTES TO THE BALANCE SHEET

A. Assets

3.1 - Intangible assets, property and equipment, and amortisation and depreciation

3.1.1 - Intangible assets, property and equipment

Intangible assets, property and equipment at 31 December 2005 were as follows *(see Note 2 Significant events during the year):*

(in euros)

	Gross value at 01-01-2005	Increase	Decrease	Gross value at 31-12-2005
Intangible assets	**8,104,349**	**6,089,187**	**6,144,638**	**8,048,898**
Intangible assets in progress - IRP(1)	4,968,896	1,969,596	4,968,891	1,969,601
Software - IRP(2)	2,860,910	4,119,591	1,175,747	5,804,754
Software - other	274,543	0	0	274,543
Property and equipment	**1,366,244**	**179,615**	**343,620**	**1,202,239**
Total	**9,470,593**	**6,268,802**	**6,488,258**	**9,251,138**

(1) In accordance with Article 331-3 II.c of the French general chart of accounts, the share of expenses relating to the programming of the IRP system corresponding to those companies not included in the cost-sharing agreement has been recorded under "Intangible assets in progress", with the corresponding credit entry being posted to "Costs capitalised" in an amount of €1,970,000.

(2) As the IRP system was brought into production in 2005 in Euler Hermes SIAC, the proportion of development costs attributable to that company has been reclassified under "Software – IRP" in an amount of €4,120,000 and is subject to amortisation.

As part of the changes made to the cost-sharing agreement on 29 November 2005, Euler Hermes has transferred to its subsidiary Euler Hermes Risk Management the proportion of IRP development costs attributable to that company. The total amount transferred of €1,808,000 may be broken down as follows:

- Intangible assets in progress (1) €849,000
- software (2) €1,176,000
- amortisation €(217,000)

(see Note 3.1.2 Amortisation and depreciation of intangible assets, property and equipment).

3.1.2. Amortisation and depreciation of intangible assets, property and equipment

The breakdown of amortisation and depreciation at 31 December 2005 was as follows:

(in euros)

	Provision at 01-01-2005	Charge	Reversal	Provision at 31-12-2005
Intangible assets	**3,133,967**	**562,641**	**217,187**	**3,479,422**
Software - IRP	2,859,425	562,641	217,187	3,204,879
Software - other	274,543	0	0	274,543
Property and equipment	**356,964**	**61,441**	**343,620**	**1,074,785**
Total	**4,490,931**	**624,082**	**560,807**	**4,554,207**

- The IRP software is amortised on a straight-line basis over a period of seven years corresponding to its estimated useful life. The writeback of €217,000 corresponds to the transfer to Euler Hermes Risk Management *(see Note 3.1.1 Intangible assets, property and equipment).*
- Other software is amortised pro rata temporis over 12 months. Such software has been fully amortised.
- IT equipment, which comprises production and receipts servers, is depreciated over three years.
- Furniture, fixtures and fittings and other equipment are depreciated on a straight-line basis over periods ranging from one to seven years.

3.2 - Equity investments and provisions for impairment of equity investments

3.2.1 - Equity investments

Equity investments are long-term investments that are deemed to contribute to Euler Hermes' business, particularly because they enable it to influence the management or assume control of the company concerned.

Equity investments are recognised at historical cost (purchase cost or contribution value). Related purchase and sale costs are booked as operating expenses.

Movements in the gross value of equity investments were as follows:

(in euros)

	Gross value at 01-01-2005	Increase	Decrease	**Gross value at 31-12-2005**
Holding				
Euler Hermes SFAC	168,769,426	314,263	15	169,083,674
Euler Hermes Services	38,112			38,112
Euler Hermes Credit Insurance Belgium SA (1)	38,322,055	15,086,267		53,408,322
Euler Hermes United Kingdom plc.	238,382,378	301,391		238,683,769
Euler Hermes SIAC	94,535,667			94,535,667
Euler Hermes Inc., USA	909			909
Euler Hermes ACI Inc.	143,541,100			143,541,100
Euler Hermes Emporiki (2)	1,307,361		1,307,361	0
Euler Hermes Kreditversicherungs-AG (3)	3,217,504	537,598,507		540,816,011
Euler Hermes Germany GmbH (3)	537,313,981		537,313,981	0
Euler Hermes Hitelbiztosito Rt	434,540			434,540
Euler Hermes Magyar Követeléskezelö Kft	204,519			204,519
Euler Hermes Serviçios de Gestao de Riscos Ltda (4)	4,899,722	4,027,700	8,927,422	0
Euler Hermes Seguros de Credito SA (4)	2,991,000		2,991,000	0
Euler Hermes Seguros de Credito a Exportaceo SA (4)	1,000,000		1,000,000	0
Euler Hermes Credito Compania de seguros y reaseguros SA (2)	10,000,000		10,000,000	0
Euler Hermes Acmar (2)	2,676,406	52	2,676,458	0
Kepler Ratings	89,904			89,904
Euler Hermes Reinsurance AG	0	54,888,286		54,888,286
Total	**1,247,724,584**	**612,216,466**	**564,216,237**	**1,295,724,813**

The main movements during the year were as follows:

(1) Acquisition of 73,398 shares in Euler Hermes Credit Insurance Belgium SA for 15,086,267, resulting in Euler Hermes holding 99.99% of the company.

(2) Transfer of all the shares in Euler Hermes Emporiki (Greece), Euler Hermes Credito Compania de Seguros y Reaseguros (Spain) and Euler Hermes Acmar (Morocco) to Euler Hermes SFAC.

(3) Merger of Euler Hermes Kreditversicherungs-AG and Euler Hermes Germany GmbH, which generated a merger surplus of €285,000. Following the merger, Euler Hermes holds directly 100% of the capital in Euler Hermes Kreditversicherungs-AG.

(4) Transfer of all the shares in the Brazilian companies Euler Hermes Serviçios de Gestao de Riscos Ltda, Euler Hermes Seguros de Credito SA and Euler Hermes Seguros de Credito a Exportaceo SA to the US subsidiary Euler Hermes ACI.

(5) Formation of a Swiss company, Euler Hermes Reinsurance AG, with capital of €54,888,286 held entirely by Euler Hermes.

(See Note 2 Significant events during the year and Note 4.7 Equity investments – proceeds from disposals and net book values).

3.2.2 - Provisions for impairment of equity investments

At each year end, equity investments are re-measured based on their value in use. When necessary, an impairment provision is recognised on an individual investment basis, taking into account both the market value or the estimated value of the security and any unrealised capital gains, as well as the general prospects of the subsidiary concerned.

Movements in the provisions for impairment of equity investments were as follows:

(in euros)

	Provision at 01-01-2005	Increase	Decrease	Provision at 31-12-2005
Euler Hermes UK plc.	20,795,000	0	6,111,232	14,683,768
Euler Hermes Credit Insurance Belgium S.A.	0	3,123,577	0	3,123,577
Total	**20,795,000**	**3,123,577**	**6,111,232**	**17,807,345**

3.3 - Other long-term investments

This item comprises mainly:
- an advance of €10,978,000 intended to cover the initial financing of the recently-formed company, Euler Hermes Reinsurance AG;
- treasury shares with a net book value of €81,308,000.

As part of Euler Hermes' share buy-back programme, authorised by the Extraordinary General Meeting of 7 April 2000, the company held own shares at the year end representing 3.43% of the capital stock, as shown below:

(in euros)

	Provision at 01-01-2005	Increase	Decrease	**Provision at 31-12-2005**
Purpose for which held				
Unrestricted use				
- number of shares	1,739,108		213,106	1,526,002
- average price (€)	52.937			52.937
- total	92,062,876		11,281,158	80,781,718
% of capital	4.03%			3.40%
Adjustment of share price				
- number of shares	12,231			12,231
- average price (€)	43.023			43.023
- total	526,217			526,217
% of capital	0.03%			0.03%
Total	**92,589,093**	**0**	**11,281,158**	**81,307,936**

During 2005, 213,106 options granted under the share purchase option plans were exercised *(see Note 2 Significant events during the year and Note 5.5 Share purchase option plan)*, thereby reducing the number of treasury shares by the same number.
For balance sheet purposes, treasury shares are valued using the average market price during the last month of the financial period. Accordingly, the provision for impairment was written-back in full at the year end.

The movements during the year were as follows:

(in euros)

	Provision at 01-01-2005	Charge	Reversal	Provision at 31-12-2005
Provisions for impairment of treasury shares	3,017,068	0	3,017,068	0
Total	**3,017,068**	**0**	**3,017,068**	**0**

3.4 - Receivables

This item comprises mainly balances on current account transactions with subsidiaries following the various transfers of securities and of the IRP system.
As in 2004, it also includes the balances of transactions between subsidiaries included in the Euler Hermes tax group *(see Note 4.9.1 Current tax).*
All these receivables are due within one year.

3.5 - Cash and cash equivalents

Cash and cash equivalents comprise sight deposits and money market funds, the latter being shown in the balance sheet at their latest published redemption price on the balance sheet date.

B. Shareholders' equity and liabilities

3.6 - Shareholders' equity

3.6.1 - Composition of the capital stock

At 31 December 2004, the capital stock comprised 43,105,673 shares totalling €13,793,815.

The Annual General Meeting of 22 April 2005 approved giving shareholders the option to receive their dividend in cash or in shares.
Accordingly, 1,661,023 new shares were issued in payment of the dividend at a price per share of €54.40 determined in accordance with Article 232-19 of the French Commercial Code. The corresponding capital increase amounted to €532,000 and the additional paid-in capital totalled €89,828,000 *(see Note 2 Significant events during the year)*.

In addition, 63,548 options relating to the stock option subscription plans were exercised during 2005 for an amount of €1,265,000, corresponding to a capital increase of €20,000 and additional paid-in capital of €1,245,000 *(see Note 5.4 Stock option subscription plans)*.

At the year end, the capital stock thus comprised 44,830,244 issued and fully paid-up shares totalling €14,345,678.

3.6.2 - Changes in shareholders' equity

The movements during the year may be analysed as follows:

(in euros)

	31-12-2004	Allocation of 2004 net income	Dividends paid	Other movements during the year	31-12-2005
Capital stock	13,793,815		531,527	20,335	14,345,678
Additional paid-in capital	353,912,260		89,828,124	1,245,069	444,985,453
Reserves					
- Legal reserve	1,329,658	49,724			1,379,382
- Special reserve for long-term capital gains	178,243,227			(178,243,227)	0
- General reserve	77,473,535				77,473,535
- Reserve for treasury shares	92,589,093				92,589,093
- Other reserves	0			173,799,647	173,799,647
Retained earnings brought forward	189,970,879	50,024,475	(103,620,668)	4,443,581	140,818,268
Net income for the year	50,074,199	(50,074,199)		99,317,488	99,317,488
Total	**957,386,666**	**0**	**(13,261,016)**	**100,582,892**	**1,044,708,542**

Special reserve for long-term capital gains and Other reserves
The amended Finance Bill for 2004 withdrew the requirement to transfer to a special reserve any long-term capital gains.
As the usage of this reserve is no longer restricted, the balance has been transferred to "Other reserves" in an amount of €178,243,000, less a one-off exit tax of €4,444,000 that was transferred at 31 December 2004 to "Retained earnings brought forward".

The net transfer to "Other reserves" was, therefore, €173,799,000.

Reserve for treasury shares
There were no movements in this reserve during 2005, as there were no purchases or sales of own shares requiring any adjustments to be made.

3.7 - Provisions for risks and charges

The breakdown of provisions for risks and charges is as follows:

(in euros)

	Provision at 01-01-2005	Charge	Reversal	Provision at 31-12-2005
Provision for liabilities guarantee	879,000	0	0	879,000
Provision for swap losses	5,194,983	0	5,194,983	0
Provision for risks on treasury shares	0	363,610	0	363,610
Other provisions for risks and charges	0	2,127	0	2,127
Total	**6,073,983**	**365,737**	**5,194,983**	**1,244,737**

The movements during the year were as follows:

- **provision for liabilities guarantee:** in accordance with the terms of the transaction entered into on 26 July 2004 between Euler Hermes, Eurofactor and Crédit Lyonnais, the provision to cover exercise of the liabilities guarantee granted by Euler Hermes to Eurofactor has been maintained at €879,000.

- **Provision for swap losses:** in order to hedge its interest-rate risk, Euler Hermes has used interest-rate swaps to cover its variable-rate borrowings. One of these borrowings was fully repaid in December 2004 without the related swap being closed out, and a provision of €5,195,000 corresponding to the amount of the unrealised loss was recognised as a provision for risks and charges at 31 December 2004.

As the swap was closed out in 2005, the provision of €5,195,000 was written back in full, with the related loss being recorded as a financial expense *(see Note 4.6 Other financial expenses)*.

- **Provision for risks on treasury shares:** in view of the level of the Euler Hermes share price, a provision calculated as the difference between the purchase cost to Euler Hermes of the treasury shares and the exercise price of the share purchase option plans has been recognised in an amount of €363,000.

3.8 - Borrowings and other financial liabilities

3.8.1 - Breakdown by maturity

The breakdown by maturity of "Borrowings and other financial liabilities" was as follows:

(in euros)

	31-12-2005	31-12-2004	VAR
Less than 1 year	443,003	140,754,361	(140,311,358)
From 1 to 5 years	335,000,000	200,000,000	135,000,000
More than 5 years	0	12,881,383	(12,881,383)
Total	**335,443,003**	**353,635,744**	**(18,192,741)**
of which, with related companies	225,197,125	103,315,528	121,881,597

The syndicated loan managed by HSBC-CCF was repaid in full in an amount of €50 million.
The subordinated loan granted by AGF Vie was also repaid in full in an amount of €12,881,000.
Euler Hermes has arranged a further loan of €135 million from AGF Holding.
Of the various borrowings contracted by Euler Hermes, the syndicated loan managed by Société Générale with a principal amount of €110 million contains a margin adjustment clause applicable as a function of the long-term rating assigned by one of the rating agencies to Euler Hermes SFAC and/or Euler Hermes Kreditversicherungs-AG.

All the borrowings are denominated in euros.

3.8.2 - Breakdown by interest rate

The breakdown by interest rate of "Borrowings and other financial liabilities" was as follows:

(in euros)

	31-12-2005	31-12-2004	Change
Fixed rate	0	13,239,936	(13,239,936)
Variable rate	335,440,629	340,395,808	(4,955,179)
Total	**335,440,629**	**353,635,744**	**(18,195,115)**

In order to hedge its interest-rate risk, Euler Hermes has used interest-rate swaps to cover a variable-rate borrowing *(see Note 5.3.1 Off-balance sheet commitments received)*.
The income and expense relating to the swap are recognised separately under "Other financial income" and "Other financial expenses" *(see Note 4.2 Other financial income and Note 4.6 Other financial expenses).*

3.9 - Trade payables

This item comprises mainly fee notes not yet received at 31 December 2005.

3.10 - Social security, tax and other liabilities

As in 2004, this item comprises mainly balances on transactions between the subsidiaries belonging to the Euler Hermes tax group *(see Note 4.9.1 Current tax)*.
All such liabilities are payable within one year.

4 - NOTES TO THE INCOME STATEMENT

4.1 - Revenues from equity investments

This item comprises dividends received from related companies, as follows:

(in euros)

	2005	2004
Euler Hermes SFAC	67,614,576	47,327,734
Euler Hermes SIAC	10,080,000	7,000,000
Euler Hermes ACI	6,259,776	9,404,384
Euler Hermes Germany GmbH	20,600,000	8,690,000
Euler Hermes Kreditversicherungs-AG	315,336	144,634
Euler Hermes UK plc	7,841,998	2,991,101
Total	**112,711,686**	**75,557,853**

4.2 - Other financial income

This item comprises mainly variable-rate annual interest relating to the interest-rate swap hedging a variable-rate borrowing *(see Note 3.8 Borrowings and other financial liabilities and Note 4.6 Other financial expenses).*

4.3 - Sundry services

This item comprises amounts re-billed to subsidiaries that are not included in the cost-sharing agreement for IRP system licence fees.
The increase in the number of subsidiaries holding an IRP licence (Euler Hermes ACMAR, Euler Hermes SIAC, Euler Hermes Emporiki and Euler Hermes Hitelbiztosito Magyarorszag) explains the material change in this item.

4.4 - External charges

This item comprises the external structural charges of Euler Hermes as well as expenses incurred for the development of the IRP (Information, Risk, Policies) system *(see Note 2 Significant events during the year).*

4.5 - Payroll and social security contributions

The change in payroll reflects the change in the number of employees, as indicated in the five-year financial summary.

4.6 - Other financial expenses

This item comprises mainly *(see Note 3.8 Borrowings and other financial liabilities)*:
- interest of €816,000 on credit lines,
- interest of €3,354,000, including €244,000 of accrued interest, on bank loans,
- interest of €3,660,000, including €197,000 of accrued interest, in respect of related companies,
- fixed-rate interest of €17,765,000, including €346,000 of accrued interest, on the interest-rate swaps hedging the variable-rate borrowing and the loss related to the swaps closed out in 2005 *(see Note 3.7 Provisions for risks and charges and Note 4.2 Other financial income).*

4.7 - Equity investments – proceeds from disposals and net book values

The disposal of equity investments generated an overall capital loss of €6,052,000 *(see Note 3.2.1 Equity investments).*

4.8 - Other exceptional income and Other exceptional charges

These two items comprise mainly:
- the re-billing of costs in connection with the sale of the IRP system to Euler Hermes Risk Management for €3,169,000 *(see Note 2 Significant events during the year)*,
- the surplus on the merger of Euler Hermes Germany GmbH and Euler Hermes Kreditversicherung AG of €285,000,
- a cost of €255,000 associated with the exercise of stock options by the beneficiaries.

4.9 - Corporation tax

The breakdown of the tax charge for the year is as follows:

(in euros)

	2005	2004
Tax grouping surplus	7,310,821	5,867,725
Deferred tax	(2,013,271)	(3,915,265)
Total	**5,297,550**	**1,952,460**

4.9.1 - Current tax and tax grouping surplus

Euler Hermes is the head of a tax group formed with its subsidiaries Euler Hermes SFAC, Euler Hermes SFAC Crédit, Euler Hermes SFAC Recouvrement, Euler Hermes Services, Euler Hermes Tech, Euler Hermes SFAC Asset Management, CCA, France Direct Courtage, Kepler Ratings and Financière Bételgeuse. Each company pays the company heading the tax group the tax that it would have paid to the authorities if it had been taxed individually *(see Note 3.4 Receivables and Note 3.10 Social security, tax and other liabilities)*.

The current tax liability is calculated at the rate of 34.93% and at 15.72% for net long-term capital gains on equity investments, including a surcharge of 1.5% and the 3.3% social security contribution on profits (based on the tax charge after deducting an allowance of €763,000).

To calculate the taxable income of Euler Hermes itself, dividends received from the subsidiaries are deducted in accordance with the parent company/subsidiary tax regime and the share of corresponding expenses and charges has been added back. After taking account of all deductions and amounts added back, a taxable loss was generated.

As the total of the individual tax liabilities of the members of the tax group was higher than the tax charge for the tax group, a tax grouping surplus of €7,311,000 was generated in favour of Euler Hermes.

4.9.2 - Deferred tax

Deferred tax arises from timing differences between the year in which an income or expense item is recognised in the accounts and its inclusion in the taxable income or loss of a subsequent year. Deferred tax is calculated using the following preferential methods:

– application of the balance sheet liability method, under which unrealised differences are added to the timing differences,

– use of the full provision method, under which recurring differences and differences that will only reverse in the long term are included,

– application of the liability method, under which deferred tax recognised in prior years is adjusted for any changes in the tax rates; as the 2005 Finance Bill revised the additional contribution rate, the rate used for 2005 and subsequent years is 34.43%.

As none of the significant deferred tax assets and liabilities has a set maturity, discounting has not been applied to any items.

Deferred tax assets and liabilities are offset only when they have the same nature and maturity.

5 - OTHER INFORMATION

5.1 - Consolidation

The company's financial statements are fully consolidated within the financial statements prepared by Assurances Générales de France SA (Trade and Companies Registry no. S 303 265 128).

5.2 - Directors' attendance fees

Attendance fees paid to members of the Supervisory Board in accordance with the decision of the Combined Ordinary and Extraordinary General Meeting of 25 April 2001 amounted to €260,000.

5.3 - Off-balance sheet commitments

5.3.1 - Off-balance sheet commitments received

A reciprocal financial commitment of €110 million is included in off-balance sheet commitments received corresponding to the nominal amount of the interest-rate swap used to hedge the interest-rate risk on a variable-rate loan.

The swap is for the same amount and has the same maturity as the loan it hedges *(see Note 3.8 Borrowings and other financial liabilities)*, and may be analysed as follows:

(in euros)

Interest-rate swap	31-12-2005
Maturity 2008	110,000,000
Total	**110,000,000**

5.3.2 - Off-balance sheet commitments given

The commitments given comprise:

- the contra entry to the off-balance sheet commitment received of €110 million.

- a commitment given of €9,717,000 relating to the liabilities of GIE Euler Hermes SFAC Services, whose registered office is at 1 rue Euler, 75008 Paris. As a member of this economic interest grouping (GIE), Euler Hermes is jointly and severally liable for all its liabilities after deducting any liabilities of the grouping to its own members (Article 4 paragraph 1 of ordinance no. 67 821); Euler Hermes shares this commitment with the following direct and indirect subsidiaries: Euler Hermes SFAC, Euler Hermes SFAC Crédit, Euler Hermes SFAC Recouvrement, Euler Hermes Services, Euler Hermes Tech.

- a commitment of €1,789,000 given to group employees in respect of the liquidity of the current stock option subscription plans at subsidiaries.

5.3.3 - Liabilities guarantee

Euler Hermes has given a liabilities guarantee to Crédit Agricole for a maximum amount of €10 million to cover any additional tax assessments concerning Eurofactor SA. Given the excess of €1 million, this corresponds to a tax risk of €22 million. In the event of a total or partial writeback, on or after 1 January 2004, of the provisions included in the consolidated financial statements of Eurofactor at 31 December 2003 in respect of the Salvat et Matussières and Forest cases, the amount effectively due by Euler Hermes in respect of the tax guarantee will be reduced by 49.09% of the after-tax total of the writebacks. Any amount claimed by Crédit Agricole must be paid by Euler Hermes within 30 days and carries interest at EONIA plus 100 basis points.

