Report of the Group Management Board

2009

EULER HERMES

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Review of 2009: the Big Recession

2009 will stand out in economic history for the severe contraction in the global economy, unprecedented since the end of World War II (down 2.2% at current exchange rates). The greater part of this contraction occurred in the winter of 2008-2009 when the sudden stop in world trade and drastic slump in activity that followed the financial crisis exceeded even the most pessimistic forecasts, temporarily raising the spectre of the Great Depression. It forced the various national statistics offices to repeatedly revise their quarterly growth forecasts downwards, dragging on 2008 performance (world growth finally revised to 1.9%) but also, and above all, on activity levels at the end of the winter. An upturn admittedly began to take shape during the spring, accompanied over the following months by a gradual rise in commodities prices, particularly oil which climbed back above $75 per barrel towards the end of the year, and a progressive rally by stock markets, in developing countries and above all in emerging countries. In technical terms, the global economy emerged from recession in the second quarter (with GDP growth of a little more than 2% on an annualised basis), thanks mainly to the momentum in Asian countries, particularly China, and to the stop in the economic downturn in some developed countries. The improvement was more marked in the third quarter (with growth of almost 5% on an annualised basis) when developed countries in general returned to growth. Their aggregate GDP, which represents around 66% of world GDP, began to grow again, very moderately (up 0.4% quarter-on-quarter) marking an end to five consecutive quarters of economic contraction. Most of the OECD countries, both in North America (Canada and the United States) and Europe (particularly Italy, Netherlands, Belgium, Austria and Switzerland) followed the path already taken by some of their partners during the previous quarter (Japan, Germany, France and Sweden). The pace of recovery differed significantly, however, from one country to another and there were some outstanding exceptions such as the United Kingdom, Spain and Greece. The economic recovery in developed countries was progressively confirmed in the last part of the year by most monthly economic indicators and surveys but the recovery was nonetheless far from enough to offset the past shock. All in all, GDP of OECD countries contracted by 3.6% for the year as a whole after remaining virtually flat (+0.3%) in 2008. On the whole, the emerging countries, which represent around 30% of global GDP (at current exchange rates) and which have been the main drivers of the acceleration in global economic growth in the recent past (accounting for 57% of the increase in world growth from 2005 to 2007) managed to avoid recession over the full year, thanks to a more precocious and dynamic economic upturn. Their aggregate GDP nonetheless marked a sharp slowdown (with growth of only 0.5% after an annual average of 6.2% from 2000 to 2008) which masks contrasted situations. At one end of the spectrum, there is emerging Asia driven by India and above all by China, which have gradually returned to their pre-crisis annualised growth rates, followed by the Latin American economies, fuelled by a strong rebound in Brazil and an upturn in commodities exports. At the other end of the spectrum, there are the countries most severely affected by the spread of the financial crisis and by the slump in developed countries – Central and Eastern Europe.

Outlook for 2010: a very fragile and contrasted emergence from recession

2010 began with the prospect of a return to economic growth for all but a few countries, but the conditions of a lasting recovery out of the recession aren't yet confirmed. The recovery is closely linked to the stimulus provided by highly expansionary monetary and budgetary policies, particularly in the United States and China, and by a progressive end to destocking. However, these two factors can provide only temporary support as the severe deterioration in public finances has significantly reduced many countries' room for manoeuvre. Their governments are now faced with a difficult but absolutely necessary budgetary consolidation. Above all, domestic growth drivers are likely to remain limited for several quarters yet as the economic contraction in the winter of 2008-2009 has generated significant production overcapacity and severely affected the employment markets, particularly in developed countries, most of which are unlikely to return to pre-crisis activity levels before the end of 2011. This will limit external growth drivers for emerging countries which will increasingly be forced to develop new sources of growth in their domestic markets. The global economic rebound is expected to remain moderate in 2010 (+2.6%) and be slower in the OECD countries (+1.4%) than in the rest of the world (+4.7%).

Trend in corporate insolvencies

Against this backdrop, Euler Hermes' Global Insolvencies Index, which summarises trends in global corporate insolvencies, is expected to post a record rise for the second year running, of around 33% in 2009. The economic and financial crisis had already resulted in a dramatic and unexpected increase in corporate insolvencies in 2008 (revised data show a 26% rise) even though the outlook had already been gloomy at the end of a first half marked by a global slowdown and soaring commodities prices. The intense contraction in global economic activity in the first months of 2009 was accompanied by an unprecedentedly severe deterioration in companies' financial situations and a corresponding increase in their payment difficulties, resulting in a sharp rise in corporate insolvencies despite the various measures of support extended to businesses (tax breaks, sector aid, etc.). The definitive figure for 2009, which will not be known until the second quarter of 2010, is expected to reach its highest levels, in volume terms, in more than a decade in some countries such as Sweden (1996), the United Kingdom (1993) and the United States (1992); it is likely to reach or come close to all-time highs in several other countries such as France, Spain, Netherlands, Belgium, Switzerland, Austria, Finland, Ireland and Portugal. The global economic recovery forecast for 2010 is unlikely to be enough, given the contraction in the winter of 2008-2009, to really restore companies' leeway. Corporate insolvencies are expected to remain at high levels in most countries in the first half and a clear improvement is not expected before the second half. For 2010 as a whole, corporate insolvencies are forecast to rise yet again in Western Europe (+3% after +43% in 2009 and +30% in 2008) but fall, although to still high levels, in the Americas (United States, Canada and Brazil) and in several Asian countries.

