

**Management Report of the Group Management Board  
for the six months ended 30 June 2008**

## **Significant events**

The following significant events occurred in the first half year 2008:

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

The Shareholders' General Meeting of 15<sup>th</sup> May 2008 approved the payment of a dividend of €5.00 per share.

On the 30<sup>th</sup> June 2008, the Allianz Group owned 30,744,048 shares out of a total of 45,073,963 ; i.e. 68.21% of the capital stock.

During the first half year 2008 ended the 30<sup>th</sup> June 2008, 21,450 new shares were created following the exercise of options under the 1998 and 2003 stock option plans. On 30<sup>th</sup> June 2008, Euler Hermes' capital stock composed of 45,073,963 shares, including 1,464,444 treasury shares.

### ***Ongoing international development***

On the 1<sup>st</sup> January 2008, the Euler Hermes Chinese subsidiary Euler Hermes Information Consulting Co., Ltd opened in Shanghai. Euler Hermes Information Consulting Co., Ltd took over all activities from Euler Hermes Services Shanghai Representative Office, which were the assessment and signing of credit limits for Chinese risks.

On the 26<sup>th</sup> February 2008, Euler Hermes announced the opening of a subsidiary in Colombia located in Bogota. Euler Hermes Colombia will provide a host of accounts receivable management services to Colombian clients and will give access to the Group's international network. In parallel, Euler Hermes clients worldwide will benefit from the new local risk underwriting presence in the region.

At the beginning of the 2nd quarter, Euler Hermes had strengthened its position in India with the creation of Euler Hermes Services India Private Limited. Euler Hermes began its activity in India in 2005 with a partnership signed with the local insurer Bajaj Allianz.

On the 7<sup>th</sup> April 2008 Euler Hermes announced the creation of Euler Hermes World Agency, a new subsidiary to serve multinational companies. Specifically created to meet the needs of multinational companies, Euler Hermes World Agency offers a dedicated team of experts and a unique portfolio of services to help them manage and secure their trade receivables.

On the 9<sup>th</sup> June 2008, Euler Hermes has signed a cooperation agreement with Qatar Insurance Company and its subsidiaries in Oman and Kuwait to provide credit insurance services in these three countries. Thanks to these cooperation and reinsurance agreements, companies based in Qatar, Oman and Kuwait now benefit from credit insurance, an efficient and flexible solution to mitigate trade credit risks. They can also rely on the expertise and knowledge of analysts who understand their local economic environment and culture to manage their trade receivables.

On the 3<sup>rd</sup> July 2008, Euler Hermes and Rosno, both companies of Allianz, have been co-operating in Russia since 2004. The two companies are now extending their partnership. Following the opening of a Euler Hermes Representative Office in Russia at Rosno's premises, the foundation of the company "OOO Euler Hermes Credit Management" represents a further step on the way to expanding private credit insurance cover both for Russian firms and for companies exporting to Russia.

## Activity

At end of June 2008, the group's turnover reached €1,083.6 million, progressing by 3.0% compared to the first half of 2007. At constant perimeter and foreign exchange rates, turnover was up by 5.5% over the same period.

Euler Hermes turnover within the Euro zone was supported by the growth in Germany (4.6 %), in Italy (3.8 %) and in Netherlands (12.9 %).

In the United Kingdom, the activity shows a growth of 10.6 % at constant scope and foreign exchange rates. This good performance is mainly explained by very dynamic new production and reduced pressure on premium rates. The devaluation of the pound since the beginning of 2008 is penalizing strongly the comparison with the historic data 2007.

In the United States, the evolution of the turnover is -1.5 % at constant perimeter and exchange rates. This negative growth is the direct consequence of the economic slowdown in the United States (crisis of the sub-primes, liquidity crisis in the financial markets starts to hit refinancing capacities of corporates, high raw material prices) forcing the Us subsidiary to take strong action to exit risks in the most exposed sectors and to not re-conduct loss making contracts.

In the new markets (the Eastern Europe, the Southern Europe, the Latin America and Asia), the turnover shows a 17.7 % growth (20.0 % at constant scope and foreign exchange rates) and amounts to 99.3 million €. At the end of June 2008, these markets accounted for 9.2% of the group's consolidated turnover (vs 8 % at the end of June 2007).