In addition, Allianz has issued a seller's guarantee in favour of Euler Hermes SA in connection with the acquisition of Euler Hermes Kreditversicherungs-AG. In 2005, Euler Hermes Kreditversicherungs-AG was subject to a tax audit covering the 1997 – 2000 financial years. This audit has identified various adjustments to the tax base for these years, with an overall impact to date, including penalties and late-payment interest, of €13.2 million.

Under the terms of the seller's guarantee, Euler Hermes SA benefits however from a liabilities guarantee issued by Allianz at the time of the acquisition of Euler Hermes Kreditversicherungs-AG, which covers any adverse tax adjustments related to the tax investigations. As the above amounts are covered by the liabilities guarantee, the reduction in the acquisition cost of the securities by the amount of the indemnity paid by Allianz in respect of the liabilities guarantee will be recognised only when the amount of the additional tax assessments in respect of Euler Hermes Kreditversicherungs-AG is known definitively, in other words once the formal notifications from the German tax authorities have been received and paid by Euler Hermes Kreditversicherungs-AG.

5.4 - Stock option subscription plans

The Extraordinary General Meeting of 29 April 1997 authorised a stock option subscription plan covering 1% of the capital stock, i.e. 348,750 shares, for senior executives of Euler Hermes and its subsidiaries. In accordance with the decisions of various Group Management Board meetings, a total of 314,200 options were granted during 1997, 1998 and 1999 (the number of shares was multiplied by 50 in accordance with the decision of the Combined Ordinary and Extraordinary General Meeting of 7 April 2000).

The Extraordinary General Meeting of 23 April 2003 approved a stock option subscription plan. In accordance with the decisions of various Group Management Board meetings, 380,000 options were granted during 2003 and 2004.

In accordance with the decision of the Group Management Board meeting of 27 June 2005, 160,000 share subscription options were granted to senior executives of the company and its subsidiaries.

The movements during the year were as follows:

Year of grant	1997	1998	1999	2003	2004	**2005**
Options still to be exercised at start of year	37,099	77,369	8,112	223,800	125,300	0
Options exercised(1)	19,119	23,767	5,012	15,650	0	0
Options granted during the year	0	0	0	0	0	160,000
Options cancelled(2)	0	0	0	2,000	1,200	0
Options still to be exercised at end of year	**17,980**	**53,602**	**3,100**	**206,150**	**124,100**	**160,000**
Exercise price (€)	15.55	18.27	21.12	27.35	44.41	63.08

(1) See Note 3.6 Shareholders' equity.
(2) Options renounced by beneficiaries.

5.5 - Stock option purchase plans

The Extraordinary General Meeting of 7 April 2000 approved a stock option purchase plan on behalf of employees of the majority-owned subsidiaries of Euler Hermes. In accordance with the decision of the Group Management Board meeting of 27 April 2000, 376,340 options were granted in May 2000 (first allocation). A second allocation under plan 2, covering 187,590 options, was implemented following the Group Management Board meeting of 28 March 2001.

Movements during the year were as follows:

	1st allocation	2nd allocation	Average exercise price
Date of the Group Management Board meeting	27-04-2000	28-03-2001	(1st and 2nd allocations)
Options still to be exercised at start of year	280,653	146,725	51.49
Options exercised	149,110	63,996	51.74
Options cancelled	547	0	51.16
Options still to be exercised at end of year	**130,996**	**82,729**	**51.24**

(1) The average exercise price is the weighted average of the individual exercise prices, which may vary depending on the tax regime.

5.6 - Retirement commitments

Retirement commitments are fully outsourced and are covered by insurance policies taken out with life insurance companies.

5.7 - Audit fees

Fees paid for the statutory audit of the 2005 parent company financial statements are as follows:

- ACE: €15,000
- KPMG: €3,000
- PWC: €15,000

Total fees paid to the independent auditors by the Euler Hermes group are shown in the notes to the consolidated financial statements.

Schedule of Subsidiaries and equity investment

Subsidiaries and equity investments	Capital stock	Other shareholders' equity	Proportion of capital held	Book value of shares held Gross	Book value of shares held Net	Outstanding loans and advances	Sureties and guarantees given	Net revenues for past year	Net income for past year	Dividends received during the year
			in %	€	€	€	€	€ (1)	€ (1)	€
A. Detailed information concerning securities whose gross value exceeds 1% of the capital stock										
1. Subsidiaries										
Euler Hermes SFAC										
1, rue Euler - 75008 Paris	€90,196,096	€153,695,671	99.99%	169,083,674	169,083,674	-	976,642	363,031,847	68,206,281	67,614,576
Euler Hermes UK plc.										
1, Canada Square - London E14 5DX										
United Kingdom	GBP50,614,000	GBP63,023,000	99.99%	238,683,768	224,000,000	-	812,747	175,379,855 (2)	28,672,903 (2)	7,841,998
Euler Hermes Credit Insurance Belgium SA										
15, rue Montoyer - 1000 Brussels										
Belgium	€27,916,000	€18,719,000	99.99%	53,408,321	50,284,744	-	-	65,480,000	7,241,000	-
Euler Hermes ACI Holding Inc.										
800 Red brook Boulevard										
Owings Mills MD 2117 - USA	USD129,526,334	USD(4,748,000)	100.00%	143,541,100	143,541,100	6,662,740	-	-	6,429,989 (3)	6,259 776
Euler Hermes SIAC S.p.A.										
Via Raffaello Matarazzo, 19										
00139 Rome - Italy	€28,000,000	€70,259,000 (4)	100.00%	94,535,667	94,535,667	1,300,401	-	185,725,000 (4)	12,690,000 (4)	10,080,000
Euler Hermes Kreditversicherungs AG										
Friedensalle 254, 22763 Hambourg										
Germany	€54,080,000	€381,922,000	100.00%	540,816,011	540,816,011	-	-	678,979,000	95,355,000	20,915,336 (5)
Euler Hermes Reinsurance AG										
Tödistrasse, 65 - CH-8002 Zürich										
Switzerland	€54,888,286	€	100.00%	54,888,286	54,888,286	734,057	-	-	655,621	-
2. Equity investments										
Euler Hermes Hitelbiztosito Magyarorszag Rt.										
Nagybatonyi u.8.										
H-1037 Budapest										
Hungary	HUF450,000,000	HUF773,640,000	17.86%	434,540	434,540	17,142	-	6,268,558	81,022	-
Euler Hermes Magyar Követeléskezelö Kft										
Nagybatonyi u.8.										
H-1037 Budapest										
Hungary	HUF30,000,000	HUF278,759,000	20.10%	204,519	204,519	-	-	-	724,677	-
B. Summary information concerning other securities whose gross value does not exceed 1% of the capital stock										
French subsidiaries	€101,875	€929,020		128,016	128,016	1,207,471	-	12,732,767	348,216	-
Foreign subsidiaries	USD5,000	USD(6,137)		909	909	-	-	33,771	(1,335)	-
Summary information concerning other securities whose gross value does not exceed 1% of the capital stock										
French subsidiaries										
Euler Hermes Services	€40,000	€929,812	100.00%	38,112	38,112	1,207,471	-	12,732,767	372,306	-
Kepler Ratings	€61,875	€(792)	100.00%	89,904	89,904	-	-	-	(24,090)	-
Total	**101,875**	**929,020**		**128,016**	**128,016**	**1,207,471**	**-**	**12,732,767**	**348,216**	**-**
Foreign subsidiaries										
Euler Hermes Inc., USA	USD 5,000	USD (6,137)	100.00%	909	909	-	-	33,771	(1,335)	-

(1) The exchange rate used for companies outside the euro zone is the closing rate on 31 December 2005.
(2) Amounts corresponding to the Euler Hermes UK sub-group, of which Euler Hermes UK plc is the holding company.
(3) Amounts corresponding to the Euler Hermes ACI sub-group, of which Euler Hermes ACI Holding Inc is the holding company.
(4) Amounts corresponding to the Euler Hermes SIAC sub-group, of which Euler Hermes SIAC S.p.A. is the holding company.
(5) Comprises the dividends paid by Euler Hermes Germany Gmbh and Euler Hermes Kreditversicherungs AG following the merger of the two companies.

Five-year financial summary

(in euros)

	2001	2002	2003	2004	2005
Capital					
Capital stock	11,167,968	12,892,753	13,296,576	13,793,815	14,345,678
Number of shares in issue	34,899,900	40,289,852	41,551,801	43,105,673	44,830,244
Maximum number of future shares that could be created	286,900	268,056	418,338	471,680	564,932
Results for the year					
Income from ordinary activities(1)	77,542,354	122,486,579	38,541,826	75,557,853	112,711,686
Income before tax, depreciation, amortisation and provisions	57,740,552	87,438,283	9,043,647	45,645,213	84,010,139
Corporation tax	(13,663,490)	(27,480,855)	625,032	(1,952,460)	(5,297,550)
Income after tax, depreciation, amortisation and provisions	62,805,492	72,621,154	36,168,675	50,074,199	99,317,488
Dividends paid(2)	48,859,860	32,231,882	75,624,278	107,764,183	172,596,439
Earnings per share					
Income after tax but before depreciation, amortisation and provisions	2.05	2.85	0.20	1.10	1.99
Income after tax, depreciation, amortisation and provisions	1.80	1.80	0.87	1.16	2.22
Dividend per share	1.40	0.80	1.82	2.50	3.50
Employees					
Average number of staff	1	1	1	2	2

(1) In accordance with the CNC notice dated 27 March 1985 and the COB bulletin no. 181 of May 1985, in view of Euler Hermes' activity as a holding company this item comprises ordinary investment revenues instead of sales.

(2) Includes dividends on treasury shares, which will be credited to "Retained earnings" upon payment.

General report by the independent auditors on the annual financial statements

YEAR ENDED 31 DECEMBER 2005

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby submit our report for the year ended 31 December 2005 on the:

- audit of your company's annual financial statements, as attached to this report,
- substantiation of our assessments,
- specific checks and information required by law.

The annual financial statements were drawn up by the Group Management Board. We are required to express an opinion on these financial statements on the basis of our audit.

I – Opinion on the annual financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require us to perform such tests and procedures so as to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and any significant estimates made in drawing up the financial statements, and an evaluation of the overall presentation of these statements. We believe that our audit provides a reasonable basis for the opinion expressed below.

In our opinion, the financial statements, drawn up in accordance with accounting principles generally accepted in France, present fairly the company's results for the year ended 31 December 2005 and the company's financial position and its assets and liabilities at that date.

II – Substantiation of our assessments

Pursuant to the provisions of article L. 823-9 of the Commercial Code relating to the substantiation of our assessments, we hereby provide the following information:
As your company's assets consist mainly of equity interests, we satisfied ourselves that the valuations made were at least equal to the net book values shown in the balance sheet. We consider that the methods of valuing these interests, in accordance with the methods shown in Note 3.2.2 to the financial statements, are appropriate.
The assessments thus made form part of our procedure for auditing the annual financial statements taken as a whole and therefore contributed to the formation of our opinion as expressed in the first part of this report.

III – Specific checks and information

In accordance with professional standards applicable in France, we also carried out the specific checks required by law.

We have no comments to make on the accuracy of the information given in the management report drawn up by the Group Management Board and in the documents sent to the shareholders on the company's financial position and the annual financial statements, or whether this information is consistent with the financial statements.

We satisfied ourselves that the management report contains the information required by law relating to participating and controlling interests acquired and the identity of owners of the company's capital.

Neuilly-sur-Seine, Paris-la Défense and Paris, 3 May 2006

The Independent Auditors

PRICEWATERHOUSECOOPERS AUDIT	KPMG AUDIT A division of KPMG SA	ACE AUDIT
Christine Bouvry	Xavier Dupuy	Alain Auvray

Euler Hermes shares on the stock exchange market

Content

Euler Hermes share on the stock exchange market

Trustworthy relations with our clients and shareholders

Euler Hermes has developed a relationship of trust with its clients and shareholders, based on dialogue, ethics and rigour. The group thus contributes to strengthening the entire economic chain.
By securing business transactions throughout the world, Euler Hermes contributes to its clients' profitable growth and optimises the investment of its shareholders. The group's commitment to clients is based in particular on irreproachable practices and constant dialogue. Euler Hermes' teams are available and responsive. They visit clients regularly so as to adapt their practices and services to the needs expressed by the policyholder. In the same way, policyholders consult Euler Hermes whenever they do business with a new customer or sales volumes exceed the amount provided for in their contract. Thanks to its capacity to identify risk very early on, Euler Hermes can help clients respond to any increase in risk. By adapting the credit limits to the new risk situation, the credit insurer and its client anticipate and prevent defaults. By doing so, they strengthen the entire economic chain.
The same transparency and rigour underpin Euler Hermes' commitment to its shareholders. The capital allocated to the group by its main shareholders, AGF and Allianz, and by the public, is a resource that must be developed and made profitable. Euler Hermes is entirely committed to this task and therefore implements a long-term development strategy. The Group Management Board and Supervisory Board, and the various associated committees (audit committee, remuneration and appointments committee, finance committee), set ambitious targets and take full responsibility for their strategic focus on dynamic growth. The visibility conferred by Euler Hermes' stockmarket listing contributes to promoting credit insurance to business leaders throughout the world.

Share price performance

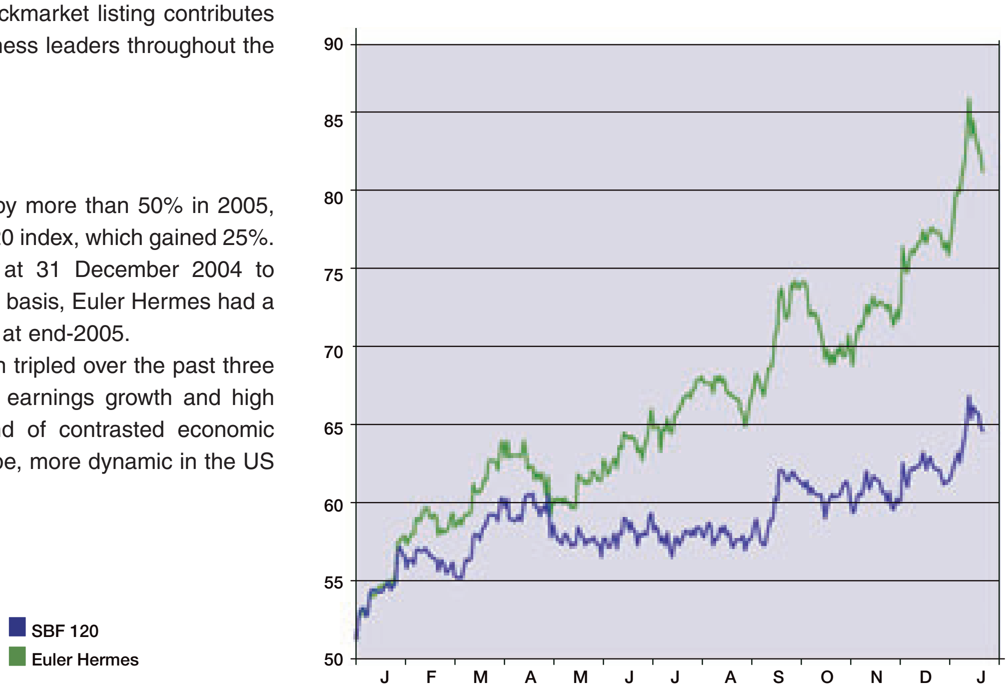
The Euler Hermes share price rose by more than 50% in 2005, significantly outperforming the SBF 120 index, which gained 25%. The share price rose from €50.70 at 31 December 2004 to €76.20 at 31 December 2005. On this basis, Euler Hermes had a market capitalisation of €3.416 billion at end-2005.
The share price, which has more than tripled over the past three years, reflects Euler Hermes' strong earnings growth and high dividend yield. Against a background of contrasted economic growth – gradually improving in Europe, more dynamic in the US and Asia – Euler Hermes has achieved steady growth in turnover. Underwriting margins once again improved significantly thanks to the good fit between the group's business model and the current economic environment.

Moreover, the share's liquidity improved considerably during the year, thus testifying to the increased interest taken by investors in the group. Average daily trading volumes also increased in 2005, rising to €2.6 million per day, or 41,202 shares at an average price of €63.43.

With the support of its majority shareholder AGF, a member of the Allianz group, and of its minority shareholders, Euler Hermes will continue to develop its business in all the geographical regions it covers, while preserving its margins. The group's strategy of assisting its clients to achieve profitable growth will enable Euler Hermes to keep profitability high in the common interest of all its partners.

Euler Hermes share price relative to the SBF 120 index

in 2005

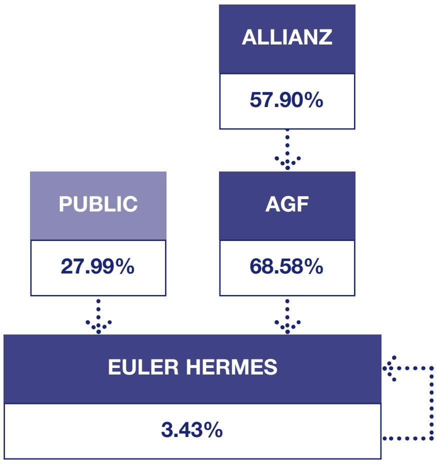


Euler Hermes share on the stock exchange market

Shareholder structure

In 2005, AGF raised its holding in Euler Hermes' capital slightly, to 68.58%, following its decision to opt for the payment of the dividend in shares, as proposed at the General Shareholders' Meeting on 22 April 2005. Euler Hermes holds 3.43% of the capital in treasury stock and the public own 27.99%.

Shareholder structure of Euler Hermes at 31 December 2005



Shareholding structure and voting-rights at 31 december 2005

Shareholders	Number of shares	% of capital	Number of voting rights	% voting rights
AGF Group	30,744,048	68.58%	30,744,048	71.02%
Euler Hermes (treasury stock)	1,538,233	3.43%	0	0.00%
Public	12,547,963	27.99%	12,547,963	28.98%
Total	**44,830,244**	**100.00%**	**43,292,011**	**100.00%**

Stock market performance of Euler Hermes in 2005 (Euronext™- compartiment A)

Code ISIN: FR0004254035	Trading volumes		Share price	
Month	Number of shares	Capital (€ million)	High (€)	Low (€)
January 2005	2,337,049	127,930,062	59.30	50.75
February	914,337	53,397,281	59.90	57.10
March	926,764	56,439,928	64.00	58.00
April	1,167,460	73,304,813	64.60	60.35
May	850,573	51,816,907	62.90	58.85
June	603,825	38,415,347	65.50	61.10
July	507,982	33,430,295	68.00	61.80
August	303,729	20,447,036	68.80	64.90
September	1,039,817	73,483,867	74.50	66.65
October	501,330	35,604,457	75.00	68.50
November	877,639	63,154,902	73.95	68.55
December	682,116	52,120,484	78.00	71.80
January 2004	901,458	38,564,373	43.14	37.26
February	553,144	25,859,482	47.00	41.44
March	1,392,311	62,272,000	47.60	41.65
April	1,390,402	68,332,400	49.16	44.60
May	1,330,569	60,222,400	48.18	43.00
June	858,692	38,125,925	45.50	43.50
July	1,015,030	45,328,800	44.55	43.50
August	846,726	37,239,009	44.70	42.05
September	1,267,520	61,645,800	49.11	43.68
October	1,233,418	59,421,300	49.11	47.70
November	2,280,301	112,176,000	53.90	47.81
December 2004	1,094,398	55,263,000	52.30	49.25

Fundamentals of the Euler Hermes share

Unit: €	2001	2002	2003	2004 IFRS	2005 IFRS
Net income, group share (in thousands)(3)	90,379	51,205	146,145	242,984	286,076
Earnings per share(3)	2.69	1.43	3.72	5.97	6.74
Dividend paid (in thousands)	48,860	32,232	75,624	107,764	156,906
Net dividend per share(1)	1.40	0.80	1.82	2.50	3.50
Payout ratio(2)	54.06%	62.95%	51.75%	44.35%	54.85%
Highest share price	60.00	46.13	40.00	53.90	78.00
Lowest share price	35.00	15.10	19.01	37.26	50.75
Last share price (31 December)	42.50	22.00	38.10	50.70	76.20
Number of shares	34,899,900	40,289,852	41,551,801	43,105,673	44,830,244
Market capitalisation (in million)	1,483	907	1,583	2.185	3,416

(1) The 2005 dividend will be submitted to the General Meeting of 22 May 2006 for approval.

(2) The payout ratio corresponds to the dividend paid measured as a percentage of net income, group share.

(3) In 2001, 6,500 shares were created following the exercise of stock options under the plan approved by the Extraordinary General Meeting of 29 April 1997.

In 2002, a capital increase enabled the creation of 5,371,368 new shares on the basis of 2 new shares for each 13 old shares. In addition, 18,584 shares were created following the exercise of stock options granted during previous years. In 2003, following partial payment of the dividend in the form of shares, 1,172,431 new shares were created. In addition, 89,518 shares were created following the exercise of stock options granted during previous years. In 2004, following partial payment of the dividend in the form of shares, 1,502,151 new shares were created. In addition, 51,721 shares were created following the exercise of stock options granted during previous years. In 2005, following partial payment of the dividend in the form of shares, 1,661,023 new shares were created. In addition, 63,548 shares were created following the exercise of stock options granted during previous years.

General Information

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Company name and head office

Company name

In the course of the group's formation, the original corporate name "Société Française d'Assurance-Crédit" (Sfac) was adopted in 1989 by the subsidiary responsible for its credit insurance business in France, then changed to "Compagnie Financière Sfac". In 1996 it took the corporate name "Euler".
Following the takeover of the German credit insurance company Hermes AG, the General Meeting of shareholders held on 17 April 2002 changed the corporate name from Euler to Euler & Hermes. The General Meeting of 23 April 2003 decided to simplify the name to "Euler Hermes". For the purpose of harmonisation, "Euler Hermes" is incorporated into the name of each of the group's subsidiaries.