Corporate insolvencies of more than €100 million in 2009 (list established at end-October)

Table of the largest corporate insolvencies in 2009 known at end October 2009, identified by Euler Hermes' subsidiaries in the following countries: United States, Canada, Japan, South Korea, Germany, France, Italy, Spain, Belgium, United Kingdom, Austria, Denmark, Czech Republic, Finland and Poland.

EULER HERMES

Countries	Companies	Last turnover known in € million	Sectors	Date of insolvency
Etats-Unis	General Motors Corporation	100458	Automobile	06/09
Etats-Unis	Chrysler LLC	32164	Automobile	04/09
Etats-Unis	Lyondell Chemical Company	19720	Chimie	01/09
Allemagne	Arcandor AG	19400	Commerce de détail	06/09
Etats-Unis	Lear Corporation	9228	Equipementiers automobile	07/09
Canada	Nortel Networks	8026	Télécom	01/09
Allemagne	Qimonda AG	7010	Fab. de tubes et composants électroniques	01/09
Etats-Unis	Visteon Corporation	6490	Equipementiers automobile	05/09
Etats-Unis	Smurfit-Stone Container Corporation	5100	Fab. de papier, carton	01/09
Etats-Unis	Charter Communications Inc	4406	Télécommunications	03/09
Etats-Unis	Aleris International Inc	4080	Métallurgie et première transformation des métaux précieux et des métaux non ferreux	02/09
Japon (*)	K.K. SFCG	2542	Intermédiation financière	02/09
Canada	Canwest Global Communications Corp	2013	Télécom	10/09
Japon (*)	The Japan General Estate Co., Ltd.	1485	Activités immobilières	02/09
Corée du Sud	Ssangyong Motor Co Ltd	1426	Construction de véhicules automobiles	02/09
Royaume-Uni	Camden Group Services ltd	1330	Commerce de détail	04/09
Royaume-Uni	Camden Group Services ltd	1330	Transports terrestres	02/09
Japon (*)	Pacific Holdings Inc.	1230	Intermédiation financière	03/09
Japon (*)	K.K. Joint Corporation	1110	Activités immobilières	05/09
Allemagne	Edscha AG	1108	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs	02/09
Royaume-Uni	Surridge Dawson ltd	1096	Commerces de gros	08/09
Royaume-Uni	Nortel Networks UK ltd	1042	Elevage d'animaux	01/09
Royaume-Uni	Visiocorp plc	996	Construction de véhicules automobiles	03/09
Corée du Sud	Daewoo Logistics	974	Transports maritimes et côtiers	07/09
Royaume-Uni	Dairy Farmers of Britain ltd	888	Télécommunications	06/09
Allemagne	Plastal GmbH	850	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs	03/09
Japon (*)	New City Residence Investment Corporation	818	Intermédiation financière	10/09
Allemagne	DWW Woolworth Deutschland GmbH & Co KG	750	Commerce de détail	04/09
Japon (*)	Pacific Realty Corporation	748	Activités immobilières	03/09
Royaume-Uni	Shelford Trading company ltd	713	Commerces de gros	05/09
Royaume-Uni	Astec International Holdings ltd	700	Fab. de machines et d'appareils électriques	07/09
Royaume-Uni	Monarch Realisations2 ltd	666	Construction	04/09
Royaume-Uni	Waterford Wedgwood uk plc	605	Activités de formation permanente et autres activités d'enseignement	01/09
Japon (*)	Tsukasa Tatemono Kanri Y.K.	594	Activités immobilières	03/09
Japon (*)	Creed Corporation	590	Fab. de machines de bureau, de machines comptables et de matériel de traitement de l'informa	01/09
Allemagne	Escada AG	580	Habillement	08/09
Japon (*)	Spansion Japan K.K.	557	Activités immobilières	02/09
Finlande	Delta-Auto Oy	516	Commerce de véhicules automobiles	09/09
Royaume-Uni	Premier Oil ONS ltd	508	Extraction de pétrole brut et de gaz naturel	01/09
Allemagne	Wilhelm Karmann GmbH	500	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs	04/09
Allemagne	DyStar Textilfarben GmbH	490	Fab. de produits chimiques	09/09
Japon (*)	K.K. Osaka World Trade Center Buliding	483	Activités immobilières	03/09
Espagne	NOZAR S.A.,	467	Activités immobilières	10/09