### *Breakdown of turnover by country (based on earned premiums):*

In million of €	30/06/2008	30/06/2007 (1)	30/06/2007 (2)	Variation 2008/2007	Variation 2008/2007 pro-forma
Germany	369.1	352.8	352.8	4.6%	4.6%
France	203.9	202.4	202.4	0.7%	0.7%
Italy	128.3	123.7	123.7	3.8%	3.8%
United Kingdom	102.2	106.6	92.4	-4.2%	10.6%
United States	66.0	77.6	67.0	-14.9%	-1.5%
Belgium	39.3	38.1	38.1	3.1%	3.1%
Netherlands	26.3	23.3	23.3	12.9%	12.9%
Scandinavia	23.2	22.1	21.7	4.8%	6.8%
Poland	25.8	20.9	23.1	23.6%	11.7%
<b>Sub-total major countries</b>	<b>984</b>	<b>968</b>	<b>945</b>	<b>1,7%</b>	<b>4,2%</b>
<i>Of which Eurozone</i>	<i>790</i>	<i>762</i>	<i>762</i>	<i>3,6%</i>	<i>3,7%</i>
<b>Sub-total new markets</b>	<b>99,4</b>	<b>84,4</b>	<b>82,8</b>	<b>17,7%</b>	<b>20,0%</b>
<b>Euler Hermes</b>	<b>1 083,6</b>	<b>1 052,0</b>	<b>1 027,4</b>	<b>3,0%</b>	<b>5,5%</b>

Note: (1) Reported turnover at 30 June 2007

(2) Turnover at 30 June 2007 adjusted for currency effects and changes in the consolidation scope.

## Earned premium

in million of euros	S1 2008 YTD	S1 2007 YTD	Variation in amount	Variation in %
Premium	890,8	868,0	22,8	2,6%
Other Revenues	192,8	184,0	8,9	4,8%
<b>Total Credit insurance turnover</b>	<b>1 083,6</b>	<b>1 052,0</b>	<b>31,7</b>	<b>3,0%</b>

Premiums grew at a slightly slower pace than income from insurance-related services due to faster growth in the debt recovery business, which is due to the higher loss ratio.

## Breakdown of turnover between premiums and service activities

In thousand of euros	S1 2008 YTD	S1 2007 YTD	Variation %
Gross earned premiums	890 770	867 977	2,6%
Ceded premiums	-215 175	-238 715	-9,9%
Net earned premiums	675 595	629 262	7,4%
Cession rate	-24,2%	-27,5%	

The amount of the Gross earned premiums (890.8 million €) increases by 2.6 % with regard to the first half of the year 2007.

As the result of the group's strategy decision to bring the retention rate to 80% by the end of 2009, the cession rate continues to decrease in 2008 (-3.3 points). Thus, the net earned premiums were up by 7.4%, of which of which 4.8% resulted directly from the retention rate increase.

## Cost of claims

In thousand of euros	S1 2008 YTD	S1 2007 YTD	Variation %
Gross claims costs current attachement years	-553 055	-460 681	20,1%
Ceded claims costs current attachement years	108 646	96 418	12,7%
<b>Net claim costs current attachement years</b>	<b>-444 410</b>	<b>-364 262</b>	<b>22,0%</b>
<i>Cession rate current attachement years</i>	<i>20%</i>	<i>21%</i>	
Gross claims costs previous attachement years	19 652	85 399	-77,0%
Ceded claims costs previous attachement years	-5 851	-9 405	-37,8%
<b>Net claims costs previous attachement years</b>	<b>13 801</b>	<b>75 995</b>	<b>-81,8%</b>
<b>Claims costs</b>	<b>-430 609</b>	<b>-288 268</b>	<b>49,4%</b>
<b>Net Claims ratio current attachement year</b>	<b>-65,8%</b>	<b>-57,9%</b>	
<b>Net Claims ratio attachement previous year</b>	<b>2,0%</b>	<b>12,1%</b>	
<b>Net Claims ratio</b>	<b>-63,7%</b>	<b>-45,8%</b>	

The net claims costs increased faster than the net earned premiums, with a 49.4 % growth.

This is explained on one hand by the sharp decrease of run-offs from prior years (-81.8 %), linked to higher claims' declarations in 2008 attached to year 2007 having as consequence an higher usage factor of the technical reserves built up end of 2007, and on the other hand by an 22 % increase of the claims costs of the current year.

The higher current year's claims ratio is linked to the deteriorated macroeconomic environment (high raw material prices, strong slow-down of the consumption, liquidity crisis

in the financial markets starts to hit refinancing capacities of corporates), which is strongly pushing up the number of claims declared since the beginning of the year. The United States, the United Kingdom, Italy and Spain are mainly concerned.