Head office

1-3-5, rue Euler, 75008 Paris, France

Legal form and applicable legislation

Euler Hermes is a public limited company under French law [Société Anonyme] with a Group Management Board and Supervisory Board. It is governed by the provisions of the Second Book of the French Commercial Code and by the provisions of Decree No. 67-236 of 23 March 1967.
Euler Hermes Sfac, a wholly-owned subsidiary of Euler Hermes, is authorised as an insurance company by the Minister for the Economy and Finance. It is subject to the provisions of the Insurance Code [Code des Assurances] and comes under the joint control of the French Treasury and the Insurance Control Commission [Commission de Contrôle des Assurances].
Euler Hermes Sfac Crédit, itself a wholly-owned subsidiary of Euler Hermes Sfac, is authorised as a financial company by the Credit Institutions and Investment Companies Committee, CECEI, [Comité des Etablissements de Crédit et des Entreprises d'Investissement].
It is therefore subject to the provisions of the Monetary and Financial Code relating to the activity and control of credit institutions and to the regulations of the Banking and Finance Regulatory Committee [Comité de la Réglementation Bancaire et Financière].
It is subject to the joint control of the CECEI and the Banking Commission [Commission Bancaire].
As a shareholder of these companies, Euler Hermes is subject to certain aspects of these regulations and to control by the above-cited authorities.
The following provisions are specifically applicable:
- Articles L. 322-4 and R. 322-11-1 of the Insurance Code [Code des Assurances] stipulate that any operation for the takeover, enlargement or disposal of a holding, whether direct or indirect, in companies that have received government authorisation to operate direct insurance in France, that would enable a person or several persons acting in concert either to acquire or to lose effective power or control over such a company, or to cross the thresholds of one-half, one-third, one-fifth or one-tenth of the voting rights in that company, must first obtain approval from the Minister for the Economy and Finance. The Minister has three months in which to raise any objection to the proposal, on the advice of the Insurance Companies Commission [Commission des Entreprises d'Assurance].
Furthermore, any transaction that results in one person, or several persons acting in concert, being able to acquire or dispose of one-twentieth of the voting rights in such a company must be reported to the Minister for the Economy and Finance prior to completion.
These provisions are applicable to Euler Hermes Sfac, a wholly-owned subsidiary of Euler Hermes, which is authorised as an insurance company.
- Regulation No. 96-16 of 20 December 1996 of the Banking and Finance Regulatory Committee stipulates that any person or group of persons acting in concert must obtain authorisation from the CECEI prior to the realisation of any operation for the takeover, enlargement or disposal of a holding, whether direct or indirect, in a company authorised by that Committee, if such an operation enables that person or those persons to acquire or to lose effective power or control over the management of that company, or to acquire or to lose one-third, one-fifth, or one-tenth of the voting rights in that company. The Committee then has three months to inform the applicant if the proposed operation necessitates a reassessment of the authorisation for the company in question.
Furthermore, any transaction that results in one person, or several persons acting in concert, being able to acquire one-twentieth of the voting rights in such a company must be immediately reported to the CECEI. These provisions are applicable to Euler Hermes Sfac Crédit, a wholly-owned subsidiary of Euler Hermes Sfac, which is authorised as a financial company.
These provisions are applicable to transactions in the company's shares as a direct and indirect shareholder of Euler Hermes Sfac and Euler Hermes Sfac Crédit.

Date of incorporation and term

The company was incorporated on 28 March 1927 for a term of 99 years, which will expire on 27 March 2026.

Corporate purpose

Under the terms of Article 3 of the Articles of Association, the purpose of the company, directly or indirectly, in France and internationally, is financial services and insurance and especially any

General information about the company

activities contributing to companies' management of their customer accounts, and in this respect, activities regarding credit insurance, factoring and debt collection.
In addition to investments, the company may take holdings in any companies whose activity relates to this purpose or participate in any operations likely to facilitate its expansion or development. The company may acquire any property or assets in any form.

Trade and Companies Registry

RCS registration number: 552 040 594 RCS Paris - APE number: 741J

Consultation of legal documents

The legal and corporate documents relating to the company (Articles of Association, minutes of General Meetings, reports of the independent auditors and other documents available to shareholders) can be consulted at the company's registered office, 1-3-5 Rue Euler, 75008 Paris.

Financial year

Each financial year covers twelve months, commencing on 1st January and terminating on 31 December.

Statutory distribution of earnings

Pursuant to the law and the provisions of Article 21 of the Articles of Association, the income statement summarises the income and expenditure for the year. The difference between them, after deductions for amortisation, depreciation and provisions, shows the income or loss for the year.
From the income for the year, less any losses from previous years, at least 5% is transferred to the legal reserve, as required by law.
This deduction ceases to be obligatory when the reserve reaches one-tenth of shareholders' equity. It becomes obligatory again when, for any reason, the reserve falls below one-tenth.
The distributable income is made up of the income for the year, less any losses from previous years and the sums transferred to re serves as required by law or the Articles of Association, plus retained earnings.
After the accounts have been approved and the existence of distributable income ascertained, the Ordinary General Meeting resolves to allocate the distributable income to one or more reserve accounts, the application or use of which is regulated by the General Meeting, to carry it forward or to distribute it.
The Ordinary General Meeting may decide to distribute sums from the reserves avail able to it, expressly indicating the reserve accounts from which the deductions are made. However, dividends are deducted first from the distributable income for the year. Apart from the instance of capital reduction, no distribution can be made to share holders if the shareholders' equity is, or would as a result, become less than the amount of the capital plus the reserves that the law or the Articles of Association do not allow to be distributed. A revaluation reserve may not be distributed but it can be capitalised, in whole or in part.
The methods for paying dividends voted by the Ordinary General Meeting are fixed by the Meeting or, failing that, by the Group Management Board. Dividends must be paid within the period set by law. When a balance sheet drawn up during or at the end of the year and certified by the auditors shows that the company has, since the end of the previous year, after the constitution of the necessary amortisation, depreciation and provisions, after deduction if any of previous losses, and sums taken to re serves pursuant to the law or the Articles of Association and including retained earnings, produced an income, an interim dividend or dividends can be paid before approval of the financial statements. The amount of the interim dividend(s) cannot exceed the total income as defined above.
The Ordinary General Meeting is entitled to grant each shareholder, for some or all of the dividend or interim dividend(s) to be distributed, an option between payment of the dividend or interim dividend(s) in cash or in company shares. The legally prescribed term for dividends is five years from the date payment is authorised by the General Meeting.
Taxation applied to the distribution of dividends to non-French companies complies with the legal regulations; generally these dividends are subject to a withholding tax. However, this principle is subject to certain exceptions under law or international tax treaties.

General Meetings and voting rights

In accordance with the law and the terms of Article 20 of the Articles of Association, General Meetings of shareholders are convened and take place under legally pre scribed conditions.
The meetings are held either at the registered office, or at some other place specified in the notice of the meeting.
Ordinary and Extraordinary General Meetings include all shareholders who hold at least one share.
Special General Meetings include all share holders who own at least one share of the class concerned.
However, in respect of amounts called but not paid on shares, such shares do not give right of admission to shareholders' meetings and are deducted for purposes of the quorum calculation.
Subject to the aforementioned, every shareholder is entitled, on proof of identity, to participate in General Meetings, either by attending in person, by returning a postal voting form, or by appointing a proxy, who may be his spouse or another shareholder, provided that:
- for registered shareholders: their shares are entered in the company's register;

- for bearer shareholders: a certificate issued by the custodian is deposited at the address indicated in the meeting notice, stating that the shares have been placed in a non-transferable account until after the Meeting.
These formalities must be completed at least five days before the date of the Meeting.
General Meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice Chairman or a member of the Supervisory Board specially delegated by the Supervisory Board for this purpose. Failing this, the General Meeting appoints its own Chairman.
The duties of teller are performed by the two members of the General Meeting who have the greatest number of votes who accept this role.
The officers of the General Meeting appoint the secretary who may be chosen from outside the shareholders. Every member of the General Meeting is entitled to as many votes as the number of shares he owns or represents. There is no clause in the Articles of Association providing for double voting rights for shareholders in the company.

Statutory disclosure thresholds

The shares may be freely traded and may be sold in accordance with the legal and regulatory conditions in force.
Apart from the legal obligation provided for in Articles L.233-7 of the Commercial Code to inform the company when certain fractions of the capital are held and to make any consequent declaration of intention, Article 8 of the Articles of Association voted by the Extraordinary General Meeting of 7 April 2000 provides for an additional disclosure obligation whereby any individual or corporate entity acting alone or in con cert, which comes to hold a number of shares and/or voting rights in the company greater than or equal to:

1 – 1% of the total number of shares and/or voting rights must, within fifteen days from the date of crossing this threshold, inform the company of the total number of shares and/or voting rights he holds, by recorded letter with return receipt (or equivalent means in countries outside France), fax or telex. This declaration must be renewed each time a new 1% threshold is crossed upwards to 50% inclusive and each time a new 1% threshold is crossed downwards to 1% inclusive.
2 – 5% of the total number of shares and/or voting rights must, within fifteen days from the date of crossing this thresh old, apply to the company to have all his shares held in registered form. This obligation for shares to be held in registered form is applicable to all shares already held and to those that have just been acquired taking the shareholder over the threshold. The request for shares to be registered shall be sent by letter, fax or telex to the company within fifteen days of crossing the threshold. The declaration due under the preceding point (1) on crossing the threshold that is prescribed in this paragraph requires shares to be held in registered form.
For the determination of the thresholds prescribed in (1) and (2), shares and/or voting rights held indirectly and shares and/or voting rights equivalent to shares and/or voting rights owned as defined by the provisions of Articles L.233-7 et seq. of the Commercial Code shall be taken into account.
For each of the above-mentioned disclosures, the declarer must certify that the disclosure made includes all the securities owned or held pursuant to the previous paragraph. He must also specify the date(s) of acquisition. Investment fund management companies are required to provide this information for all the voting rights attached to shares in the company held by the funds they manage.
In the event of non-compliance with the obligation to provide the information referred to in (1) above or the obligation to register the shares in (2) above, one or more share holders owning at least 2% of the capital or voting rights may request that shares exceeding the fraction which should have been disclosed be deprived of voting rights for all shareholders' meetings that are held for a period of two years from the date the notification is complied with. The shareholders' application will be recorded in the minutes of the General Meeting and the sanction referred to above will be applied automatically.
Articles L.233-9 and L.233-10 of the Commercial Code referred to in the third paragraph stipulate that:

1 – shares and voting rights deemed to be akin to shares and voting rights owned by the person required to disclose when a threshold is crossed or to have their shares registered are:
I – shares or voting rights owned by other persons on behalf of that person;
II – shares or voting rights owned by companies that control that person;
III – shares or voting rights owned by a third party with whom that person is acting in concert;
IV – shares or voting rights which that person or one of the persons mentioned in (I) and (III) above is entitled to acquire on request by virtue of an agreement.
2 – persons acting in concert are deemed to be persons who have concluded an agreement with the intention of acquiring or selling voting rights or with the intention of exercising voting rights in order to implement a joint policy with regard to the company.

Ownership of the Euler Hermes trademark

The company is the owner of the "Euler Hermes" trademark in France. The "verbal" "Euler Hermes" trademark has been filed and registered, as has the "E+H" logo and the trademark asso-

ciated with the "E+H Euler Hermes" logo, in classes 35 (management of commercial business), 36 (insurance) and 42 (computer programs – legal services).
In addition, the trademark, logo and trade mark associated with the logo are being registered as Community trademarks in the European Union.

In countries outside the European Union but covered by the Madrid agreements, the company is the owner of the trademark, the logo and the trademark associated with the logo in classes 35, 36 and 42. This applies to the following countries: Algeria, Australia, Bulgaria, Croatia, Egypt, Estonia, Romania, Switzerland, China, Czech Republic, Hungary, Japan, South Korea, Latvia, Lithuania, Morocco, Norway, Poland, Russia, Singapore, Slovakia, Slovenia, Turkey, Vietnam, Liechtenstein, Serbia and Montenegro.
Lastly, for countries that are not covered by the Madrid agreements, the trademark, logo and the trademark associated with the logo are being registered individually in classes 35, 36 and 42 in each of the following countries: United States, Brazil, Canada, Mexico, Hong Kong, Malaysia, Taiwan, Thailand, Tunisia, Philippines, Indonesia, Colombia, Venezuela, Chile, India and Argentina.

General information about the company's capital

Statutory conditions for changes to capital

The company's share capital may be increased, reduced or amortised under the conditions laid down by law.

Total issued capital, number and classes of shares

As at 31 December 2005 the company's share capital amounted to €14,345,678.08, divided into 44,830,244 shares, all of the same class.
All the shares have been fully subscribed and paid up. The shares are in registered form until fully paid up. Shares must be fully paid up on subscription.
Shares are held in registered or bearer form at the choice of the shareholder, subject to the particular stipulations prescribed by law. Any shareholder holding 5% or more of the total number of shares and/or voting rights in the company must apply for his shares to be held in registered form.
The company is authorised to apply the provisions of commercial company law at any time to identify holders of shares giving immediate or eventual voting rights at its General Meetings.
The company's securities and assets are not subject to any pledges.

Authorisation for capital increases

a – Pursuant to the provisions of Articles L.225-129 to L.225-129-6, L.228-91 and L.228-92 of the Commercial Code, the Extraordinary General Meeting of 28 April 2004 delegated to the Group Management Board, for a period of 26 months from the date of that General Meeting, i.e., until 27 June 2006, the necessary powers to issue, maintaining the shareholders' pre-emptive subscription right, shares in the company and or other securities – including freestanding equity warrants as a bonus or rights issue – giving immediate and/or future access to shares in the company, to be subscribed either in cash or as settlement for liabilities.
The maximum amount of the immediate or future capital increase resulting from all the issues made by virtue of this delegation is set at a total amount of €750 million, with the proviso:
– that the above total is fixed not taking into account the consequences on the amount of the capital increase of any adjustments that may be made, following the issue of securities giving access to shares in the company,
– and that the following are expressly excluded:
▪ the issue of preference shares with voting rights,
▪ the issue of non-voting preference shares,
▪ the issue of investment certificates, whether preferential or not,
▪ the issue of securities giving immediate and/or future access to voting or non-voting preference shares or investment certificates.
Securities thus issued, giving access to company shares, may consist of securities representing debts or they may be linked to the issue of such securities or enable their issue as intermediate securities. These debt securities may be issued in the form of bonds or fungibles, especially perpetual or fixed-term subordinated notes, at floating or fixed rates, with or without capitalisation, issued in euros and/or any other currency or in composite monetary units, with possible rights, especially in the form of warrants, to receive and/or subscribe to other bonds or fungibles, repayable in the currency or composite monetary unit of issue and/or by any other means, up to the aforementioned maximum amount of €750 million, or its equivalent in another currency or composite monetary unit, it being specified that the maximum amount applies to all bonds or fungibles is sued immediately or following the exercise of warrants, but that this amount does not include the redemption premium, if any.
This maximum nominal amount is separate from that set for the authorisation given to the Group Management Board to issue the debt securities described below.
The Group Management Board may institute for the benefit of shareholders a subscription right to new shares or securities, which may be exercised in proportion to their rights and up to the amount of their request. If the exercise of rights to sub scribe to new shares and, if applicable, available excess shares does not absorb the entire issue, the Group Management Board may, in the order that it deems appropriate, and in accordance with the law, either limit the issue to the amount of subscriptions received, provided that at least three-quarters of the decided issue is sub scribed, or freely allocate some or all of the shares that have not been subscribed, or offer them to the public.
The decision of the General Meeting entails:
▪ for the automatic benefit of holders of securities, waiver by the shareholders of their preferential subscription right to shares to which these securities may give entitlement;
▪ and involves the express waiver by share holders of their pre-emptive subscription right to the shares to which rights are given by:
– securities in the form of convertible bonds,
– freestanding equity warrants in a bonus or rights issue.
The amount paid or due to the company for each of the shares issued by virtue of this authorisation, shall be at least equal to the nominal value of the shares, as calculated before the proposed issue.
In accordance with Article 12 of the Articles of Association, the maximum amount for each of the capital increases decided by the Group Management Board under this authorisation must first be approved by the Supervisory Board.
The General Meeting gave full authority to the Group Management Board, with the ability to delegate this authority in accordance with the law, to carry out these is sues within the above-specified limits, and to define their terms and conditions, and more specifically to:
▪ carry out the aforementioned issues thus increasing the capital, on one or several occasions and in the proportions and on the dates determined by it, in France and/or in other countries, if

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appropriate, and/or on the international market, or refrain from doing so if appropriate;

- determine the categories and characteristics of the securities issued;
- set their subscription price, as well as the issue premium, if any;
- set the date from which the shares issued or to be issued shall have dividend rights attached, which may be retroactive;
- if securities are issued that give access to the capital, define the terms for adjusting the conditions of access to shares in order to preserve their rights;
- define, in accordance with the law, the situations in which the Group Management Board shall be entitled to suspend the exercise of all rights attached to securities giving immediate or future access to shares, for a maximum period of three months;
- define the terms for buying on the financial markets or offering to purchase or ex change securities issued as a result of this resolution, or redeeming said securities;
- charge the costs of issuing the shares and securities against the premiums generated by the capital increases and draw from said premiums any amount needed to bring the legal reserve up to one-tenth of the amount of the capital after said capital increases;
- amend the Articles of Association accordingly;
- generally, enter into any arrangements, sign any agreements with any bank or institution, take any action and complete any formalities relating to the issue, listing and financial servicing of the shares and/or securities issued pursuant to this resolution, and otherwise do anything that may be necessary.

After obtaining approval from the Supervisory Board, the Group Management Board took advantage of a previous authorisation granted by the General Meeting of 17 April 2002, by increasing the capital on 18 July 2002 for a total of €171,883,776 through the issue of 5,371,368 new shares.

The Extraordinary General Meeting of 22 May 2006 will be asked to renew the authorisation granted to the Management Board for a further 26-month period, i.e., until 21 July 2008. However, the maximum permissible capital increase is revised to €4.4 million, which is to be understood as meaning the nominal amount that replaces the amount of €750 million, including issue premium.

b – In accordance with Articles L.225-129 to L.225-129-6 and L.225-130 of the Commercial Code, the Extraordinary General Meeting of 28 April 2004 also gave full authority to the Group Management Board for a period of 26 months from the date of that Meeting, i.e., to 27 June 2006 or until it is renewed by an Extraordinary General Meeting before said date, to increase the share capital, on one or more occasions, at the times and on the terms of its choosing, by the capitalisation of reserves, income or premiums, in the form of the allocation of bonus shares or increasing the par value of existing shares or a combination of both methods. The General Meeting gave the Group Management Board authority to decide that the rights forming fractional shares would not be negotiable and that the corresponding shares should be sold, the sums derived from the sale to be allocated to the owners of the rights within thirty days of the date of registration of the number of whole shares allocated to their account.

The amount of the capital increase that may be made pursuant to this resolution may not exceed €750 million, a ceiling shared with that set for the capital increases resulting from the issues of shares or securities described above.

The General Meeting gave the Group Management Board full authority, with the ability to delegate in accordance with the law, to implement this resolution, amend, if applicable, the Articles of Association accordingly and, generally, do anything that may otherwise be necessary.

The Group Management Board has not made use of this authorisation.

The Extraordinary General Meeting of 22 May 2006 will be asked to renew the authorisation granted to the Management Board for a further 26-month period, i.e., until 21 July 2008. However, the amount of the capital increase that may be made is revised to €4.4 million and is to be understood as meaning the nominal amount that replaces the amount of €750 million, including issue premium.

Securities that give access to capital

The Extraordinary General Meeting of 29 April 1997 adopted a stock option plan for 1% of the capital, being 348,750 shares, for certain members of the Group Management Board of the company and certain senior executives of the subsidiaries, representing 56 persons in total. Of the 314,200 stock options allocated, 750 were exercised in 1997, 3,500 in 1998, 10,300 in 1999, 6,250 in 2000, 6,500 in 2001 and 18,584 in 2002, i.e. a total of 45,884 options of which 29,884 at the price of €16.07 each and 16,000 at the price of €18.88 each. In 2003, 89,518 options were exercised, of which 22,217 at the price of €15.55 each and 67,301 at the price of €18.27 each. In 2004, 51,721 options were exercised, of which 3,669 at the price of €15.55 each, 31,001 at the price of €18.27 each and 17,051 at the price of €21.12 each. In 2005, 19,119 options were exercised at the price of €15.55 each, 23,767 at the price of €18.27 each, and 5,012 at the price of €21.12 each.

The Supervisory Board meeting of 28 September 1999 decided not to allocate additional options under this plan. Following the Euler Hermes capital increase in 2002, and in accordance with legal and regulatory provisions, 9,040 new options have been granted taking the balance of options remaining to be exercised to 268,056 as at 31 December 2002. In addition, 13,537 options were lost when holders either left the company or when potential beneficiaries refused the options. Following the exercise of options during 2003, 2004 and 2005, 178,538 options had not been exercised on 31 December 2003, 122,580 had not been exercised on 31 December 2004, and 74,682 had not been exercised on 31 December 2005.

The Extraordinary General Meeting of 28 April 2004 also gave

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the Group Management Board full authority, subject to maintaining the shareholders' pre-emptive subscription right, to issue securities – including freestanding equity warrants issued as a bonus or rights issue – giving immediate and/or future access to shares in the company. Lastly, in accordance with the provisions of Articles L.225-177 et seq. of the Commercial Code, the Extraordinary General Meeting of 7 April 2000 authorised the Group Management Board to grant stock options for existing shares on the following terms: the beneficiaries must be employees or corporate officers of the company or affiliated companies as defined in Article L.225-180 of the Commercial Code. The options may be granted by the Group Management Board to some or all of these beneficiaries for up to 3% of the share capital.

This authorisation was granted for a period of three years from the date of the Extraordinary General Meeting of 7 April 2000. The total number of options granted during this three-year period may not give entitlement to purchase a number of shares representing, on the date of allocation and taking account of the options already granted, more than 3% of the company's share capital, on the understanding that, during the twelve-month period following the date of the Extraordinary General Meeting of 7 April 2000, the Group Management Board only granted options under the following conditions:

1 – taking account of the tax, company and stock exchange legislation in the various countries involved, and the conclusions that the Group Management Board may accordingly reach as to the possibility of granting the options to potential beneficiaries resident in the various countries concerned, under acceptable conditions, an initial allocation of options, in one or more batches depending on the companies involved, to the greatest possible number of beneficiaries and giving entitlement to acquire a number of shares representing 0.6% of the company's capital on the date of allocation; and

2 – a second allocation of options, in one or more batches depending on the countries concerned, reserved for certain beneficiaries who are members of the management of the company and subsidiaries according to a list drawn up by the Group Management Board, giving entitlement to purchase a number of shares representing 0.6% of the company's capital on the date of allocation.

– Subsequently, for each of the two years following this first twelve-month period and for each of the three years defined in the renewal of the authorisation given by the Extraordinary General Meeting of 17 April 2002, within the limits set by said Extraordinary General Meeting, the Supervisory Board decided on the maximum number of options that the Group Management Board could grant in each year within the limit of 3% of the capital of the company, taking options already granted into account.

The shares thus acquired by exercise of the options granted shall have been previously purchased by the company, either pursuant to Article L.225-208 of the Commercial Code, or, if applicable, under the share buyback programme, the renewal of which will be submitted for approval to the Ordinary General Meeting of 22 May 2006, to replace the authorisation previously given by the Ordinary General Meeting of 22 April 2005 pursuant to Article L.217-2 of the law of 24 July 1966.

The exercise price of the options granted is set by the Group Management Board on the following basis:

- the exercise price may not be less than 95% of the average share price quoted in the twenty stock market trading days preceding the date on which the options were granted, and no option may be granted within twenty trading days after the detachment from the shares of a coupon giving entitlement to a dividend or a rights issue;
- the exercise price may not be less than 80% of the average purchase price of the shares held by the company pursuant to Article L.225-28 of the Commercial Code and, if applicable, the above-mentioned share buyback programme.

The Extraordinary General Meeting has given full authority to the Group Management Board, within the limits defined above, to:

- determine the procedures for allocation and exercise of the options and especially to limit, restrict or prohibit (a) the exercise of options, or (b) the sale of shares obtained by exercising the options, during certain periods or following certain events;
- and, more generally, to delegate in accordance with the law, sign any agreements, draw up any documents, carry out any formalities and make any declarations to any organisations and otherwise do everything that may be necessary.

In the context of this authorisation and following the meeting of the Supervisory Board on 26 April 2000, at its meeting on 27 April 2000, the Group Management Board decided to grant options to purchase existing shares in the company, on the one hand to all employees in the group who may benefit fiscally *(Plan 1)*, and on the other hand to certain members of the management of the company and its subsidiaries *(Plan 2)*.

Following the meeting of the Supervisory Board on 27 February 2001, at its meeting on 28 March 2001, the Group Management Board again decided to grant options to purchase shares in the company to certain members of the company's management and its subsidiaries *(Plan 2, second grant)*.

The Extraordinary General Meeting of 17 April 2002 renewed this authorisation for a term of three years, i.e. until 17 April 2005 or until the date it is renewed by an Extraordinary General Meeting held prior to that date. However, the Extraordinary General Meeting of 23 April 2003 withdrew this authorisation with regard to the unused part.

	Plan 1	Plan 1 First grant	Plan 2 Second grant
Date of General Meeting	07/04/2000	07/04/2000	07/04/2000
Date of Supervisory Board meeting	26/04/2000	26/04/2000	27/02/2001
Number of persons who have not yet exercised options	700	29	32
- Number of these persons who are members of the Euler Hermes Group Management Board	0	0	1
Initial date for exercise of options	27/04/2000	27/04/2000	28/03/2001
Expiry date	26/04/2008	26/04/2008	27/03/2009
Weighted average purchase price in euros(1)	51.61	51.63	51.24
Terms of exercise	Purchase	Purchase	Purchase
Number of shares subscribed or purchased at 31 December 2005	85,777	63,900	63,996
Shares still available for subscription/purchase at 31 December 2005	62,428	68,568	82,729
Number of these available to members of the Euler Hermes Management Board	0	0	10,863

(1) The average exercise price in euros is the result of the individual weighted average exercise price, which may differ according to the tax treatment of the beneficiaries. For employees and directors of the French company or one of its French subsidiaries, the exercise price is the average price for the twenty stock market trading days preceding the date of the Group Management Board meeting. A 5% discount is applied for French residents. For the other beneficiaries (employees of the group's foreign subsidiaries) who are not subject to the same lock-in requirements or period for holding the shares as the employees or directors of the French companies, the exercise price is set at the closing price on the day of the Group Management Board meeting at which the options are granted.

Following Euler Hermes' capital increase in 2002 and in accordance with legal and regulatory provisions, 17,803 new options were allocated taking the balance of outstanding options to 457,734 options as at 31 December 2003. The balance of outstanding options as at 31 December 2005 was 213,725.

In 2003, options were exercised under previously established option plans at two of the company's subsidiaries, Euler Hermes Sfac (France) and Euler Hermes Holdings United Kingdom.

1 – Euler Hermes Sfac options:

– In 2004, no options were exercised by the members of the Group Management Board as it existed on 31 December 2004.

– In 2004, only one employee exercised a total of 2,000 options at the average price of €81.30 each.

– In 2005, no options were exercised by any members of the Group Management Board as it existed at 31 December 2005 as none of them were beneficiaries of any Euler Hermes Sfac options. One employee exercised 300 options at an average subscription price of €81.04 and three people who had left the company exercised 2,400 options at an average subscription price of €75.53.

2 – Euler Hermes Holdings UK options:

– In 2004, no options were exercised.

– In 2005, six employees exercised a total of 254,486 options at a subscription price of £0.80 each.

In addition, during 2001, options were al located under the Euler Hermes option plans following the authorisation granted by the Extraordinary General Meeting of 7 April 2000 (see note 4.18 to the consolidated financial statements).

The number of options allocated under this plan to the 10 highest-paid employees of the group totalled 30,211; the weighted average allocation price was €51.97.

The number of options allocated under this plan to members of the Group Management Board during 2001 (as it existed on 31 December 2005) at the weighted average price of €51.91 totalled 16,863, all of which were allocated to Jean-Marc Pillu who exercised 6,000 of his options in 2005.

No further allocation was made under these plans in 2002, except for the 9,040 new options allocated following the Euler Hermes capital increase, in accordance with legal and regulatory provisions.

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In addition, the General Meeting of 23 April 2003 authorised the Group Management Board to grant subscription options or options to purchase shares, immediately cancelling the unused portion of the authorisation to grant options to purchase shares in the company that was approved in the Ninth Resolution of the Combined Ordinary and Extraordinary General Meeting of 7 April 2000 and then replaced by the authorisation given to the Group Management Board in the Twelfth Resolution of the Combined Ordinary and Extraordinary General Meeting of 17 April 2002, to grant options to purchase shares in the company. Therefore, the Group Management Board is authorised, as stipulated by Articles L.225-177 to L.225-186 of the Commercial Code, to grant, on one or more occasions, for the benefit of employees and possibly for the directors and officers both in the company and in companies or interest groupings that are affiliated as defined in Article L.225-180 of that Code or to only some of them, options giving rights to sub scribe to new shares in the company to be issued through a capital increase, as well as options giving rights to purchase existing shares in the company obtained in buy-backs made by the company as prescribed by law.

The subscription or purchase options for new and existing shares granted by virtue of this authorisation may not give rights to a total number of shares greater than 3% of the share capital on the day of the Group Management Board's decision, on the understanding that, within the confines of this resolution, the Supervisory Board shall define the number of options for new and existing shares that the Group Management Board may grant at each allocation.

The price to be paid when exercising the options for new or existing shares shall be determined by the Group Management Board on the day that the options are granted and it being understood that:

(I) – in the case of options for new shares, this price shall not be lower than 80% of the average of the opening prices of the Company's share on Euronext Paris SA for the 20 trading sessions preceding the day on which the stock options are granted, and

(II) – in the case of options for existing shares, this price shall not be lower than or equal to the value specified in (i) above, or 80% of the average purchase price of the shares held by the company pursuant to Articles L.225-208 and L.225-209 of the Commercial Code.

This authorisation requires the express waiver by shareholders of their pre-emptive subscription rights to the shares that will be issued as and when the options for new shares are exercised, in favour of the beneficiaries of the stock options.

The General Meeting of 23 April 2003 granted full authority to the Group Management Board to implement this authorisation, especially as regards:

- drawing up a list of beneficiaries for the options and the number of options allocated to each of them;
- determining the terms and conditions for the options, especially

– the period for which the options will be valid, on the understanding that the options must be exercised within a maximum period of 8 years from the date they are granted;

– the date(s) or period(s) of exercise for the options, on the understanding that the Group Management Board will have the option of (a) bringing forward the dates or periods for the exercise of the options, (b) extending the exercisable nature of the options or (c) modifying the dates or periods within which the shares obtained by exercise of the options may not be transferred or held in bearer form;

– possible clauses prohibiting the immediate resale of some or all of the shares provided that the obligatory holding period for the shares does not exceed three years from the date the option is exercised;

– if applicable, limit, suspend, restrict or prohibit the exercise of options, or the sale or transfer to bearer form of shares obtained by exercise of options, during certain periods or following certain events, and this decision may cover some or all of the options or shares or concern some or all of the beneficiaries;

– determine the date, which may be retroactive, from which the new shares derived from the exercise of stock options shall take effect;

– if applicable, make any adjustments to the number and price of the shares that may be obtained by the exercise of the options pursuant to the legal and regulatory provisions then in force;

– decide that the Group Management Board shall also have full authority, with the ability to delegate to its Chairman as legally prescribed, to recognise the capital increases for the amount of shares that have actually been subscribed by the exercise of stock options, and make the necessary amendments to the Articles of Association and, if it deems appropriate, it is empowered to make the decision to charge the costs of the capital increases to the amount of premiums arising from these transactions and deduct from this amount the sums necessary to raise the legal reserve to one-tenth of the new share capital after each increase, and perform any necessary formalities for the listing of the shares thus issued, any declarations to the authorities and otherwise do all that is necessary thereto.

– This authorisation was given for a period of 38 months from 23 April 2003, i.e. until 22 June 2006. The Group Management Board informs the Ordinary General Meeting each year of the transactions undertaken pursuant to this delegation in accordance with Article L.225-184 of the Commercial Code. At the General Meeting on 22 May 2006, the shareholders will be asked to renew this authorisation for a further 38 months, i.e., until 21 July 2009.

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In the context of this plan, the breakdown of the number of options still to be exercised is as follows:

Year of allocation:	2003	2004	**2005**
Exercise price	€27.35	€44.41	€63.08
Options to be exercised at 01/01/2005	223,800	125,300	-
Options exercised in 2005	15,650	-	-
Options allocated in 2005	-	-	160,000
Options cancelled	2,000	1,200	0
Options to be exercised at 21/12/2005	206,150	124,100	160,000

The 10 highest-paid employees in the group received the following options in recent years:
- 2003: 48,300 options with a weighted average price of €27.35;
- 2004: 23,800 options with a weighted average price of €44.41;
- 2005: 60,400 options with a weighted average price of €63.08

The number of stock options granted to members of the Group Management Board, as it existed as at 31 December 2005, in connection with this plan in 2003, 2004 and 2005 amounted to 38,500, 32,000 and 42,000 respectively, at a weighted average price of €27.35, €41.41 and €63.08, respectively.

	2003	2004	**2005**
Clemens von Weichs	17,000	7,000	9,000
Jean-Marc Pillu	17,000	7,000	9,000
Gerd-Uwe Baden		7,000	9,000
Nicolas Hein		7,000	9,000
Michel Mollard	4,500	4,000	6,000

Share buyback programme

A resolution will be proposed at the Ordinary General Meeting on 22 May 2006 to authorise the Group Management Board, in accordance with Article L.225-209 of the Commercial Code, Regulation No. 2273/2003 of the European Commission of 22 December 2003 taken pursuant to the Directive 2003/6/EC of 28 January 2003 and Articles 241-1 to 241-8 of the General Regulations of the financial markets authority (Autorité des Marchés Financiers – AMF), to purchase, sell, or transfer a number of shares representing a maximum of 10% of the share capital under the following terms:

- this authorisation is valid for a maximum period of eighteen months from the date of the Meeting, i.e. until 21 November 2007, or until the date it is renewed by an Ordinary General Meeting prior to that date; it brings an end to the authorisation given by the Eighteenth Resolution of the Ordinary General Meeting on 22 April 2005 as far as the fraction not made use of is concerned;
- the total amount that the company can allocate to the buyback of its shares during the life of this authorisation is €149.8 million;
- the maximum purchase price is set at €132 per share, which corresponds to the price as at 31 December 2005 multiplied by a factor equal to the greatest increase in the share price over any given year since its listing, i.e. 73% in 2003. The minimum sale price is set at €51 per share, which corresponds to the share's lowest price in 2005. In the event of transactions involving the company's capital, in particular the capitalisation of premiums, reserves or profits resulting in an increase in the par value of the shares or the creation and allocation of bonus shares or the division or grouping of shares, the Group Management Board shall have full power, as required, to adjust these prices and the number of shares accordingly, and if the shares thus acquired are used to allocate bonus shares in accordance with Article L.443-5 of the Employment Code, the financial equivalent of the shares allocated shall be determined in accordance with the specific legal provisions that apply;
- the acquisitions made by the company by virtue of this authorisation cannot in any case lead to it holding more than 10% of the company's authorised share capital;
- the acquisition, sale, transfer or exchange of these shares may be made, as prescribed by the market authorities and the applicable laws and regulations, by any means including by acquisition or sale of blocks of shares (if applicable, off-market, OTC, or by using derivatives, especially options or warrants, in compliance with applicable regulations), and at the times that the Group Management Board or the per son delegated by the Group Management Board shall choose;
- these share purchases are authorised for any purpose allowed according to legislation, notably to:

(I) – boost the market for the shares, namely by improving the share's liquidity via an investment service provider acting independently within the framework of a liquidity contract, in accordance with a code of conduct recognised by the financial markets authority (Autorité des Marchés Financiers - AMF);
(II) – allocate shares to employees or directors of the company and its subsidiaries in accordance with the terms and conditions specified by law, in particular within the framework of a profit-sharing scheme, stock purchase options, the allocation of existing bonus shares or a company savings plan;
(III) – purchase shares for retention and subsequent delivery of shares as payment or in exchange, within the context of any acquisitions, in accordance with stock market regulations, on condition that the number of shares acquired by the company for retention and subsequent delivery as payment or in exchange within the context of a merger, spin-off or other operation shall not exceed 5% of its share capital;
(IV) – deliver shares when rights attached to securities giving access to a share of the company's capital are exercised;
(V) – cancel these shares subject to approval by the General Meeting of 22 May 2006 authorising the Group Management Board to make such cancellation (Twelfth Resolution);
(VI) – implement any market practice that is recognised by law or

by the financial markets authority (Autorité des Marchés Financiers – AMF), in which case the company shall bring to the public's attention, under the applicable legal and regulatory conditions, any amendments to the programme concerning the modified objectives.

The company may undertake the transactions in (I) to (VI) above during a cash or share-exchange takeover bid in accordance with the applicable legislation.

In accordance with paragraph 4 of Article L.225-209 of the Commercial Code, the Group Management Board will inform the AMF every month of the purchases, sales, transfers and cancellations made. This in formation will be published by the AMF.

In addition, in accordance with Article 12 of the Articles of Association, the Group Management Board will seek the approval of the Supervisory Board for the policy it in tends to follow with regard to share buybacks pursuant to this resolution. The Group Management Board, which may delegate to its Chairman or, with his approval, to one or more of its members, is granted full authority to give orders for deals on the stock market or over the counter, assign or re-assign the shares acquired to the various objectives targeted under the applicable legal and regulatory conditions, sign any agreements notably to keep registers of share purchases and sales, compile information documents, make declarations to the AMF and any other authorities and, generally do everything that is necessary hereto. The Group Management Board shall inform the General Meeting of all transactions undertaken pursuant to this authorisation. The company did not buy back any shares in 2005.

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Changes in capital in the last five years

The table below shows changes in the company's share capital in the last 5 years:

Date	Transaction	Number of shares issued	Nominal amount of capital increase	Additional paid-in capital per share	Cumulative additional paid-in capital	Cumulative authorised capital	Total number of shares	Par value
FY 2001	Exercise of stock options	6,500	€2,080.00	€18.56	€173,836,431.16	€11,167,968.00	34,899,900	€0.32
FY 2001[1]	Deduction from additional paid-in capital to create a reserve for treasury shares				€94,866,082.80			
FY 2002	Exercise of stock options	18,584	€5,946.88	€16.28	€95,168,677.12	€11,173,914.88	34,918,484	€0.32
17June 2002[2]	Capital increase by issue I of new shares	5,371,368	€1,718,837.76	€31.68	€265,333,615.36	€12,892,752.64	40,289,852	€0.32
June 2002	Write-back from reserve for treasury shares				€265,790,282.01			
August 2002	Capital increase costs charged against additional paid-in capital				€263,487,257.18			
June 2003	Write-back from reserve for treasury shares				€265,136,083.68			
June 2003[2]	Payment of dividend in shares	1,172,431	€375,177.92	€21.84	€290,741,976.72	€13,267,930.56	41,462,283	€0.32
October 2003	Exercise of stock options	14,467	€4,629.44	€17.95	€291,001,659.37	€13,272,560.00	41,476,750	€0.32
November 2003	Exercise of stock options	72,984	€23,354.88	€17.12	€292,251,291.93	€13,295,914.88	41,549,734	€0.32
December 2003	Exercise of stock options	2,067	€661.44	€17.95	€292,288,394.58	€13,296,576.32	41,551,801	€0.32
January 2004	Exercise of stock options	827	€264.64	€15.23	€292,300,989.79	€13,296,840.96	41,552,628	€0.32
January 2004	Exercise of stock options	2,067	€661.44	€17.95	€292,338,092.44	€13,297,502.40	41,554,695	€0.32
February 2004	Exercise of stock options	10,850	€3,472.00	€17.95	€292,532,849.94	€13,300,974.40	41,565,545	€0.32
April 2004	Exercise of stock options	6,717	€2,149.44	€17.95	€292,653,420.09	€13,303,123.84	41,572,262	€0.32
May 2004	Exercise of stock options	2,894	€926.08	€20.80	€292,713,615.29	€13,304,049.92	41,575,156	€0.32
June 2004[2]	Payment of dividend in shares	1, 502,151	€480,688.32	€40.38	€353,370,472.67	€13,784,738.24	43,077,307	€0.32
November 2004	Exercise of stock options	2,842	€909.44	€15.23	€353,413,756.33	€13,785,647.68	43,080,149	€0.32
November 2004	Exercise of stock options	2,584	€826.88	€20.80	€353,467,503.53	€13,786,474.56	43,082,733	€0.32

November 2004	Exercise of stock options	3,617	€1,157.44	€17.95	€353,532,428.68	€13,787,632.00	43,086,350	€0.32
December 2004	Exercise of stock options	11,573	€3,703.36	€20.80	€353,773,147.08	€13,791,335.36	43,097,923	€0.32
December 2004	Exercise of stock options	7,750	€2,480.00	€17.95	€353,912, 259.58	€13,793,815.36	43,105,673	€0.32
January-February 2005	Exercise of stock options	7,751	€2,480.32	€15.23	€354,030,307.31	€13,796,295.68	43,113,424	€0.32
January-February 2005	Exercise of stock options	1,912	€611.84	€20.80	€354,070,076.91	€13,796,907.52	43,115,336	€0.32
March-April 2005	Exercise of stock options	7,750	€2,480.00	€17.95	€354,209,189.41	€13,799,387.52	43,123,086	€0.32
June 2005(2)	Payment of dividend in shares	1,661,023	€531,527.36	€54.08	€444,037,313.25	€14,330,914.88	44,784,109	€0.32
June 2005	Exercise of stock options	3,100	€992.00	€20.80	€444,101,793.25	€14,331,906.88	44,787,209	€0.32
June-July 2005	Exercise of stock options	1,500	€480.00	€27.03	€444,142,338.25	€14,332,386.88	44,788,709	€0.32
July-Agosto 2005	Exercise of stock options	9,450	€3,024.00	€27.03	€444,397,771.75	€14,335,410.88	44,798,159	€0.32
September 2005	Exercise of stock options	7,750	€2,480.00	€17.95	€444,536,884.25	€14,337,890.88	44,805,909	€0.32
September 2005	Exercise of stock options	5,684	€1,818.88	€15.23	€444,623,451.57	€14,339,709.76	44,811,593	€0.32
October 2005	Exercise of stock options	5,684	€1,818.88	€15.23	€444,710,018.89	€14,341,528.64	44,817,277	€0.32
November 2005	Exercise of stock options	4,700	€1,504.00	€27.03	€444,837,059.89	€14,343,032.64	44,821,977	€0.32
December 2005	Exercise of stock options	8,267	€2,645.44	€17.95	€444,985,452.54	€14,345,678.08	44,830,244	€0.32

(1) The General Meeting of 25 April 2001 allocated to a reserve a sum equal to the value of all the treasury shares held by deducting €78,970,000 from the additional paid-in capital account and €16,155,000 from the general reserve.

(2) Capital increase with pre-emptive subscription rights maintained.

Capital and voting rights

Capital and voting rights as at 31 December 2005

As at 31 December 2005, the company's share capital was made up of 44,830,244 shares majority-owned by the AGF group (68.6% of the capital representing 71.0% of the voting rights). The total number of voting rights amounted to 43,292,011. On 21 March 2005 the Swiss reinsurance company, Swiss Re, stated that it had sold shares and accordingly had fallen below the threshold of 5% of shares owned. On the same date, it declared that it held 3.4% of the capital. At the end of the year, 28.0% of the capital, i.e. 29.0% of the voting rights, was held by the public, including SwissRe, and the company owned 3.4% of the capital.
Capital World Growth and Income Fund, Inc., acting on behalf of investment funds, reported that, following the acquisition on the stock market of shares in the company on 26 June 2002, it had crossed the threshold of 5% of the capital and voting rights and henceforth held 1,759,281 shares rep resenting 5.04% of the capital and 5.3% of the existing voting rights. On 19 August 2002, the same company reported that it had crossed the threshold of 5% of the capital and voting rights downwards and henceforth held 1,796,848 shares representing 4.46% of the capital and 4.66% of the existing voting rights.