## Operating expenses

<i>In thousand of euros</i>	<b>S1 2008 YTD</b>	<b>S1 2007 YTD</b>	Variation %
Contract acquisition expenses	-151 294	-146 887	3,0%
Administration expenses	-106 607	-101 709	4,8%
Service expenses	-134 467	-128 462	4,7%
Other ordinary income and charges	-10 894	-18 991	-42,6%
<b>Total gross expenses</b>	<b>-403 262</b>	<b>-396 049</b>	<b>1,8%</b>
of which non technical expenses	-3 940	-8 657	-54,5%
<b>Total Technical expenses</b>	<b>-399 322</b>	<b>-387 393</b>	<b>3,1%</b>

In this more difficult macro-economic environment, the Euler Hermes Group took measures to control the growth of its operating expenses, which grew only by 1.8 %.

## Net technical operating expenses

<i>In thousand of euros</i>	<b>S1 2008 YTD</b>	<b>S1 2007 YTD</b>	Variation %
Total gross technical expenses	-399 322	-387 393	3,1%
Service fees	192 850	183 989	4,8%
Expenses net of fees	-206 472	-203 404	1,5%
Gross earned premium	890 770	867 977	2,6%
Reinsurance commission	79 662	93 128	-14,5%
Ceded premium	-215 175	-238 715	-9,9%
Net technical expenses	-126 811	-110 276	15,0%
Net premium	675 595	629 262	7,4%
Gross technical expense ratio	23,2%	23,4%	
Net technical expense ratio	18,8%	17,5%	

After taking into account the insurance-related services, operating expenses increased by 1.4% compared with a 2.6% increase in earned premiums. This explains the 0.2 point improvement in the gross expense ratio.

Reinsurance commissions continued to fall (-14.5%) compared to the same period 2007. This is explained on one hand by less ceded premium, as a consequence of the increase of the retention rate, and on the other hand by the degradation of the claim costs. Indeed, some reinsurance contracts foresee a variable commission according to the level of claims.

The net expenses growth (+15%) being superior to the one of the net earned premium (+7.4 %), the net cost ratio of the first half year 2008 increased slightly (18.8 % vs. 17.5 % in the first half year 2007).

## Ordinary operating income before financial income

Ordinary operating income, excluding financial income, decreased to €114.2 million compared to €222.1million in the same period in 2007. This decrease is mainly due to the increasing claim costs.

<i>In thousand of euros</i>	<b>S1 2008 YTD</b>	<b>S1 2007 YTD</b>	Variation %
Net earned premium	675 595	629 263	7,4%
Claims costs	-430 609	-288 267	49,4%
Net technical expenses	-126 811	-110 276	15,0%
Other ordinary income and charges	-3 940	-8 657	-54,5%
<b>Operating income excluding financial income</b>	<b>114 236</b>	<b>222 063</b>	<b>-48,6%</b>
<b>Combined ratio</b>	<b>82,5%</b>	<b>63,3%</b>	

## Net combined ratio

The net combined ratio after reinsurance came to **82.5%** for the first half year of 2008, up by **19.2** point compared to the same period in 2007. The degradation of the claims ratio by 17.9 points and 1.3 points of higher costs ratio explain this sharp increase.

## Financial market trends

The first half year of 2008 was characterised on one the hand by the continuation of the financial crisis and its consequences on the credit market and on the other hand by the continuous increase of raw materials prices.

The important provisions on the financial sector and the increase of the inflation created a climate of anxiety which urged the investors to reduce strongly their equities exposures.

In that context, the management policy of the financial portfolio of Euler Hermes was very cautious one. The investments on short term deposits had its preference.

## Financial income

<i>In thousand of euros</i>	S1 2008 YTD	S1 2007 YTD	variation %
<b>Income from investment property</b>	<b>3 765</b>	<b>3 616</b>	<b>4,1%</b>
Income from securities-Bonds	38 526	34 224	12,6%
Income from securities-equities	5 754	7 579	-24,1%
<b>Income from securities</b>	<b>44 280</b>	<b>41 803</b>	<b>5,9%</b>
<b>Other financial income</b>	<b>17 861</b>	<b>16 224</b>	<b>10,1%</b>
<b>Investments income</b>	<b>65 906</b>	<b>61 643</b>	<b>6,9%</b>
<b>Investment expenses</b>	<b>(4 669)</b>	<b>(4 647)</b>	<b>0,5%</b>
<b>Net Fx result</b>	<b>(1 638)</b>	<b>4 013</b>	<b>-140,8%</b>
<b>Net gains and losses on sales of investments less</b>	<b>27 634</b>	<b>76 217</b>	<b>-63,7%</b>
<b>Net financial income (excluding financing expense)</b>	<b>87 233</b>	<b>137 229</b>	<b>-36,4%</b>

In a very difficult environment, Euler Hermes managed to generate a financial result of €87.2 million for the first half year of 2008 thanks to the good level of investments income (solid growth of 6.9 % vs. 2007) and to €27.6 million realised gains on equities portfolio during the second quarter 2008.