In a letter dated 22 May 2003, the companies FMR Corporation and Fidelity International Limited, acting on behalf of investment funds managed by its subsidiaries, declared that following the sale of shares on the market on 21 March 2003 they had fallen below the 5% threshold of the capital of the company, and owned on behalf of those funds 2,002,270 shares on this date representing 4.97% of the capital.
Since these dates, no further declarations concerning the crossing of the 5% threshold either way have been made, and the company is not aware of the number of shares still held by these companies as at 31 December 2005. As far as the company is aware, there are no other shareholders or groups of shareholders who hold or are likely to hold, directly or indirectly, alone, jointly or in concert, 5% or more of the capital and voting rights.

The table below shows changes to the capital and voting rights of the company in the last three years.

Capital and voting rights as at 31 December 2005

	As at 31 December 2003				As at December 2004				**As at 31 December 2005**			
	Shares		Voting		Shares		Voting		Shares		Voting	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
AGF Group	28,135,120	67.7%	28,135,120	70.7%	29,393,252	68.2%	29,393,252	71.1%	30,744,048	68.6%	30,744,048	71.0%
Swiss Re(1)	2,889,162	7.0%	2,889,162	7.3%	2,261,162	5.2%	2,261,162	5.5%				
Treasury shares	1,751,339	4.2%		0.0%	1,751,339	4.1%		0.0%	1,538,233	3.4%		0.0%
Public	8,756,723	22.7%	8,756,723	22.0%	9,681,040	22.5%	9,681,040	23.4%	12,518,883	27.9%	12,518,883	28.9%
Other(2)	17,408	0.0%	17,408	0.0%	17,605	0.0%	17,605	0.0%	24,868	0.1%	24,868	0.1%
Directors(3)	2,049	0.0%	2,049	0.0%	1,275	0.0%	1,275	0.0%	4,212	0.0%	4,212	0.0%
Total	**41,551,801**	**100.0%**	**39,800,462**	**100.0%**	**43,105,673**	**100.0%**	**41,354,334**	**100.0%**	**44,830,244**	**100.0%**	**43,292,011**	**100.0%**

(1) Following the declaration by SwissRe that it had fallen below the 5% threshold, its shares are now included under "public".
(2) Shares held by individuals, including 16,377 held by group employees.
(3) As at 31 December 2005, members of the Supervisory Board held 4,212 registered shares.

The AGF group, which is one of the leading French insurance companies, posted turnover of €17.6 billion in 2005, and has been attributed a Standard & Poor's financial strength rating of AA-. AGF is 57.9% owned by Allianz, one of the world's largest insurance companies with almost €58 billion of net premiums earned in 2005.
Until it was privatised in May 1996, AGF was one of the company's principal shareholders, alongside Partner Re, Swiss Re, SCOR and Coface. Under the company's capital restructuring following the privatisation of the AGF group, AGF became the company's majority shareholder.

During the last five years, the following events have altered the capital structure and voting rights:

- On 27 April 2000, when the company was floated on the stock market, the principal shareholders sold 9,850,534 shares in total, divided between the AGF group (4,978,054 shares), Swiss Re (3,480,665 shares) and SCOR (1,391,815 shares).
- Following this transaction, the company created a holding of its own shares, acquiring 1,720,857 shares from the three major shareholders, in proportion to their shareholding.
- Since that date, SCOR has sold its entire holding, by placing its shares on the market.
- AGF subscribed to 4,080,198 shares in the capital increase of 18 July 2002, of which 3,392,106 shares were due to its own subscription entitlement and 688,092 shares to subscription rights bought from other shareholders. In addition, by buying shares on the market, AGF raised its holding to 67.4% in the course of 2002.

Capital and voting rights

Following the decision of the General Meeting on 23 April 2003 to propose the payment of dividends with the choice between payment in cash or in shares, the distribution gave rise to the creation of 1,172,431 new shares. At that time, AGF chose to receive all dividends paid in shares. As at 31 December 2003, the AGF group held 67.7% of the company. Likewise, following identical decisions by the General Meetings on 28 April 2004 and 22 April 2005, the distribution of a dividend gave rise to the creation of 1,502,151 and 1,661,023 new shares, respectively. AGF chose to receive all dividends paid in shares, and held 68.6% of the company as at 31 December 2005.
There is no clause in the Articles of Association providing for shareholders in the company to have double voting rights.

Relations with shareholders

As far as the company is aware, there is no shareholders' agreement currently in existence between shareholders of the company. Swiss Re is one of the group's reinsurance companies, as is Allianz, the majority shareholder of AGF. The company accords its reinsurer shareholders the same treatment as the many other reinsurance companies with which group companies are reinsured in the normal course of their business, both regarding the selection of reinsurers and in the negotiation of the terms of their contracts. The shareholders' proportion of the group's reinsurance therefore corresponds to their role in this market and these reinsurance contracts cover ongoing operations and are signed under normal market conditions.
In June 1998, Swiss Re became the owner of NCM, one of the four other leading European credit insurance companies and a competitor of Euler Hermes. When NCM was taken over by the Gerling group, Swiss Re remained one of the principal shareholders of the new group that was founded, Gerling-NCM, now called Atradius. The company's management considers that this situation does not have any adverse effect on the quality of its relations with its historical shareholder, Swiss Re, which has continued to provide its support for the group's development. There are no preferential terms for the sale or purchase of shares on at least 5% of the capital or voting rights.

Treasury shares

As at 31 December 2005, treasury shares represented a total of 3.43% of the company's capital, i.e. 1,538,233 shares. During the year, no purchases or sales were made within the framework of the share buyback programmes authorised by the General Meetings on 28 April 2004 and 22 April 2005. The 376,340 shares initially assigned explicitly for stock option plans were reclassified as non-transferable shares as at 31 December 2002 following the decision of the Group Management Board on 19 December 2002.

Other persons or entities exercising control over the compagy

Companies in the AGF group own, directly and indirectly, a total of 68.6% of the cap ital and 71.0% of the voting rights in the company. AGF group is itself 57.9%-owned by Allianz Aktiengesellschaft ("Allianz"), a company under German law.
In accordance with the law and the Articles of Association, every member of the Supervisory Board must own at least five shares. Currently, as far as the company is aware, the members of the Supervisory Board and the Management Board hold 4,212 shares in registered form. In addition, the members of the Management Board as at 31 December 2005 held a total of 10,863 purchase options allocated under the stock option plan implemented when the company was floated on the stock market in 2000. In 2002, no new options were allocated, apart from those following the company's capital increase, pursuant to legal and regulatory provisions (cf. Securities giving access to capital).
The General Meeting of 23 April 2003 decided to implement a new stock subscription or purchase option plan, which ended the unused part of the option plan set up in 2000. In the context of this new plan, the numbers of options granted to members of the Management Board, as it existed as at 31 December 2005, were as follows:
- During 2003: 38,500 options for new shares
- During 2004: 32,000 options for new shares
- During 2005: 42,000 options for new shares.

Employee shareholdings

As at 31 December 2005, the group's employees held 36,000 shares through a company savings plan, representing 0.1% of the capital.
In addition, since the company's flotation on the stock market on 27 April 2000, the group's employees have been granted stock purchase options. As at 31 December 2005, the number of outstanding options still to be exercised under these plans was 213,725. Under the stock option plan voted by the Extraordinary General Meeting on 23 April 2003, the management staff of the company and of the subsidiaries were granted options.
The number of outstanding options still to be exercised at 31 December 2005 was 490,250.

Corporate governance

All members of the Supervisory Board and the managers of the various subsidiaries and directors of the cross-company functions of the company are appointed in accordance with the expertise that they possess in the exercise of their responsibilities and their experience in management matters.
Furthermore, no member of the bodies responsible for corporate governance has been found guilty of fraud or subject to any other official public accusation and/or penalty. The company applies the principles of corporate governance by adapting them as required for the direction and control of the subsidiaries. These principles have thus been implemented within the largest subsidiaries and are described in the Chairman's Report pursuant to Article L.225-37 of the French Commercial Code.

Composition and operation of the Supervisory Board

The members of the Supervisory Board as at 1st March 2006 are:

Members	Main offices held	Date of appointment	Term of office last renewed	Term of office expires
Jean-Philippe Thierry Chairman	Chairman and CEO, AGF Member of Management Board, Allianz	27/02/2001	General Meeting of 22/04/2005	General Meeting in 2008
Laurent Mignon Vice-Chairman until 31/12/2005	Chief Executive Officer, AGF	07/04/2000	General Meeting of 28/04/2004	General Meeting in 2007
François Thomazeau Vice-Chairman from 01/01/2006	Chief Executive Officer, AGF	25/04/2001	General Meeting of 28/04/2004	General Meeting in 2007
Clement Booth Provisional appointment to replace Mr. Reiner Hagemann, who resigned	Member of Management Board, (Allianz AG (Germany)	01/01/2006	The provisional appointment of Clement Booth will be put to the General Meeting of 22 May 2006 for ratification	General Meeting in 2007
Diethart Breipohl	Member of Supervisory Board, Allianz AG (Germany)	17/04/2002	General Meeting of 22/04/2005	General Meeting in 2008
John Coomber	Member of Board of Directors, SwissRe (Switzerland)	23/04/2003	General Meeting of 23/04/2003	General Meeting in 2006 Renewal of office proposed at General Meeting of 22 May 2006
Charles de Croisset	Member of Board of DIrectors of several companies	07/04/2000	General Meeting of 28/04/2004	General Meeting in 2007
Robert Hudry	Non-voting member of Board (Censor), AGF	07/04/2000	General Meeting of 28/04/2004	General Meeting in 2007
Yves Mansion	Chairman and CEO, Société Foncière Lyonnaise	12/05/1992	General Meeting of 23/04/2003	General Meeting in 2006 Renewal of term of office proposed at General Meeting of 22 May 2006
Jean-Hervé Lorenzi Censor	Member of Supervisory Board Compagnie Financière Saint-Honoré	01/01/2005	Appointed by the Supervisory Board on 19 November 2004	

The other offices held by the members of the Supervisory Board are listed in the management report, on page 40 of this reference document.
At the Ordinary General Meeting on 22 May 2006, shareholders will be asked to renew the terms of office of Messrs John Coomber and Yves Mansion as members of the Supervisory Board for three years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2007.
Based on information provided by each member of the Supervisory Board, the number of offices held by the members of the Supervisory Board complies with Article 110 of the NRE 2001-420 Act of 15 May 2001.
In accordance with the law and the terms of Article 11 of the Articles of Association, the Supervisory Board exercises permanent control over the Group Management Board's management of the company. It is composed of a minimum of three and a maximum of twelve members, appointed by the Ordinary General

Meeting; there are no internal regulations for the Supervisory Board.
The number of members of the Supervisory Board over the age of 70 must be less than one-third of all the members. Whenever this level is exceeded, the eldest member must resign.
The Supervisory Board elects its Chairman and a Vice Chairman, who must be individuals, from among its members. The Chairman, and in his absence, the Vice-Chairman, is responsible for convening the Board meetings and chairing its deliberations.
The Supervisory Board may appoint non-voting members (censors) if it considers this would be useful. They may be individual persons or corporate entities, proposed by the Chairman, and may or may not be from among the shareholders. Their term of office is at the Board's discretion and the Board also sets their remuneration. This remuneration is taken from the annual amount for Supervisory Board members' fees allocated by the Ordinary General Meeting. At its meeting on 19 November 2004, the Supervisory Board appointed Mr Jean-Hervé Lorenzi as a non-voting member of the Board (censor) with effect from 1st January 2005. The non-voting members of the Board may be called to and may attend all the Supervisory Board meetings but with a right of discussion only.
Each member of the Supervisory Board must own at least five shares during his or her term of office. Members of the Supervisory Board serve a three-year term, although there are particular provisions for the first appointments to ensure the regular renewal of members. The members of the Supervisory Board may be re-elected. The Supervisory Board is partially renewed every year at the Ordinary General Meeting, according to the number of members in office, so that renewal is an ongoing process and complete within each three-year period. In the event of a vacant position, following the death or resignation of one or more members of the Supervisory Board, a provisional replacement may be elected by the remaining members, the appointment being subject to ratification by the next Ordinary General Meeting.
The members of the Supervisory Board may receive remuneration in the form of Supervisory Board members' fees, the amount of which is fixed by the Ordinary General Meeting, and exceptional remuneration under the conditions provided for by law. In addition, the Chairman and the Vice Chairman may receive special remuneration, the amount of which is set by the Supervisory Board.
In accordance with the law and under the terms of Article 12 of the Articles of Association, the Supervisory Board exercises permanent control over the management of the company through the Group Management Board and gives the Group Management Board the preliminary authorisations required by law or the Articles of Association. The Supervisory Board appoints the members of the Group Management Board, decides on their number, and appoints their Chairman, and Chief Executive Officers where appropriate. It also sets their remuneration. It may remove from office or recommend to the Ordinary General Meeting the removal from office of one or more members of the Group Management Board.
Throughout the year, the Supervisory Board makes the checks and controls it considers appropriate and can publish any documents that it considers useful in the completion of its mission.
At least once a quarter, the Group Management Board presents a report to the Supervisory Board. The Management Board must present the annual financial statements to the Supervisory Board for verification and control purposes within three months of the year-end, and must submit its recommendations for allocation of the year's income for preliminary approval. The Supervisory Board presents to the General Meeting of shareholders its observations on the Group Management Board's report and on the annual financial statements.
The Supervisory Board can call shareholders' meetings and set the agenda.
The Supervisory Board can decide to create committees and it sets their composition and assignments. Their activity is exercised under the Board's responsibility, without the said assignments being a delegation of the powers attributed to the Supervisory Board by law or the Articles of Association, nor having the effect of reducing or limiting the powers of the Group Management Board. Accordingly, the following committees have been created:

- The Board Audit Committee, chaired until 31 December 2005 by Mr Laurent Mignon, and also composed of Mr Yves Mansion and Mr Robert Hudry. With effect from 1st January 2006, Mr Robert Hudry was elected chairman of the Audit Committee, and the other members are Mr Yves Mansion and Mr François Thomazeau.

The Audit Committee is responsible for supervising procedures for external and internal audits of group companies. In particular, its mission is to oversee:
– those responsible for the internal audit of subsidiaries with regard to their activity report and provisional assignment planning,
– those responsible for accounting and finance as regards the company financial statements,
– the independent auditors and their assignments.
The Audit Committee met four times in 2005.

- The Remuneration and Appointments Committee chaired by Mr François Thomazeau and also composed of Mr Charles de Croisset and Mr Reiner Hagemann. Following Mr Hagemann's resignation, he was replaced by Mr Jean-Hervé Lorenzi on 1st January 2006.

The purpose of the Remuneration and Appointments Committee is to recommend to the Supervisory Board the appointment and remuneration for company directors and the general rules for remuneration of the group's main executives, including stock option schemes. It examines whether their remuneration complies with these regulations and also takes account of the general policy for management remuneration. The Remuneration and Appointments Committee met three times in 2005.

In addition, the following decisions of the Group Management Board are subject to prior authorisation from the Supervisory Board:
– the sale of property and the total or partial sale of shareholdings and the constitution of sureties on company assets,
– direct transactions or equity holdings that might significantly affect the group's strategy and materially modify its financial structure or scope of activity,
– the issue of securities, of any kind, that may result in a modification of the registered capital,
– transactions aimed at granting or contracting any borrowings or loans, credits or advances, or constituting sureties, guarantees, deposits or bonding.
The Supervisory Board authorises the Group Management Board to carry out the above-specified transactions, up to a ceiling that it fixes for each one. When a trans action exceeds the specified amount, the approval of the Supervisory Board is required in each case.
The Supervisory Board met four times in 2005. In 2005, an average of over 90% of all members of the Supervisory Board attended its meetings.

Composition and operation of the Group Management Board

The Group Management Board is the Company's decision-making body.
At 1st January 2006, the Group Management Board of Euler Hermes had the following members:
Mr Clemens Freiherr von Weichs, Chief Executive Officer, joined the Group Management Board on 19 February 2002 and was appointed Chairman of the Group Management Board (CEO) on 25 May 2004. He has special responsibility for coordinating the work of the members of the Group Management Board, is responsible for the organisation and coordination of all group company businesses and represents the company vis-à-vis third parties. He also supervises the following cross-company functions in the group: Information Technology, Strategy, Communications, Audit, Careers and international mobility.
Mr Jean-Marc Pillu, General Manager, joined the Management Board on 1 November 2000, and was appointed General Manager on 25 May 2004. He is responsible for the group's "Commercial" cross-company functions.
Mr Gerd-Uwe Baden, appointed member of the Group Management Board on 25 May 2004. He is responsible for the group's "Risks and Commitments" cross-company function.
Mr Nicolas Hein, appointed member of the Group Management Board on 25 May 2004. As the group's Chief Finance Officer, he is responsible for the group's "Finance & Accounting" and "Reinsurance" cross-company functions.
Mr Michel Mollard, appointed member of the Group Management Board on 25 May 2004. He is the group's Chief Strategy Officer, and is also responsible for supervising the operational entities in the United Kingdom, Belgium, the Netherlands, Italy and the United States.
The offices held by members of the Management Board within the company's subsidiaries and any other companies are listed in the management report, page 39 of this annual report.
The number of offices held by members of the Group Management Board complies with Article 11 of the NRE 2001-420 Act of 15 May 2001
In accordance with the law and the terms of Article 15 of the Articles of Association, the company is run by the Group Management Board, which is composed of a minimum of two members and a maximum of six members, who are appointed by the Supervisory Board and who may or may not be shareholders. Members of the Group Management Board must be individuals under the age of 65, effective from the completion of the nearest General Meeting. However, when a member of the Group Management Board reaches this age, the Supervisory Board can, on one or more occasions, extend his functions for a total term that may not exceed three years. A member of the Supervisory Board cannot be a member of the Group Management Board.
The Group Management Board is appointed for a period of three years and its members may be re-elected. They can be removed from office by the Supervisory Board or by the General Meeting on the recommendation of the Supervisory Board. The Supervisory Board sets the method and amount of remuneration for each of the members of the Group Management Board.
In accordance with the law and under the terms of Article 16 of the Articles of Association, the Supervisory Board confers the title of Chairman on one of the members of the Group Management Board. The Chairman exercises his functions for the period of his office as a member of the Group Management Board. He represents the company in its relations with third parties. The Supervisory Board can allocate the same power of representation to one or more other members of the Group Management Board who then bear the title of Chief Executive Officer.
Agreements concerning the company and any commitments undertaken in its name are signed by the Chairman of the Group Management Board, or by any member of the Group Management Board who has been appointed Chief Executive Officer by the Supervisory Board, or by any member especially empowered for this purpose.
In accordance with the law and under the terms of Article 17 of the Articles of Association, the Group Management Board is invested with the most extensive powers to act in all circumstances in the name of the company. It exercises these powers within limits defined by the corporate purpose and subject to those powers expressly allocated to the Supervisory Board and General Meetings by the law and the Articles of Association.
The Group Management Board can give one or more of its members or any outside person permanent or temporary special assignments that it decides upon, and can delegate to them for

one or more particular cases, with or without the option of subdelegation, the powers that it considers appropriate.

The Group Management Board operates according to "internal regulations" which are designed to complement the operating principles stipulated in the Articles of Association, while respecting the collegiate principle of the Group Management Board and facilitating the work of the Supervisory Board. These regulations specify the powers and allocation of responsibilities between members of the Group Management Board and, in accordance with Article 12 of the Articles of Association, the decisions that require prior authorisation from the Supervisory Board. In addition, the regulations define the practical procedures for holding meetings and recording minutes.

The Group Management Board can set up new committees. It decides on their composition and attributes, and they carry out their activity under its responsibility, but it cannot delegate its powers. No committee has yet been established.

The Group Management Board was appointed in its current form on 25 May 2004. The Group Management Board met nearly twice a month in 2005.

DIRECTORS' REMUNERATION AND INTERESTS IN THE COMPANY'S CAPITAL

Remuneration and benefits in kind received by the company's directors

A. The Group Management Board

In 2005, the direct and indirect remuneration paid by the company and any subsidiary of the company to members of the Group Management Board in respect of their mandate and duties exercised throughout the group's companies amounted to €2.568 million and breaks down as follows:

(€'000)

	Fixed remuneration paid in 2004	Variable remuneration paid in 2004 (for 2003)	Specific allowances (2)	Attendance fees 2004	Benefits in kind 2004	Total paid in 2004	Fixed remuneration in 2005	Variable remuneration paid in 2005 (for 2004)	Specific allowances (2)	Attendance fees 2005	Benefits in kind 2005	Total paid in 2005
Clemens von Weichs	360.0	123.7	96.3	7.2	11.1	598.3	390.0	293.1	45.0	7.2	18.1	753.3
Jean Marc Pillu	360.0	224.6			2.9	587.5	375.0	252.5			3.0	630.5
Gerd-Uwe Baden (1)	210.0				7.5	217.5	360.0	134.7	70.0		13.6	578.2
Nicolas Hein (1)	151.7				2.3	154.0	260.0	90.0			2.8	352.8
Michel Mollard (1) (3)	116.7				1.8	118.5	200.0	50.8			2.1	252.9
Total	**1,198.3**	**348.3**	**96.3**	**7.2**	**25.7**	**1,675.7**	**1,585.0**	**821.1**	**115.0**	**7.2**	**39.5**	**2,567.8**

(1) Member of the Group Management Board since 1st June 2004; the period from 1st June 2004 to 31 December 2004 was taken into account to calculate the fixed remuneration and the variable remuneration paid in 2005 for 2004.

(2) Specific allowances = housing allowance paid to Mr Clemens von Weichs and a relocation allowance paid to Mr Gerd-Uwe Baden in connection with his move from Switzerland to Germany.

(3) Mr Michel Mollard received variable remuneration paid in 2005 in respect of 2004 amounting to €50.8 thousand, comprising €38.1 thousand in the form of a bonus and €12.7 thousand as savings in respect of incentive schemes and profit sharing.

The direct and indirect remuneration allocated by the company and any subsidiary of the company to members of the Group Management Board in respect of 2005 amounted to €2.937 million and breaks down as follows:

(€'000)

	Fixed remuneration of 2004	Variable remuneration (for 2004)	Specific allowances (2)	Attendance fees 2004	Benefits in kind 2004	Total (for 2004)	Fixed remuneration in 2005	Variable remuneration (for 2005)	lSpecific allowances (2)	Attendance fees 2005	Benefits in kind 2005	Total (for 2005)
Clemens von Weichs	360.0	293.1	96.3	7.2	11.1	767.6	390.0	350.0	45.0	7.2	18.1	810.2
Jean Marc Pillu	360.0	252.5			2.9	615.4	375.0	280.0			3.0	658.0
Gerd-Uwe Baden (1)	210.0	134.7			7.5	352.2	360.0	280.0	70.0		13.6	723.6
Nicolas Hein (1)	151.7	90.0			2.3	243.9	260.0	168.0			2.8	430.8
Michel Mollard (1) (3)	116.7	50.8			1.8	169.3	200.0	112.0			2.1	314.1
Total	**1,198.3**	**821.1**	**96.3**	**7.2**	**25.7**	**2,148.5**	**1,585.0**	**1,190.0**	**115.0**	**7.2**	**39.5**	**2,936.7**

(1) Member of the Group Management Board since 1st June 2004; the period from 1st June 2004 to 31 December 2004 was taken into account to calculate the fixed remuneration and the variable remuneration paid in 2005 for 2004.

(2) Specific allowances = housing allowance paid to Mr Clemens von Weichs and a relocation allowance paid to Mr Gerd-Uwe Baden in connection with his move from Switzerland to Germany.

(3) Mr Michel Mollard's variable remuneration in respect of 2005 amounted to €112 thousand, comprising €91.8 thousand in the form of a bonus and €21.2 as savings in respect of incentive schemes and profit sharing.

Corporate governance

Attendance fees received by members of the Group Management Board are generally repaid to the company, except for an amount of €7,200 in 2004. The benefits in kind consist only of company cars.

The principles governing the remuneration of members of the Group Management Board and the amount thereof are set by the Remuneration and Appointments Committee and approved by the Supervisory Board. Remuneration consists of a fixed part and a variable part. The variable part is based on three criteria: the first is linked to consolidated net income, group share, the second is linked to the attainment of objectives relating to economic value added (EVA) and the third to the achievement of qualitative personal objectives. The objectives are proposed by the Remuneration and Appointments Committee and approved by the Supervisory Board.

At the end of each year, the Committee assesses the extent to which the various objectives have been reached and reports to the Supervisory Board. The Supervisory Board decides on the amount of the variable part of the remuneration calculated in this way.

The members of the Group Management Board were also allocated 32,000 options for new Euler Hermes shares in 2004, and 42,000 in 2005. In addition, as part of the global incentive scheme for Allianz group senior executives, the members of the Group Management Board received SARs (Stock Appreciation Rights), the value of which is linked to changes in Allianz share prices over seven years. 21,840 SARs were allocated in 2004, and 29,268 in 2005.

Stock options and Allianz SARs were allocated as follows:

Stock options and other benefits (number)

	Options allocated in 2004	Options allocated in 2005	SARs allocated in 2004	SARs allocated in 2005
Clemens von Weichs	7,000	9,000	6,597	8,030
Jean Marc Pillu	7,000	9,000	6,309	7,377
Gerd-Uwe Baden	7,000	9,000	6,021	6,622
Nicolas Hein	7,000	9,000	2,913	4,385
Michel Mollard	4,000	6,000	0	2,854
Total	**32,000**	**42,000**	**21,840**	**29,268**

In addition, some corporate officers may be members of an additional pension scheme. The maximum allocated under the scheme may not exceed 20% of the average fixed and variable remuneration received over the last three years before retirement from the company. The maximum a corporate officer may be allocated under various pension schemes may not exceed 50% of total average remuneration received over the last three years. The eligibility criteria are that the officers must be aged at least 60 when they retire, must hold a corporate office or employment contract with the company, must have been with the company for at least five years, and must have applied to receive their state pensions. The corporate officers, members of the Group Management Board, who are eligible for the additional pension scheme are:

- Messrs Clemens von Weichs, Jean-Marc Pillu, Nicolas Hein and Michel Mollard.

Note 16 to the consolidated financial statements contains details of the actuarial assumptions and benefits under this scheme. Premiums paid under this scheme, including the 6% tax, totalled €1.1 million in 2005.

In addition, Messrs Clemens von Weichs and Gerd-Uwe Baden, members of the Group Management Board, are members of the Allianz group's additional pension scheme.

Some members of the Group Management Board are also members of a Mid Term Bonus (MTB) system, which was introduced by Allianz to improve the loyalty of its directors. The system is based on a three-year period: if the objectives are achieved over the three-year period, an additional bonus will be paid at the end of the period. The potential bonus is a set amount, corresponding to a fraction of the fixed remuneration plus a possible 20% upside. It is divided into two parts, each equally weighted and based on the EVA and the strategic objectives, respectively. If an average rate of between 70% and 120% is achieved for both parts, a proportional calculation will be made to reflect the degree of achievement of the objectives. Currently, Messrs. Clemens von Weichs, Jean-Marc Pillu and Gerd-Uwe Baden are members of the scheme.

Mr Jean-Marc Pillu benefited from a corporate directors guarantee (Garantie Sociale des Chefs d'entreprise – GSC) for which the 2005 contributions came to €14,500 and the employer's charges on the related benefit in kind amounted to €6.200.

Lastly, some members of the Group Management Board who do not hold any other position and are not employees are protected by special agreements in the event they are removed from office. These agreements are intended to replace the statutory provisions protecting salaried employees in the event of dismissal. Messrs. Clemens von Weichs, Jean-Marc Pillu and Gerd-Uwe Baden are protected by these provisions. They provide for the payment of gross compensation of between 50% and 200% of the amount of their last fixed annual remuneration.

B. Stock options granted to corporate officers in office as at 31/12/2005 and options exercised

Year	2001	2003	2004	2005	Total
Plan	2000 2nd attribution	2003	2003	2003	
Expiry date	27/03/2009	08/07/2011	08/07/2012	27/06/2013	
Exercise price	€50.11	€27.35	€44.41	€63.08	
Clemens von Weichs					
Options granted		17,000	7,000	9,000	33,000
Options exercised					0
Jean-Marc Pillu					
Options granted	16,683	17,000	7,000	9,000	49,683
Options exercised	6,000				6,000
Gerd-Uwe Baden					
Options granted			7,000	9,000	16,000
Options exercised					0
Nicolas Hein					
Options granted			7,000	9,000	16,000
Options exercised					0
Michel Mollard					
Options granted		4,500	4,000	6,000	14,500
Options exercised					0
Total options granted	**16,683**	**38,500**	**32,000**	**42, 000**	**129,183**
Total options exercised	**6,000**	**0**	**0**	**0**	**6,000**

Furthermore, three members of the Group Management Board (in its current composition) benefited from AGF stock options granted during 2002:

Year	2002
Date of AGF Board meeting	02/09/2002
Option grant date	30/09/2002
Expiry date	30/09/2010
Exercise price	€33.25
Clemens von Weichs	
Options granted	4,091
Options exercised	4,091
Jean-Marc Pillu	
Options granted	5,731
Options exercised	
Michel Mollard	
Options granted	821
Options exercised	
Total options granted	**10,643**
Total options exercised	**4,091**

C. The Supervisory Board

Attendance fees paid to members of the Supervisory Board amounted to €260,000. Every member of the Supervisory Board is paid a fee. The Chairman of the Board receives a double fee for performing that role. Each member of the Supervisory Board who is also a member of the Audit Committee and/or the Remuneration and Appointments Committee is paid an additional fee. No member can be paid more than a double fee in total, apart from the Chairman of the Supervisory Board. In 2005, the followings fees were paid:

(€'000)

	Attendance fees 2004	Attendance fees 2005
Jean-Philippe Thierry	28.1	30.6
Laurent Mignon	28.1	30.6
Jacques Blondeau	14.1	-
Diethart Breipohl	14.1	15.3
John Coomber	7.0	15.3
Charles de Croisset	28.1	30.6
Reiner Hagemann	28.1	30.6
Robert Hudry	28.1	30.6
Yves Mansion	28.1	30.6
François Thomazeau	28.1	30.6
Jean-Hervé Lorenzi. censor (non voting member)	-	15.3
Roger Papaz (+), censor (non voting member)	28.1	-
Total	**260.0**	**260.0**

The members of the Supervisory Board receive no remuneration other than the attendance fees paid by Euler Hermes itself or by the subsidiaries controlled by it according to article L.233-16 of the Commercial Code. Euler Hermes decided not to disclose the remuneration received by its Supervisory Board members from the companies controlling Euler Hermes because their activities within those companies are not directly related with their function as Supervisory Board member of Euler Hermes.

The remuneration received by members of the Supervisory Board with links to a company controlling Euler Hermes is listed in the management report, page 36 of this annual report.

No member of the Group Management Board or Supervisory Board has received any loan or guarantee in his or her favour from the company. There are no agreements between the directors, members of the Supervisory Board or shareholders with an interest of more than 5% in the company's capital or voting rights, nor were there any transactions between the company and the directors, corporate officers and shareholders with an interest of 5% or more in the company's capital or voting rights.

Incentives and profit-sharing

Incentives

On 7 December 1994, Euler Hermes Sfac, Euler Hermes Sfac Crédit and Euler Hermes Sfac Recouvrement agreed an incentive plan that benefits all employees of these companies after six months' service. This agreement is for an unlimited period. The agreement was amended on 27 January 1998 to include Euler Hermes Services.

Profit-sharing

On 5 May 1999, Euler Hermes Sfac, Euler Hermes Sfac Crédit, Euler Hermes Sfac Recouvrement and Euler Hermes Services agreed a profit-sharing plan that benefits all employees of these companies after six months' service. This agreement was made for a three-year period from 1st January 1999. It is a continuation of the profit-sharing agreements dated 18 June 1991, 27 June 1994 and 17 June 1996.
For information, the amounts paid under the incentive and profit-sharing schemes for the years ended 31 December for the years from 1995 to 2005 were as follows:

(€'000)

	Incentive EH-Sfac	Profit-sharing EH-Sfac
1995	1,921	568
1996	1,689	1,327
1997	2,135	1,138
1998	3,294	1,990
1999	3,994	2,338
2000	3,610	2,432
2001	4,960	2,515
2002	3,484	2,005
2003	4,435	2,495
2004	5,000	2,700

Company savings scheme

On 15 June 1994, a company savings scheme was set up for the employees of Euler Hermes Sfac, Euler Hermes Sfac Crédit and Euler Hermes Sfac Recouvrement. On 27 January 1998, the benefits of this scheme were extended to the employees of Euler Services. The scheme benefits all employees of these companies after six months' service. It was set up for an initial period of one year, continued by tacit renewal. It can be supplemented by funds from incentive plans and all or part of the profit-share, by subscribers' voluntary contributions, by a company contribution, by port folio income and capital gains, by related tax credits and, where applicable, by the transfer of revenues from incentive plans after a five-year lock-in period.

Other items of general information

Disputes and other exceptional events

Apart from the dispute referred to below, neither the company nor any of its subsidiaries are or have been party to judicial proceedings or arbitration likely to have or to have had, in the recent past, a material impact on the financial position of the company, its business and its income. The company has no knowledge that any such proceedings are envisaged against it by government authorities or third parties.

California Holocaust Victim Insurance Relief Act

As a member of the Allianz group, Euler ACI is subject to the 1999 California Holocaust Victim Insurance Relief Act, which requires Allianz to reach agreement with the California Department of Insurance relating to compensation for victims of the Holocaust. If the parties fail to reach agreement, there is a risk that the California Department of Insurance, on the basis of the California Holocaust Victim Insurance Relief Act, will institute proceedings for the revocation of authorisations to conduct insurance activities in California, from which the insurance companies in the Allianz group and, in the case in point, Euler Hermes ACI, benefit.
On 21 March 2000, taking over proceedings started by another insurance company, the American Insurance Association, of which Euler Hermes ACI is not a member, instituted proceedings before the US Federal Tribunal aimed at contesting the constitutional basis of the California Holocaust Victim Insurance Relief Act. On 10 June 2000, the court found in favour of the American Insurance Association.
In the first instance, the court judged the Holocaust Victim Insurance Relief Act to be anti-constitutional, given that it infringed the exclusive jurisdiction of the USA federal government in matters of foreign policy and external trade regulation.
An appeal is currently in process. This appeal suspends the application of the California Holocaust Victim Insurance Relief Act. Euler Hermes ACI is a beneficiary of this favourable judgement and considers there is little likelihood of the judgement being overturned by the appeal proceedings. However, there is no certainty in this regard. Euler Hermes ACI's turnover in California represents a minimal proportion of the turnover of the group's credit insurance business.
No significant court decisions were made in 2001 or 2002 that could affect the decisions of 2000 and, on 23 June 2003, the USA Supreme Court confirmed the judgment of the lower court, ruling that the California Holocaust Victim Insurance Relief Act was unconstitutional. No appeal may be made against this decision. Following the decision, there is now virtually no risk that Euler Hermes ACI will have its license to run insurance businesses in California withdrawn.

Employees

Since the company does not employ any staff, there is no report on employment matters.

Name and title of the person responsible for this document

Mr Clemens Freiherr von Weichs, Chairman of the Group Management Board.

Declaration by the person responsible

"Having exercised reasonable due diligence, I confirm that to the best of my knowledge the information contained in this reference document is correct and that no information has been omitted that would materially alter its interpretation.
I have obtained from the independent auditors an assignment completion letter, in which they indicate that they have verified the information relating to the financial position and financial statements provided in this reference document and that they have read the reference document in its entirety."

Paris, 3 May 2006

Clemens Freiherr von Weichs
Chairman of the Group Management Board

Name, address and appointment of independent auditors

Independent auditors

In accordance with company law, the independent auditors named below have examined the annual financial statements for the last three years:

- Mr Alain Auvray, 5, avenue Franklin-Roosevelt, 75008 Paris.
- PricewaterhouseCoopers Audit, 32, rue Guersant, 75883 Paris Cedex 17. Represented by Mrs Christine Bouvry.
- KPMG SA, 1, cours Valmy, 92923 Paris La Défense Cedex. Represented by Mr Xavier Dupuy.

Mr Alain Auvray was appointed by a resolution of the Ordinary General Meeting of 26 May 1987, and his mandate was renewed by a resolution of the Ordinary General Meeting of 27 April 1999 convened to approve the financial statements for the year ended 31 December 1998, for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ended 31 December 2004.

Other items of general information

The General Meeting of 22 April 2005 appointed ACE, Auditors et Conseils d'Entreprises, represented by Mr Alain Auvray, as the auditor for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2010.
Coopers & Lybrand Audit was appointed by a resolution of the Ordinary General Meeting of 17 May 1995 convened to approve the financial statements for the year ended 31 December 1994, for six financial years. The firm's term of office was renewed at the General Meeting of 25 April 2001 called to approve the financial statements for the year ended 31 December 2000, for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2006. The General Meeting of 22 April 2005 recorded the absorption of Coopers & Lybrand Audit by PricewaterhouseCoopers Audit and accordingly its assumption of the office of auditor.
KPMG Cabinet Cauvin Angleys Saint-Pierre Révifrance (SA) was appointed by a resolution of the Ordinary General Meeting of 27 April 1999 convened to approve the financial statements for the year ended 31 December 1998, for six financial years. Its term of office was due to expire at the General Meeting called to approve the financial statements for the year ended 31 December 2004. Following the merger in which the firm Cauvin Angleys Saint-Pierre Révifrance (SA) transferred its business to KPMG SA, whose registered office is at 2 bis, rue de Villiers, Levallois Perret (92300), the General Meeting of 25 April 2001 approved the appointment of the latter firm as auditor for the remaining term of the mandate of the absorbed company. The General Meeting of 22 April 2005 renewed the appoint of KPMG SA as auditor for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2010.

Alternate auditors

- Mr Pierre-Bernard Anglade, alternate auditor for Coopers & Lybrand Audit,
- Mr Gérard Rivière 1, cours Valmy, 92923 Paris-la Défense Cedex, alternate auditor for KPMG SA, and
- Auditeurs et Conseils d'Entreprise (ACE) located at 5, avenue Franklin-Roosevelt, 75008 Paris, represented by Mr Christian Fevre, alternate auditor for Mr Alain Auvray.

Auditeurs et Conseils d'Entreprise (ACE) was appointed by a resolution of the Ordinary General Meeting of 25 May 1993, and its mandate was renewed by a resolution of the Ordinary General Meeting of 27 April 1999 convened to approve the financial statements for the year ended 31 December 1998, for six financial years. Its term of office expired at the General Meeting convened to approve the financial statements for the year ending 31 December 2004. The General Meeting of 22 April 2005 appointed Mr Emmanuel Charnier as alternate auditor for the company ACE, Auditeurs et Conseils d'Entreprises, for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2010.
La Fiduciaire de France was appointed by a resolution of the Ordinary General Meeting of 27 April 1999 called to approve the financial statements for the year ending 31 December 1998, for six financial years. La Fiduciaire de France changed its name to KPMG SA at its General Meeting of 17 March 2000. Following the merger in which Cauvin Angleys Saint-Pierre Révifrance (SA) transferred its business to KPMG SA, whose registered office is at 2 bis, rue de Villiers, Levallois-Perret (92300), the appointment of KPMG SA expired early and the General Meeting of 25 April 2001 approved the appointment of Mr Gérard Rivière domiciled at Paris la Défense (92923) as alternate auditor until the expiry of his predecessor's term of office, i.e. until the General Meeting called to approve the financial statements for the year ended 31 December 2004.
KPMG SA's appointment was renewed by the General Meeting of 22 April 2005 for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2010. The General Meeting of 22 April 2005 also appointed SCP Jean-Claude André et autre as alternate auditor for KPMG SA for six financial years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2010.
The Ordinary General Meeting of 25 April 2001 appointed Mr Pierre-Bernard Anglade as alternate auditor for a term of six years, i.e. until the General Meeting called to approve the financial statements for the year ending 31 December 2006. The General Meeting of 23 April 2003 was notified of the resignation as of that date of Mr Pierre-Bernard Anglade, alternate auditor. The Meeting was asked to appoint in his place as alternate auditors PricewaterhouseCoopers Audit, a société anonyme with share capital of €1,255,230, whose registered office is at 32 rue Guersant 75017 Paris, and which is registered in the Paris Trade and Companies' Registry under number 672 006 483 for the remaining term of office of its predecessor, i.e. until 31 December 2006. The General Meeting of 22 April 2005 recorded the absorption of Coopers & Lybrand Audit by PricewaterhouseCoopers Audit and accordingly its assumption of the office of auditor. As a result, the General Meeting also appointed Mr Yves Nicolas as alternate auditor for Pricewaterhouse Coopers Audit until his predecessor's term of office expires, i.e., until the General Meeting called to approve the financial statements for the year ending 31 December 2006.

Fees of the independent auditors

Total fees paid to the independent auditors and other members of their worldwide network amounted to €5.0 million. This remuneration takes into account the fees paid for acting as independent auditors, the review and certification of individual financial and single statements, i.e. €4,252 thousand, and ancillary audit-related assignments, i.e. €401 thousand. In addition, fees in a total amount of €490 thousand were paid for other services performed by the independent auditors. The details of all these fees are set out below:

(€'000)

	PricewaterhouseCoopers				KPMG Audit				ACE			
	Amounts (1)		%		Amounts (1)		%		Amounts (1)		%	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Audit fees												
Statutory audit work, attestation, review of company and consolidated financial statements	2,105	2,252	68%	75%	1,441	1,727	60%	93%	243	273	100%	94%
Related assignments	356	324	11%	11%	702	61	29%	4%		16		6%
Sub-total	2,461	2,575	79%	86%	2,143	1,788	89%	97%	243	289	100%	100%
Other services												
Legal, tax, corporate	408	400	13%	13%	37	39	2%	2%				0%
Information technology		25		1%								
Internal audits						26		1%				
Others	233		8%	0%	235		10%					
Sub-total	641	425	21%	14%	272	65	11%	3%	0		0%	0%
Total	**3,102**	**3,000**	**100%**	**100%**	**2,415**	**1,853**	**100%**	**100%**	**243**	**289**	**100%**	**100%**

(1) The amount corresponds to the fee expense recorded in the year.

Persons responsible for information

Nicolas Hein
Chief Finance Officer, member of the Group Management Board.
Benoît des Cressonnières
Head of Reinsurance & Investor Relations
General Secretary

1, rue Euler
75715 Paris Cedex 08
Tel.: 01 40 70 50 50
www.eulerhermes.com

Information policy

Every major event that is likely to have a material impact on the company (acquisition, disposal, commercial partnership, start-up, etc.) is generally the subject of a press release sent to media agencies and financial analysts and posted on the company's website.
In addition, each of the company's subsidiaries is responsible for communication on its own market, under the supervision of Euler Hermes' group-wide Communications function. All information of a financial nature is strictly controlled and must be authorised by the company.
In general, Euler Hermes provides regular information about its activities through analysts' meetings, conferences and press releases. The provisional schedule for the company's financial announcements in 2006 is as follows:

Annual results for 2005
23 March 2006 in Paris
28 March 2006 in London

Dividend declaration
23 March 2006

General Meeting
22 May 2006

Quarterly turnover
Q1: 3 May 2006
Q2: 2 August 2006
Q3: 31 October 2006
Q4: February 2007

Results for first half of 2006
5 September 2006 in Paris
6 September 2006 in London
Annual results for 2006
March 2007, the precise date will be announced later.
All announcements made at meetings or in press releases are simultaneously posted on the company's website (www.eulerhermes.com).

Independent auditors' special report on regulated agreements

YEAR ENDED 31 DECEMBER 2005

To the Shareholders,

In our capacity as auditors of your company, we hereby submit our report on regulated agreements.