Compared to the first semester 2007, the financial income is however decreasing by 50 million € as, in 2007 Euler Hermes had benefited from a much more favourable financial environment, which allowed to generate €76.2 million of realised gains.

<i>In thousand of euros</i>	30/06/2008					31/12/2007				
	Amortised cost	Unrealised gain reserv	Net book value	Market value	unrealised gains and losses	Amortised cost	Unrealised gain reserv	Net book value	Market value	unrealised gains and losses
- Shares :	167 693	35 568	203 261	203 261	-	297 844	128 498	426 342	426 342	-
- Bonds :	1 994 353	(32 062)	1 962 291	1 962 291	-	2 209 150	5 749	2 214 899	2 214 884	(15)
- Loans and other investments :	405 705	-	405 705	405 705	-	315 349	-	315 349	315 349	-
<b>Total financial investments</b>	<b>2 567 751</b>	<b>3 506</b>	<b>2 571 257</b>	<b>2 571 257</b>	<b>-</b>	<b>2 822 343</b>	<b>134 247</b>	<b>2 956 590</b>	<b>2 956 575</b>	<b>(15)</b>
<b>Build third party use</b>	<b>-</b>	<b>-</b>	<b>84 145</b>	<b>161 194</b>	<b>77 049</b>	<b>-</b>	<b>-</b>	<b>86 247</b>	<b>162 931</b>	<b>76 684</b>
<b>Cash</b>	<b>-</b>	<b>-</b>	<b>571 967</b>	<b>571 967</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>378 103</b>	<b>378 103</b>	<b>-</b>
<b>Total</b>			<b>3 227 369</b>	<b>3 304 418</b>	<b>77 049</b>			<b>3 420 940</b>	<b>3 497 609</b>	<b>76 669</b>

The market value of the investment portfolio, including cash, has decreased by €193 million. This decline is mainly due to the payment of 2008 dividends to shareholders for a global amount of €218 millions.

If the real estate portfolio remains stable, the equities and bonds portfolios are decreasing by €385 millions in favour of short term cash investments.

The decline of the shares compartment is the consequence on the one hand of the decision of the group to decrease its equities exposure and on the other hand in the decline of the markets which is reflected in the decrease of the unrealised gains reserve.

The decline of the bonds compartment is the consequence:

- On the one hand of the sharp increase in the rates noticed on the first half year of 2008, which resulted in the bond portfolio moving from a position of slight unrealized capital gains to unrealized capital losses of € 32.1 million without engendering risk of impairments.
- On the other hand of the decision of the group Euler Hermes to invest in short-term deposits showing strong yield. These last investments have for direct consequence the €193 million increase of the cash position.

### Ordinary operating income

<i>In thousand of euros</i>	S1 2008 YTD	S1 2007 YTD	Variation %
Technical result	114 236	222 062	-48,6%
Financial income net of expenses	87 233	137 229	-36,4%
<b>Ordinary operating income</b>	<b>201 469</b>	<b>359 291</b>	<b>-43,9%</b>

The degradation of the operating income before financial income and less realised gains explain mainly the decrease of the operating profit which amounts to €201.4 million, down by 43.9 % in comparison with the first half year of 2007.

### Net income, group share

<i>In thousand of euros</i>	S1 2008 YTD	S1 2007 YTD	Variation %
Technical result	114 236	222 062	-48,6%
Financial income net of expenses	87 233	137 229	-36,4%
<b>Ordinary operating income</b>	<b>201 469</b>	<b>359 291</b>	<b>-43,9%</b>
Financing expenses	-7 630	-6 039	26,3%
Income from companies accounted for by equity method	4 124	3 022	36,5%
Corporation tax	-72 955	-122 840	-40,6%
Minority interest	-2 677	-2 248	19,1%
<b>Consolidated net income</b>	<b>122 331</b>	<b>231 185</b>	<b>-47,1%</b>

After financing expense and tax, the consolidated net income of the Group came to 122.3 million €, -47.1% less than in the first six months of 2007.

At 36.9%, the tax rate shows a slight increase in comparison to the first half of 2007.