Agreements authorised during the year

Pursuant to Article L.225-88 of the Commercial Code, we have been advised of the agreements for which prior authorisation has been given by the Supervisory Board. It is not our role to seek out the possible existence of other agreements but to inform you, based on the information given to us, of the principal terms and characteristics of the agreements of which we have been informed, without passing judgement on their relevance or validity. It is your responsibility, under the terms of Article 117 of the Decree of 23 March 1967, to evaluate the potential benefit of such agreements in order for you to approve them.

We have carried out our work in accordance with professional standards applicable in France. Those standards require us to perform tests designed to verify that the information we have been given is consistent with the original documents from which it is derived.

Tax liabilities guarantee in favour of Crédit Agricole

As part of the disposal of the company's 49.09% interest in Eurofactor, the Supervisory Board meeting of 4 March 2005 authorised the issue of a guarantee in favour of Crédit Agricole, prorata to such interest, against the consequences of any additional tax assessment falling within the competency of the French tax authorities concerning Eurofactor SA for events arising prior to 31 December 2003. The maximum amount that may be paid under this guarantee may not in any event exceed €10 million, subject to an excess of €1 million.

Agreements approved in prior years and still in force during the year ending 31 December 2005

In addition, pursuant to the Decree of 23 March 1967, we have been informed that the execution of the following agreements approved in previous years continued during the year ending 31 December 2005.

1. Seller's guarantee in favour of Eurofactor

At its meeting on 29 November 1999, the Supervisory Board authorised the signing of a guarantee in favour of Société Française de Factoring International Factors France (SFF) in the context of the merger of the factoring activities of Crédit Lyonnais and Euler Hermes.

The principal provisions of this guarantee cover any increase in liabilities or decrease in assets of SFF, the origin of which arose before 1 January 1999 (30 December 1999 for tax and employee-related liabilities), subject to an excess per item of FRF 300,000 (€45,457.50) with a cumulative total of FRF 20,000,000 (€3,048,980.35). This guarantee was due to expire at the end of the prescribed period plus three months for tax and employee-related liabilities and at 30 June 2001 in all other cases.

This seller's guarantee is currently still in effect in an amount of €879,000.

It will end definitively at the close of the ongoing legal proceedings.

2. Pledging of a portfolio of treasury bonds

The Board of Directors' meeting of 10 April 2001 authorised the Chairman of Euler Hermes Sfac to pledge a treasury bond portfolio for a maximum aggregate amount of €30.49 million (FRF 200 million) as security for a line of credit taken out by Euler Hermes with Société Générale or any other authorised credit institution in France. The authorisation was valid for a period of one year, i.e. until 10 April 2002.

The Board of Directors' meeting of 5 March 2002 authorised the Chairman of Euler Hermes Sfac to extend this pledge for a maximum aggregate amount of €40 million. This extension was given for a period of one year, i.e. until 5 March 2003.

At its meeting on 25 February 2003, the Supervisory Board of Euler Hermes Sfac (the change in legal form to a limited company with a Group Management Board and a Supervisory Board having been approved by the General Meeting of Shareholders on 7 November 2002) authorised the Chairman of the Group Management Board of Euler Hermes Sfac to extend this pledge for a further period of one year, i.e. until 24 February 2004.

At its meeting on 19 December 2003, the Supervisory Board of Euler Hermes Sfac authorised the Chairman of the Group Management Board of Euler Hermes Sfac to extend this pledge for the same amount. This extension was given for a period of one year, i.e. until 19 December 2004.

At its meeting on 23 November 2004, the Board authorised the Chairman of the Group Management Board of Euler Hermes Sfac to extend this pledge for a further period of one year, i.e. until 23 November 2005.
Following the renegotiation of its loan terms and conditions, Euler Hermes no longer has need of this pledge. The Board meeting of 30 August 2005 noted this decision.

3. Allianz group Long Term Incentive Plan 2000

At its meeting on 26 September 2000, the Supervisory Board approved the provisions for the establishment of a global incentive plan for senior managers of the Allianz group.

Each Allianz group company must bear the cost of this plan for the portion relating to the company in question.

For 2005, in respect of Euler Hermes, at a hedge price of €26.69 per SAR (Stock Appreciation Rights), this incentive plan represented an overall cost of €508,391.12.

At the Supervisory Board meeting of 24 May 2005, the Remuneration Committee specified that in 2005 it would allocate 29,268 SAR to the Group Management Board at a price of €92.87 per share. These SAR required implementation of a hedging contract, the cost of which (€508,391.12) was booked by Euler Hermes or its subsidiaries.

4. Supplementary pension scheme for members of the Group Management Board

At its meeting on 23 November 1998, the Group Management Board of Euler Hermes adopted a supplementary pension scheme for the corporate officers of Euler Hermes and Euler Hermes Sfac.

In accordance with the terms and conditions of this scheme, the corporate officers eligible to benefit from the scheme are, as of the date hereof, Messrs Clemens von Weichs, Nicolas Hein and Michel Mollard from the date of their appointment as members of the Group Management Board of Euler Hermes and Mr Jean-Marc Pillu from the date of his appointment as Chairman of Euler Hermes Sfac.

The total amount (including tax of 6%) charged in 2005 was €1,088,620.

5. Subordinated loan agreement between Euler Hermes, AGF Vie and AGF Holding

At its meeting on 28 May 2002, the Supervisory Board authorised the Group Management Board to contract a senior loan of €100 million with AGF Vie. The loan agreement was signed on 17 July 2002 under the following terms and conditions:

Term:	20 years with option to repay early after 10 years
Maturity:	annual repayment corresponding to the proceeds of any capital increase resulting from shareholders exercising their option to receive their dividends in shares
Base rate:	fixed rate for 10 years at the 10-year Euribor swap rate, then at an annual Euribor 3-month variable rate
Margin:	90 basis points for the first 10 years and 190 basis points thereafter
Interest:	annual for 10 years and quarterly thereafter.

Following early repayments, the balance outstanding at 31 December 2004 was €12.880 million.

The outstanding balance was repaid in full on 20 June 2005.

This loan has been replaced by a new senior loan of €85 million contracted with AGF Holding and maturing on 24 June 2010. The loan agreement was signed on 24 June 2005 under the following terms and conditions:

Term:	5 years
Maturity:	24 June 2010
Base rate:	Euribor 6-month variable
Margin:	20 basis points
Interest:	6-monthly.

A rider to the agreement was signed on 20 December 2005 in an amount of €50 million, taking the total amount of the loan to €135 million under the same terms and conditions as those described above.

6. Loan agreement between Euler Hermes and AGF Holding

At its meeting on 28 May 2002, the Supervisory Board authorised the Group Management Board to contract a bridging loan of €260 million with AGF Holding, with €170 million being repayable on 31 July 2002 and the remainder being repayable on 31 July 2003.

This loan agreement was renewed on 17 July 2003 for an amount of €89.1 million and for a period of three months, under the following terms and conditions:

Term:	3 months
Maturity:	17 October 2003
Base rate:	Euribor 3-month variable
Margin:	20 basis points
Interest:	quarterly

This loan agreement was extended until 2 December 2003, under the following terms and conditions:

Maturity:	3 December 2003
Base rate:	Euribor 1-month variable
Margin:	20 basis points
Interest:	quarterly

Subsequently, a five-year loan for €90 million was arranged, under the following terms and conditions:

Three drawdowns of €30 million each, between the end of 2003 and the end of 2004

Maturity:	19 December 2008
Base rate:	Euribor 3-month variable
Margin:	30 basis points
Interest:	quarterly

The first tranche of €30 million was drawn down on 19 December 2003.
The second tranche of €30 million was drawn down on 1 June 2004.
The third tranche of €30 million was drawn down on 20 December 2004.

At 31 December 2005, this €90 million loan was fully drawn.

7. Counter guarantee granted by Euler Hermes to Euler Hermes Sfac

In the context of the rating of Euler Hermes by Standard & Poor's, Euler Hermes Sfac agreed to guarantee the commitments of Euler Hermes UK via a Deed of Guarantee dated 20 May 2003. The guarantee was set up to enable the UK company to benefit from a rating similar to that of other group companies.

At its meeting on 20 May 2003, the Supervisory Board authorised Euler Hermes to counter guarantee Euler Hermes Sfac and to reimburse said company for all payments made in connection with its guarantee.

As Euler Hermes UK now benefits from a rating similar to that of other group companies without the need of recourse to the Euler Hermes Sfac guarantee, said guarantee has been cancelled. Accordingly, the counter guarantee given by Euler Hermes ceases to have effect.

Neuilly-sur-Seine, Paris-la Défense and Paris, 3 May 2006

The auditors

PRICEWATERHOUSECOOPERS AUDIT	KPMG AUDIT A division of KPMG SA	ACE AUDITEURS ET CONSEILS D'ENTREPRISE
Christine Bouvry	Xavier Dupuy	Alain Auvray

ORDINARY AND EXTRAORDINARY GENERAL MEETING 22 MAY 2006

Draft resolutions

Ordinary Resolutions

First Resolution

Approval of the financial statements for the year ended 31 December 2005

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, and after taking cognisance of the Group Management Board's management report, the Supervisory Board's observations and the Independent Auditors' general report, the General Meeting approves the financial statements for the year ended 31 December 2005, including the balance sheet, the income statement and the notes appended thereto, as presented to it, together with the transactions recorded in the financial statements and summarised in the reports. It records that the net income for the financial year is €99,317.5 thousand.

Second Resolution

Approval of the consolidated financial statements for the year ended 31 December 2005

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, and after taking cognisance of the Group Management Board's management report, the Supervisory Board's observations and the Independent Auditors' report on the consolidated financial statements for the year ended 31 December 2005, the General Meeting approves the consolidated financial statements presented to it, which show net income of €286,076 thousand, together with the transactions recorded in the financial statements and summarised in the reports.

Third Resolution

No non-deductible charges

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, and after taking cognisance of the Group Management Board's report and the Supervisory Board's observations, as required by Article 223 quater of the General Tax Code (code général des impôts), the General Meeting records that no non-deductible expenses or charges were incurred over the past financial year.

Fourth Resolution

Release for the members of the Group Management Board and discharge for the members of the Supervisory Board and the Independent Auditors.

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, the General Meeting releases each of the members of the Group Management Board as regards the performance of their duties over the past financial year, and also discharges each of the members of the Supervisory Board and each of the Independent Auditors as regards the performance of their duties.

Fifth Resolution

Allocation of income for the financial year ended 31 December 2005 and distribution of dividend.

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, after taking cognisance of the Group Management Board's report and the Independent Auditors' general report, and after listening to the Supervisory Board's observations, the General Meeting records that the following amount is available for distribution:

	(€'000)
- retained earnings	140,818.3
- net income for the financial year	99,317.5
i.e.	240,135.8

and resolves to allocate the distributable income as follows:

- legal reserve	55.2 k€
- proposed dividend: €3.50 per share	156,905.9 k€
- retained earnings	83,174.7 k€
i.e.	240,135.8 k€

Accordingly, the General Meeting resolves to distribute a net dividend of €3.50 per share for the past financial year. The total number of shares is 44,830,244. The dividend will be paid in cash on 5 June 2006.

Dividend tax credits were abolished by the 2004 Finance Act and, in accordance with Article 243 bis of the General Tax Code, the dividend distributed pursuant to this resolution, i.e. €156,905.9 thousand, is eligible for the 40% tax reduction provided in Article 158.3-2 of the General Tax Code, for the part distributed to individuals. In accordance with Article 243 ter of the General Tax Code, shareholders are reminded that the company has not made any distribution that is not eligible for the deduction pursuant to aforementioned Article 158.3-2 since the deduction came into effect.

In the event the company holds treasury shares at the time the dividend is paid, the distributable income corresponding to the

Resolutions submitted to the vote of the General Meeting of 22 May 2006

unpaid dividend on such treasury shares shall be allocated to retained earnings.

As required by law, shareholders are reminded that the following dividends were distributed over the past five financial years:

	2005 (1)	2004 (2)	2003 (2)	2002 (2)	2001 (2)
Global amount (in €'000)	156,906	107,764	75,624	32,232	48,860
Amount per share before tax credit (in €) (3)	€3.50	€2.50	€1.82	€0.80	€1.40
Tax credit (in €) (4)	-	-	€0.91	€0.40	€0.70
Amount per share after tax credit (in €)	**€3.50**	**€2.50**	**€2.73**	**€1.20**	**€2.10**

(1) Dividend proposed to the General Meeting.
(2) Dividend for year, paid in following year.
(3) The dividend per share is calculated on the basis of the total number of shares.
(4) At the historical rate of 50% for individuals and legal entities eligible for parent-daughter company treatment.

Sixth Resolution

Adjustment of treasury shares reserve

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, the General Meeting takes note that the company did not purchase or sell any treasury shares over the past financial year under the company's share buyback programme authorised by the Ordinary General Meeting of 22 April 2005, and further notes the terms and conditions governing the purchase of treasury shares by the company pursuant to Articles L.225-209 et seq. of the Commercial Code (Code de commerce). The General Meeting resolves to adjust the treasury shares reserve by writing back a provision of €11,281,157.84 euros to take into account sales made to satisfy stock options exercised over the past year, in accordance with Article L.225-210-3 of the Commercial Code. The write-back shall be posted to the "other reserves" account.

Accordingly, the General Meeting records that the treasury shares reserve, which was €92,589,093 as at 31 December 2004, will be adjusted to stand at €81,307,935.61.

Seventh Resolution

Approval of regulated agreements pursuant to Article L.225-86 of the Commercial Code

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, and after taking cognisance of the Independent Auditors' special report on transactions referred to in Article L.225-86 of the Commercial Code, the General Meeting approves the agreements mentioned in the report.

Eighth Resolution

Renewal of the appointment of Mr John Coomber as member of the Supervisory Board

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, the General Meeting resolves to renew the appointment as a member of the Supervisory Board of Mr John Coomber, who was born on 7 February 1949 in London and who has British nationality, electing domicile at 50-60 Mythenquai, 8022 Zurich (Switzerland), for a term of three financial years, i.e. until the General Meeting called to vote on the financial statements for the year ended 31 December 2008.

Ninth Resolution

Renewal of the appointment of Mr Yves Mansion as member of the Supervisory Board

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, the General Meeting resolves to renew the appointment as a member of the Supervisory Board of Mr Yves Mansion, who was born on 9 January 1951 in Freiburg im Brisgau (Germany) and who has French nationality, residing at 9 rue de Montorgueil, 75001 Paris, for a term of three financial years, i.e. until the General Meeting called to vote on the financial statements for the financial year ended 31 December 2008.

Tenth Resolution

Ratification of the provisional appointment of Mr Clement Booth as member of the Supervisory Board

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, the General Meeting resolves to ratify the provisional appointment as a member of the Supervisory Board of Mr Clement Booth, who was born on 16 July 1954 in Kapstadt (South Africa) and who has South African nationality, electing domicile at 2 Minster Court, Mincing Lane, London EC3R 7XA (UK). The provisional appointment was made by the Supervisory Board on 16 November 2005 to replace Mr Reiner Hagemann, who resigned, for the remainder of his term of office, i.e. until the General Meeting called to vote on the financial statements for the financial year ended 31 December 2006.

Eleventh Resolution

Authorisation to be given to the Group Management Board within the context of the company's share buyback programme

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, and having taken cognisance of the Group Management Board's report and the

Supervisory Board's observations, and in accordance with Article L.225-209 of the Commercial Code, European Commission Regulation 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of 28 January 2003, and Articles 241-1 to 241-8 of the General Regulations of the AMF (l'Autorité des Marchés Financiers – France's financial services supervisory authority), the General Meeting authorises the Group Management Board to purchase, sell or transfer a number of shares representing no more than 10% of the share capital, under the following terms:

- This authorisation is valid for a maximum period of eighteen months from the date of this General Meeting, i.e. until 21 November 2007, or until it is renewed by an Ordinary General Meeting held before that date; it brings an end to the authorisation given by the Ordinary General Meeting of 22 April 2005 in its eighteenth resolution as far as the fraction not made use of is concerned;

- The total amount that the company can allocate to the buyback of its shares during the validity of this authorisation is €149.8 million;

- The maximum purchase price is set at €132 per share, which corresponds to the share price as at 31 December 2005 multiplied by a factor equal to the greatest increase in the share price over any given year since its listing, i.e. 73% in 2003. The minimum sale price is set at €51 per share, which corresponds to the share's lowest price in 2005. However, in the event of transactions involving the company's capital, such as the capitalisation of premiums, reserves or income resulting in the increase in the nominal value of shares, the issue and allocation of bonus shares, reverse stock splits or the division of the nominal value of shares, the Group Management Board shall have full powers to adjust these prices and the number of shares, if need be, and if the shares thus purchased are used to allocate bonus shares in accordance with Article L.443-5 of the Employment Code (Code du travail), the pecuniary equivalent of the allocated shares will be determined in accordance with the applicable legal provisions;

- Shares purchased by the company pursuant to this authorisation cannot, under any circumstances, result in it holding more than 10% of the company's share capital;

- These shares may be purchased, sold, transferred or exchanged under the conditions determined by the market authorities and in accordance with the applicable laws and regulations, by any means including by the purchase or sale of blocks of shares (including off-market, over-the-counter, or through derivatives transactions, namely options or warrants, in compliance with applicable regulations) and at the times set by the Group Management Board or the person authorised by the Group Management Board for that purpose;

- Share buybacks are authorised for any of the purposes allowed by the applicable laws, notably to:

(I) boost the market for the shares, namely by improving the share's liquidity via an investment service provider acting independently within the framework of a liquidity contract, in accordance with a code of conduct recognised by the AMF;

(II) allocate shares to employees or officers of the company and its subsidiaries in accordance with the terms and conditions specified by law, in particular within the framework of a profit-sharing scheme, stock purchase options, the allocation of existing bonus shares or a company savings plan;

(III) buy shares to keep them and subsequently deliver them as payment or in exchange, within the framework of any acquisition transaction, as allowed by the stock market regulations, with the proviso that the number of shares purchased by the company to be kept and subsequently delivered as payment or in exchange within the framework of a merger, demerger or capital contribution shall not exceed 5% of its capital;

(IV) deliver shares in connection with the exercise of rights attached to securities giving access to the company's capital;

(V) cancel these shares subject to approval by this General Meeting in the twelfth resolution;

(VI) make use of any market practices allowed by the law and the AMF, in which case the company will inform the general public of any changes to its programme and its new objectives, as required by the applicable laws and regulations.

The company may undertake the transactions in (i) to (vi) above during a takeover bid or exchange offer in accordance with the applicable legislation.

In accordance with paragraph 4 of Article L.225-209 of the Commercial Code, the company will inform the AMF every month of the purchases, sales, transfers and cancellations made. This information will be published by the AMF.

In addition, in accordance with Article 12 of the Articles of Association, the Group Management Board will seek the approval of the Supervisory Board for the policy it intends to follow with regard to share buy-backs pursuant to this resolution.

Resolutions submitted to the vote of the General Meeting of 22 May 2006

The Group Management Board, which may delegate to its Chairman or, with his approval, to one or more of its members, is granted full powers to give orders on the stock markets or off-market, allocate or re-allocate the shares purchased for various purposes as allowed by the applicable laws and regulations, and sign any agreements, notably with a view to keeping registers of share purchases and sales, compile information documents, make declarations to the AMF and any other authorities, and generally do anything that may be necessary. The Group Management Board shall inform the General Meeting of all transactions carried out pursuant to this authorisation.

Extraordinary Resolutions

Twelfth Resolution

Authorisation to be given to the Group Management Board to reduce the share capital by cancelling shares purchased within the framework of the share buyback programme

Voting in accordance with the majority and quorum requirements applying to extraordinary general meetings, and after taking cognisance of the Group Management Board's report, the Supervisory Board's observations and the Independent Auditors' special report, and in accordance with Article L.225-209 of the Commercial Code and also in view of the vote on the eleventh resolution, the General Meeting authorises the Group Management Board to reduce the share capital on one or more occasions over a twenty-four month period from the date of this General Meeting, within a maximum limit of 10% of the share capital, by the cancellation of treasury shares purchased within the framework of the share buyback programmes approved by the company's shareholders prior to or after this General Meeting.

The General Meeting authorises the Group Management Board to charge the difference between the purchase price of the cancelled shares and their nominal value, calculated at the time of cancellation, to the available premiums and reserves.

The General Meeting grants full powers to Group Management Board, which may sub-delegate, in order to define the terms and conditions of such cancellation or cancellations, amend the Articles of Association if necessary, file all statements and declarations, carry out all other formalities, and generally to do anything that may be necessary.

This authorisation replaces the authorisation given by the Ordinary and Extraordinary General Meeting of 22 April 2005 in its nineteenth resolution.

In accordance with Article 12 of the Articles of Association, the transactions decided by the Group Management Board pursuant to this resolution shall require prior authorisation from the Supervisory Board.

Thirteenth Resolution

Authorisation to be given to the Group Management Board to issue shares and securities giving access to the company's capital, with pre-emptive subscription rights for the shareholders

Voting in accordance with the majority and quorum requirements applying to extraordinary general meetings, and after taking cognisance of the Group Management Board's report and the Independent Auditors' special report, and in accordance with Articles L.225-129 to L.225-129-6, L.228-91 and L.228-92 of the Commercial Code, the General Meeting:

- Authorises the Group Management Board, for a period of 26 months from the date of this General Meeting, i.e. until 21 July 2008, to decide to issue shares in the company and securities giving access to shares in the company, to be subscribed either in cash or as settlement for liabilities, maintaining the shareholders' pre-emptive subscription right.

Issues of preference shares and securities giving access to preference shares are expressly excluded from the scope of this authorisation.

- Also authorises the Group Management Board to decide on the issue of securities giving access to debt securities.

- Resolves that the nominal amount of the immediate or future capital increase resulting from all the issues made by virtue of this authorisation may not exceed a total ceiling of €4.4 million, with the proviso that the above total is fixed not taking into account the consequences on the amount of the capital increase of any adjustments that may be made following the issue of securities giving access to company shares, in accordance with the applicable laws and regulations and the contractual provisions, if any, that provide for other adjustments, to protect the rights of holders of securities giving access to the capital.

- Resolves that the securities thus issued, giving access to company shares, may consist of debt securities or they may be linked to the issue of such securities or enable their issue as intermediate securities. These debt securities may be issued in the form of bonds or fungibles, especially perpetual or fixed-term subordinated notes, at floating or fixed rates, with or without capitalisation, issued in euros and/or any other currency or in composite monetary units, with possible rights, especially in the form of warrants, to receive and/or subscribe to other bonds or fungibles, repayable in the currency or composite monetary unit of issue and/or by any other means.

- Resolves that the shareholders may exercise their pre-emptive subscription rights to new shares, in proportion to their rights, as allowed by law. Furthermore, the Group Management Board may grant shareholders the right to subscribe any available excess shares or transferable securities, that shall be exercised in proportion to their rights and within the limits of their request. If subscriptions by way of right and subscriptions for excess shares do not absorb the entire issue, the Group Management Board may, in the order that it deems appropriate, and in accordance with the law, either limit the issue to the amount of subscriptions received, provided that at least three-quarters of the decided issue is subscribed, or freely allocate some or all of the shares that have not been subscribed, or offer them to the public.

- Records that this authorisation entails the automatic waiver, in favour of the holders of securities issued pursuant to this resolution and giving access to the company's capital, by the shareholders of their pre-emptive subscription right to shares to which these securities may give entitlement.

- Resolves that the amount paid or due to the company for each of the shares issued by virtue of this authorisation shall be at least equal to the nominal value of the share, as calculated before the proposed issue.

In accordance with Article 12 of the Articles of Association, the maximum amount for each of the capital increases decided by the Group Management Board under this authorisation must first be approved by the Supervisory Board.

The General Meeting gives full authority to the Group Management Board, with the ability to sub-delegate in accordance with the law, to carry out these issues within the above-specified limits, and to define the amount, characteristics and terms and conditions, and more specifically to:

- Carry out the aforementioned issues, thus increasing the capital, on one or several occasions and in the proportions and on the dates determined by it, in France and/or in other countries, if appropriate, and/or on the international market, or refrain from doing so if appropriate;

- Determine the categories and characteristics of the securities issued;

- Set their subscription price, as well as the issue premium, if any;

- Set the date from which the shares issued or to be issued shall have dividend rights attached, which may be retroactive;

- If securities are issued that give access to the capital, define the terms for adjusting the conditions of access to such shares in order to protect their rights;

- Define in accordance with the law, the situations in which the Group Management Board shall be entitled to suspend the exercise of all rights attached to securities giving immediate and/or future access to shares, for a maximum period of three months;

- Define the terms for buying on the financial markets or offering to purchase or exchange securities issued as a result of this resolution, or redeeming said securities;

- Charge the cost of issuing the shares and securities against premiums generated by the capital increases and draw from said premiums any amount needed to bring the legal reserve up to one-tenth of the amount of the capital after said capital increases;

- Amend the Articles of Association accordingly;

- Generally, enter into any arrangements, sign any agreements with any bank or institution, take any action and complete any formalities relating to the issue, listing and financial servicing of the shares and/or securities issued pursuant to this resolution, and otherwise do anything that may be necessary.

This resolution brings an end to the authorisation given by the Extraordinary General Meeting of 28 April 2004 in its seventeenth resolution as far as the fraction not made use of is concerned.

Fourteenth Resolution

Authorisation to be given to the Group Management Board to increase the capital by the capitalisation of reserves, income or premiums

Voting in accordance with the majority and quorum requirements applying to ordinary general meetings, after taking cognisance of the Group Management Board's report, and in accordance with Articles L.225-129 to L.225-29-6 and L.225-130 of the Commercial Code, the General Meeting authorises the Group Management Board to increase the share capital on one or more occasions over a 26-month period from the date of this General Meeting, i.e. until 21 July 2008, or until it is renewed by an Extraordinary General Meeting held before that date, in accordance with the terms and conditions it defines, by the capitalisation of reserves, income or premiums by means of allocating bonus shares or by increasing the nominal value of existing shares, or by a combination of both methods.

The General Meeting authorises the Group Management Board to decide that rights to fractions of shares shall not be negotiable and that the corresponding securities shall be sold and the proceeds from the sale shall be allocated to the holders of such rights within thirty days of the entry in their accounts of the number of whole shares allocated.

The nominal amount of the capital increase(s) carried out pursuant to this resolution shall not exceed €4.4 million, considered in conjunction with the maximum set for capital increases resulting from the issue of shares and securities authorised by the thirteenth resolution, above.

The General Meeting grants the Group Management Board full powers, with the right to sub-delegate in accordance with the law, to implement this resolution, amend the Articles of Association accordingly, if need be, and generally do anything that may be necessary.

This resolution brings an end to the authorisation given by the Extraordinary General Meeting of 28 April 2004 in its nineteenth resolution as far as the fraction not made use of is concerned.

Fifteenth Resolution

Authorisation to be given to the Group Management Board to grant stock options

Voting in accordance with the majority and quorum requirements applying to extraordinary general meetings, after taking cognisance of the Group Management Board's report and the Independent Auditors' special report, the General Meeting:

- Authorises the Group Management Board, as provided in Articles L.225-177 to L.225-186 of the Commercial Code, to grant, on one or more occasions, for the benefit of employees and possibly for directors and officers both in the company and in companies or interest groupings that are affiliated as defined in Article L.225-180 of that Code or to only some of them, options giving rights to subscribe to new shares in the company to be issued through a capital increase, as well as options giving rights to purchase existing shares in the company obtained in buybacks made by the company as allowed by law.

- Resolves that the options to subscribe or purchase shares granted by virtue of this authorisation may not give rights to a total number of shares greater than 3% of the share capital on the day of the Group Management Board's decision, on the understanding that, within the confines of this resolution, the Supervisory Board shall define the number of stock options that the Group Management Board may grant at each allocation.

- Resolves that the price to be paid when exercising the options for new or existing shares shall be determined by the Group Management Board on the day that the options are granted, it being understood that: (i) - in the case of options for new shares, this price shall not be lower than 80% of the average of the opening prices of the company's share on Eurolist - Euronext Paris for the 20 trading sessions preceding the day on which the stock options are granted, and (ii) - in the case of options for existing shares, this price shall not be lower than or equal to the value specified in (i) above, or 80% of the average purchase price of the shares held by the company pursuant to Articles L.225-208 and L.225-209 of the Commercial Code.

- Records that this authorisation requires the express waiver by shareholders of their pre-emptive subscription rights to any shares that may be issued as and when the options are exercised.

In view whereof, the General Meeting grants full powers to the Group Management Board to implement this authorisation, namely to:

- Draw up a list of beneficiaries for the options and the number of options allocated to each of them;

- Determine the terms and conditions for the options, especially:

- the period for which the options will be valid, on the understanding that the options must be exercised within a maximum period of eight years from the date they are granted;
- the date(s) or period(s) of exercise for the options, on the understanding that the Group Management Board will have the option of (a) bringing forward the dates or periods for the exercise of the options, (b) extending the exercisable nature of the options or (c) modifying the dates or periods on/during which the shares obtained by exercise of the options may not be transferred or held in bearer form;
- possible clauses prohibiting the immediate resale of some or all of the shares provided that the mandatory holding period for the shares does not exceed three years from the date the option is exercised;
- if applicable, limit, suspend, restrict or prohibit the exercise of options, or the sale or transfer to bearer form of shares obtained by the exercise of options, during certain periods or following certain events, and this decision may cover some or all of the options or shares or concern some or all of the beneficiaries;
- determine the date, which may be retroactive, from which the new shares derived from the exercise of stock options shall take effect;
- if applicable, make any adjustments to the number and price of the shares that may be obtained by the exercise of the options pursuant to the legal and regulatory provisions then in force.

Resolves that the Group Management Board shall also have full authority, with the ability to delegate to its Chairman as provided by law, to recognise the capital increases for the amount of shares that have actually been subscribed by the exercise of stock options, and make the necessary amendments to the Articles of Association and, if it deems appropriate, to make the decision to charge the costs of the capital increases to the amount of premiums arising from these transactions and deduct from this amount the sums necessary to raise the legal reserve to one-tenth of the new share capital after each increase, and perform any necessary

formalities for the listing of the shares thus issued, file any declarations with the authorities and otherwise do anything that may be necessary.
This resolution immediately brings an end to the authorisation to grant stock options for company shares given to the Group Management Board by the Ordinary and Extraordinary General Meeting of 23 April 2003 in its fifteenth resolution as far as the fraction not made use of is concerned.
This authorisation shall remain valid for thirty-eight months from the date of this Meeting, i.e. until 21 July 2009.
The Group Management Board shall inform the shareholders of the transactions carried out within the framework of this authorisation at every Annual General Meeting, as required by Article L.225-184 of the Commercial Code.

Sixteenth Resolution

Authorisation to be given to the Group Management Board to allocate bonus shares
Voting in accordance with the majority and quorum requirements applying to extraordinary general meetings, after taking cognisance of the Group Management Board's report and the Independent Auditors' special report, the General Meeting:

- Authorises the Group Management Board, as provided in Articles L.225-197-1 et seq. of the Commercial Code, to allocate existing or new bonus shares, on one or more occasions, for the benefit of those employees it may determine and possibly for eligible directors and officers both in the company and in companies or interest groupings that are affiliated as defined in Article L.225-197-2 of the Commercial Code or to only some of them.

- Resolves that the allocation of bonus shares by virtue of this authorisation may not give rights to a total number of shares greater than 3% of the share capital on the day of the Group Management Board's decision, on the understanding that, within the confines of this resolution, the Supervisory Board shall define the number of bonus shares that the Group Management Board may allocate at each allocation. Issues made for the allocation of new shares may not exceed 3% of the share capital on the same date. For this purpose, the General Meeting authorises the Group Management Board to increase the capital accordingly, if necessary.

- Resolves that this authorisation requires the express waiver by shareholders of their pre-emptive subscription rights to any new shares that may be issued by virtue of this resolution and to any existing shares that may be allocated by virtue of this resolution, in favour of the beneficiaries of the allocation.

- Resolves that the allocation of said shares to the beneficiaries shall become final at the end of a period to be set by the Group Management Board, but which may not be less than two years, and that the beneficiaries must keep the shares for a period to be set by the Group Management Board, but which may not be less than two years from the effective allocation date.

The Group Management Board shall make the allocations of bonus shares, determining in particular:
- the identities of the beneficiaries;
- the terms and conditions and, if applicable, the criteria for the allocation of shares.

The General Meeting resolves that the Group Management Board shall have full powers, with the right to sub-delegate as allowed by law, to implement this authorisation in accordance with the above terms and conditions and within the limits authorised by the applicable laws and regulations and, in particular, to determine the terms and conditions of any issues that may be made by virtue of this authorisation, and the date on which the issued shares shall have rights attached, apply for their listing anywhere it considers necessary, carry out itself or through a representative all transactions and formalities relating to capital increases, record the completion of any capital increases, amend the Articles of Association accordingly, file all declarations and statements with any body and otherwise do anything necessary.
This authorisation shall remain valid for thirty-eight months from the date of this Meeting, i.e. until 21 July 2009.
The Group Management Board shall inform the shareholders of the transactions carried out within the framework of this resolution at every Annual General Meeting, as required by the laws and regulations and, in particular, Article L.225-197-4 of the Commercial Code.

Seventeenth Resolution

Authorisation to the Group Management Board to increase the capital, reserved for members of the company savings plan
Voting in accordance with the majority and quorum requirements applying to extraordinary general meetings, after taking cognisance of the Group Management Board's report and the Independent Auditors' special report, and in accordance with Articles L.225-138-1 and L.225-129-6 of the Commercial Code, and in application of articles L.443-1 et seq. of the Employment Code, the General Meeting:

- Authorises the Group Management Board to increase the share capital on one or more occasions over a 26-month period from the date of this Meeting, by a maximum nominal amount of TWO HUNDRED AND EIGHTY-SIX THOUSAND NINE HUNDRED AND THIRTEEN euros (€286,913) by issues of new shares or securities giving access to the capital of the company and, if applicable, the French or other companies affiliated to it within the meaning of Article L.225-180 of the Commercial Code and Article L.444-3 of the Employment Code;

■ Resolves that the maximum nominal amount of all capital increases that may be carried out pursuant to this authorisation shall be factored in the calculation of the ceiling for capital increases of €4.4 million in the thirteenth resolution, above;

■ Resolves, pursuant to Article L.443-5 of the Employment Code, to fix the discount at 20% and 30%, respectively, of the average of the opening prices for the company share on the Eurolist market (Euronext Paris) on the twenty trading days preceding the date of the decision setting the date from which subscriptions will be accepted, depending on whether the securities subscribed directly or indirectly correspond to assets subject to an unavailability period of less than ten years or of ten years and more. However, the General Meeting expressly authorises the Group Management Board to reduce the aforementioned discount if it considers it appropriate, namely to limit or abolish the discount on the share's listed price on the date of the decision setting the date from which shares may be subscribed, within the limits set by the laws and regulations and namely to take into account any specific local legal, accounting, tax or employment provisions.

■ Resolves, pursuant to Article L.443-5 of the Employment Code, that the Group Management Board may also decide to allocate new or existing bonus shares or other new or existing securities giving access to the company capital as the company contribution to the savings plan, or for discount purposes, with the proviso that when their pecuniary equivalent, assessed at the subscription price, is taken into account the limits set in Articles L.443-5 and L.443-7 of the Employment Code are not exceeded;

■ Further resolves to waive the shareholders' pre-emptive subscription right for new shares issued or other securities giving access to the capital and securities accessible via the securities issued under this resolution, in favour of the members of the company savings plan.

■ Grants full powers to the Group Management Board, with the right to sub-delegate if necessary, in accordance with the applicable laws and regulations, in order to implement this resolution and:
- determine the scope and terms and conditions of such transactions,
- set the dates and issue terms and conditions and the characteristics of the shares to be issued under this authorisation,
- determine the subscription period and the dates from which the shares shall have rights attached,
- determine the terms and conditions for the payment of the price for the shares and other securities giving access to the company's capital, extend deadlines for payment of the price of the shares and, if appropriate, the other securities giving access to the company's capital,
- apply for listing of the shares issued on any market it deems appropriate,
- record the completion of the capital increases corresponding to the amount of shares effectively subscribed, and carry out all transactions and formalities directly or via a designated representative, relating to the capital increases, and
- if it considers it appropriate, charge the costs of each capital increase against the issue premium generated by the capital increase, and draw from such premium any sums needed to bring the legal reserve up to one-tenth of the new capital after the capital increase

Eighteenth Resolution (voting as an ordinary meeting)

Powers for formalities

The General Meeting grants full powers to the bearer of an original or copy of, or an excerpt from, the minutes of this Meeting in order to carry out all legal or administrative formalities and make any filings or registrations required by the applicable law.

Share buyback programme submitted to the vote of the General Meeting of 22 May 2006

DESCRIPTION OF THE SHARE BUYBACK PROGRAMME THAT WILL BE SUBMITTED FOR APPROVAL TO SHAREHOLDERS DURING THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF 22 MAY 2006

I - Number of securities and proportion of the capital held directly or indirectly by the issuer, and breakdown by reason held of capital securities so held

The total number of shares held directly or indirectly by Euler Hermes as at 21 April 2006 was 1,457,921 representing 3.25% of the capital at that date.
The breakdown by reason held of the above number of shares was, at the date of this memorandum:
- 999,752 shares held for allocation to employees or officers of the company and its subsidiaries within the framework of a profit-sharing scheme, stock purchase option plan, the allocation of existing bonus shares or a company savings plan;
- 12,231 shares within the framework of a liquidity contract concluded with HSBC Securities;
- 445,938 shares for delivery in exchange within the framework of any possible acquisition transaction or the issue of securities giving access to the company's capital.

II - Objectives of the programme

Euler Hermes, a company listed in Compartment A (Large Caps) of the Eurolist by Euronext (Euronext Paris) market, wishes to implement a share buyback programme covering its own shares within the framework of an authorisation that will be submitted for approval to an Ordinary and Extraordinary General Meeting of Shareholders on 22 May 2006.
This programme replaces the existing programme put in place by the Ordinary and Extraordinary General Meeting of 22 April 2005, which authorised the Group Management Board of Euler Hermes to acquire, by any legal means, its own shares.
Share buybacks are authorised for any of the purposes allowed by the applicable laws, notably to:

(I) boost the market for the shares, namely by improving the share's liquidity via an investment service provider acting independently within the framework of a liquidity contract, in accordance with a code of conduct recognised by the AMF;

(II) allocate shares to employees or officers of the company and its subsidiaries in accordance with the terms and conditions specified by law, in particular within the framework of a profit-sharing scheme, stock purchase option, the allocation of existing bonus shares or a company savings plan;

(III) buy shares to keep them and subsequently deliver them as payment or in exchange, within the framework of any acquisition transaction, as allowed by the stock market regulations, with the proviso that the number of shares purchased by the company to be kept and subsequently delivered as payment or in exchange within the framework of a merger, demerger or capital contribution shall not exceed 5% of its capital;

(IV) deliver shares in connection with the exercise of rights attached to securities giving access to the company's capital;

(V) cancel these shares subject to approval by the Ordinary and Extraordinary General Meeting of 22 May 2006 in the twelfth resolution;

(VI) make use of any market practices allowed by the law and the AMF, in which case the company will inform the general public of any changes to its programme and its new objectives, as required by the applicable laws and regulations.

The company may undertake the transactions in (I) to (VI) above during a takeover bid or exchange offer in accordance with the applicable legislation.

III - Maximum proportion of the capital, maximum number and characteristics of securities that may be repurchased, and the maximum purchase price

1 - Maximum proportion of the capital to be acquired by Euler Hermes

In accordance with the law, Euler Hermes undertakes not to hold directly or indirectly in excess of 10% of its capital. As of 21 April 2006, Euler Hermes had previously acquired, within the framework of previous authorisations given on 7 April 2000, 25 April 2001 and 17 April 2002, 1,779,073 of its own shares and then held 1,457,921 shares, representing 3.25% of the capital. Accordingly, having regard to the holding limit of at most 10% of its capital, which as of the date of 21 April 2006 comprised 44,830,244 shares, Euler Hermes is able to acquire a further maximum of 3,025,103 shares, representing 6.75% of the capital.

In addition, the maximum amount that Euler Hermes is able to commit to this share buyback programme is set at €149.8 million in accordance with the eleventh resolution to be submitted to the Ordinary and Extraordinary General Meeting of 22 May 2006.

Share buyback programme submitted to the vote of the General Meeting of 22 May 2006

2- Characteristics of the securities concerned

Type of securities repurchased: ordinary shares
Description: ELE
ISIN code: FR 0004254035

3- Maximum purchase price

The maximum purchase price is set at €132 per share, which corresponds to the share price as at 31 December 2005 multiplied by a factor equal to the greatest increase in the share price over any given year since its listing, i.e. 73% in 2003. The minimum sale price is set at €51 per share, which corresponds to the share's lowest price in 2005. However, in the event of transactions involving the company's capital, such as the capitalisation of premiums, reserves or income resulting in the increase in the nominal value of shares, the issue and allocation of bonus shares, reverse stock splits or the division of the nominal value of shares, the Group Management Board shall have full powers to adjust these prices and the number of shares, if need be. Finally, if the shares thus purchased are used to allocate bonus shares in accordance with Article L.443-5 of the Employment Code (Code du travail), the pecuniary equivalent of the allocated shares will be determined in accordance with the applicable legal provisions.

IV- Term of the programme

In accordance with the resolution proposed to the Ordinary and Extraordinary General Meeting of 22 May 2006, the programme is valid for a maximum period of 18 months from the date of that General Meeting and may therefore remain in force until 21 November 2007 at the latest, or until it is renewed by an Ordinary General Meeting held before that date.

V- Transactions carried out within the framework of the previous programme:

Declaration by the issuer of transactions carried out in its own shares between 1 March 2005 and 21 April 2006

Percentage of capital held directly or indirectly by the company: 3.25%
Number of shares cancelled in the period: 0
Number of shares held: 1,457,921
Book value of the holding: €77,076,688
Market value of the holding: €146,375,268

	Cumulative gross flows		Open positions on the publication date of the programme memorandum			
Period from 1 March 2005 to 21 April 2006	Purchases	Sales	Open call positions		Open put positions	
Number of securities	0	278 738	Call options bought	Forward purchases	Call options sold	Forward sales
Maximum average maturity			None	None	None	None
Average transaction price(1)		€51,69				
Average exercise price(1)		€51,69				
Amount(1)		€14 407 942				

(1) The above transactions concern exclusively the exercise of options to purchase the company's shares.

Cross references to the reference document

Information specifically referred to:
In compliance with Article 28 of Commission Regulation (EC) no. 809/2004, the following information is specifically referred to in the reference document:
- the company and consolidated financial statements, together with the related reports of the independent auditors, as shown on pages 58 to 128, and the Group Management Board report as shown on pages 5 to 45 of the reference document for the year ended 31 December 2004, which was filed with the AMF on 12 April 2005 under reference no. D.05-404;
- the company and consolidated financial statements, together with the related reports of the independent auditors, as shown on pages 55 to 128, and the Group Management Board report as shown on pages 5 to 41 of the reference document for the year ended 31 December 2003, which was filed with the AMF on 8 April 2004 under reference no. D.04-0436.

The other sections of these documents are either not applicable to investors or are covered in another section of the reference document for the year ended 31 December 2005.

In order to facilitate the reading of this reference document, which has been filed with the Autorité des Marchés Financiers (AMF), the following cross-reference table enables identification of the main information required by the AMF in application of its general regulations and application instructions.

Cross references to the reference document

This English-language version of the reference document is a free translation of the original French text. It is not a binding document. In the event of a conflict in interpretation, reference should be made to the French version, which is the authentic text. The independent auditors' reports apply to the French version of the Management Report, consolidated financial statements and reference document.

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This reference document was filed with the Autorités des Marchés Financiers (AMF) in accordance with Articles 211-1 to 211-42 of its General Regulations. It may be used in support of a financial transaction if it is supplemented by a Transaction Memorandum certified by the AMF.
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