### Results of Euler Hermes SA

Euler Hermes SA recorded a net income of €222.6 million for the six months to 30<sup>th</sup> June 2008 compared with €134.1 million in the first half year 2007. The increase in income is mainly due to higher dividend income from subsidiaries relative to the same period in 2007.

## Return on equity

### Shareholders' equity, group share

At 30<sup>th</sup> June 2008, shareholders' equity came to 1,846.9 million € compared with 2,058.7 million € the 31<sup>st</sup> December 2007. The table below shows the main changes in shareholders' equity during the period.

(in thousands of euros)	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Other Treasury shares	Total other	Shareholders' equity, group share	Minority interests	Total shareholders' equity
<b>Shareholders' equity at 31 December 2006, IFRS</b>	14 384	448 058	1 368 855	124 910	10 892	(74 713)	(63 821)	1 892 386	19 153	1 911 539
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				(36 821)				(36 821)	(19)	(36 840)
Impact of transferring realised gains and losses to income statement										
Cash flow hedges										
Gain / (loss) taken to shareholders' equity										
Impact of transferring realised profits and losses in the year to income statement										
Impact of transfers on the initial amount of hedges										
Impact of translation differences					(4 816)		(4 816)	(4 816)	14	(4 802)
Current and deferred tax taken directly to or transferred to shareholders' equity										
<b>Net income recognised in shareholders' equity</b>	-	-	-	(36 821)	(4 816)	-	(4 816)	(41 637)	(5)	(41 642)
Net income for the year			231 186					231 186	2 248	233 434
<b>Total revenues and losses recognised for the period</b>	-	-	231 186	(36 821)	(4 816)	-	(4 816)	189 549	2 243	191 792
Capital movements	7	755				4 177	4 177	4 939	-	4 939
Dividend distributions			(174 196)					(174 196)	(2 876)	(177 072)
Shareholders' equity component of share-based payment plans			1 326					1 326		1 326
Cancellation of gains/losses on treasury shares			4 403					4 403		4 403
Other movements			(84)			38	38	(46)	501	455
<b>Shareholders' equity at 30 June 2007, IFRS</b>	14 391	448 813	1 431 490	88 089	6 076	(70 498)	(64 422)	1 918 361	19 021	1 937 382

(in thousands of euros)	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Other Treasury shares	Total other	Shareholders' equity, group share	Minority interests	Total shareholders' equity
<b>Shareholders' equity as at December 31, 2007 - IFRS</b>	14 417	451 332	1 607 947	90 438	(29 821)	(75 572)	(105 393)	2 058 741	19 179	2 077 920
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				(93 743)				(93 743)	(165)	(93 908)
Impact of transferring realised gains and losses to income statement										
Cash flow hedges										
Gain / (loss) taken to shareholders' equity										
Impact of transferring realised profits and losses in the year to income statement										
Impact of transfers on the initial amount of hedges										
Impact of translation differences					(17 259)		(17 259)	(17 259)	122	(17 137)
Current and deferred tax taken directly to or transferred to shareholders' equity										
<b>Net income recognised in shareholders' equity</b>	-	-	-	(93 743)	(17 259)	-	(17 259)	(111 002)	(43)	(111 045)
Net income for the year			122 331					122 331	2 677	125 008
<b>Total revenues and losses recognised for the period</b>	-	-	122 331	(93 743)	(17 259)	-	(17 259)	11 329	2 634	13 963
Capital movements	7	443				(5 866)	(5 866)	(5 416)	-	(5 416)
Dividend distributions			(218 277)					(218 277)	(2 607)	(220 884)
Shareholders' equity component of share-based payment plans			858					858		858
Cancellation of gains/losses on treasury shares			(298)					(298)		(298)
Other movements			2					2	(294)	(292)
<b>Shareholders' equity as at June 30, 2008 - IFRS</b>	14 424	451 775	1 512 563	(3 305)	(47 080)	(81 438)	(128 518)	1 846 939	18 912	1 865 851

Consolidated shareholders' equity, group share decreased by € 211.8 million with regard to the 31<sup>st</sup> December 2007. This decline is explained mainly by the €218.3 million distribution of dividend and to the €93.7 million decrease of the revaluation reserve, these two elements being only partially offset by the net income of 122.3 million €

### ***Return on equity***

Annualised return on equity (calculated as two times the ratio of first-half net income, group share to the average of shareholders' equity at the start of the year and at the end of the year) came to 12.5% at 30<sup>th</sup> June 2008 compared with 24.3% in the first half year 2007.