Italie	ITTIERRE - SOCIETA' PER AZIONI	443	Préparation et teinture des fourrures; confection d'articles en fourrure	02/09
Espagne	Begar Construcciones y Contratas, S.A.	441	Construction	07/09
Allemagne	Kögel Fahrzeugwerke GmbH	440	Fab. de carrosseries pour véhicules automobiles; Fab. de remorques et de semi-remorques	08/09
France	Pôle Keyria (groupe Legris)	427	Fab. de machines de bureau et de matériel de traitement de l'information	10/09
Danemark	Atlas Shipping A/S Under Konkurs	423	Transports maritimes et côtiers	2009
Allemagne	TDMi AG	410	Traitement de données informatiques	07/09
France	groupe RODRIGUEZ-BOAT SERVICE	410	Construction et réparation de navires	04/09
France	NORTEL NETWORKS	369	Télécom	05/09
Danemark	Selskabet af 1. September 2008 A/S Under Konkurs (Roskilde Bank A/S)	349	Intermédiation monétaire	2009
Espagne	Atlantis Servicios nmobiliarios Sociedad Limitada	332	Activités immobilières	01/09
Italie	MAIA DUE S.P.A. IN LIQUIDAZIONE	288	Commerces de gros	01/09
Espagne	Aurigacrown Car Hire,S.L	276	Location de matériel de transport	10/09
France	EURO DISTRIBUTION ALIMENTAIRE (QUELLE)	252	Commerces de gros	03/09
Italie	VINYLS ITALIA S.P.A.	252	Fab. de produits chimiques de base	08/09
Espagne	Grupo DicoObras y Construcciones Sociedad Anónima	240	Construction	04/09
Espagne	Obrum urbanismo y Construcciones Sociedad Anónima	225	Construction	04/09
Corée du Sud	Hyunjin Construction Co LTD	225	Construction	09/09
Espagne	AIFOS ARQUITECTURA Y PROMOCIONES INMOBILIARIAS SA	220	Activités immobilières	07/09
R. Tchèque	Kordárna, a.s.	216	Fab. de textiles	05/09
France	LA SOURCE	200	Commerce de détail	07/09
Italie	GRUPPO CAR S.P.A. "IN LIQUIDAZIONE"	193	Commerce de véhicules automobiles	01/09
Espagne	Leaf Business Holging Spain, SAU	189	Fonderie	09/09
R. Tchèque	Bohemia Crystalex Trading, a.s.	177	Commerce de gros de produits intermédiaires non agricoles, de déchets et débris	01/09
Espagne	Garasa Esñeco, S.A.,	172	Construction	10/09
France	SELECTIVE BEAUTY	170	Commerces de gros	03/09
France	HEULIEZ	168	Fab. de carrosseries pour véhicules automobiles; Fab. de remorques et de semi-remorques	04/09
France	groupe RENCAST	166	Fonderie	03/09
Belgique	Euro-Papier	156	Édition, imprimerie et reprod. de supports enregistrés	06/09
Pologne	PRONOX TECHNOLOGY S A	150	Commerce de gros de machines, équipements et fournitures	10/09
France	S.E.G.	150	Fab. de carrosseries pour véhicules automobiles; Fab. de remorques et de semi-remorques	09/09
Espagne	Castellón Sociedad Anónima	141	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs	03/09
R. Tchèque	Karimpex, a.s.	139	Commerce de détail de carburants pour automobiles	07/09
Autriche	Preding GesmbH	138	Agriculture & industries primaires	04/09
Finlande	Delta Motor Group Oy	128	Commerce de véhicules automobiles	09/09
Italie	CAFFARO CHIMICA S.R.L. - IN LIQUIDAZIONE	126	Fab. de produits chimiques de base	06/09
R. Tchèque	Moravia Energo, a.s.	125	Fab. de gaz; distribution par conduite de combustibles gazeux	03/09
Pologne	MAFLOW POLSKA SP Z O O	124	Fab. d'articles d'habillement autres qu'en fourrure	07/09
Danemark	Sapa A/S Under Konkurs	122	Commerce de gros	2009
Danemark	Netkoncept Service & Facility Managementa/S Under Konkurs	122	Commerce de gros	2009
Italie	PLUS IT - SOCIETA' PER AZIONI	121	Préparation et teinture des fourrures; confection d'articles en fourrure	02/09
Pologne	PPHU DUDA BIS SP Z O O	120	Produits alimentaires	07/09
Italie	C.P.L. IMPERIAL 2 S.P.A.	119	Commerces de gros	02/09
France	NOVACARE	117	Fab. de papier, de carton et d'articles en papier et en carton	10/09
Italie	ELETTRODATA SPA IN LIQUIDAZIONE	115	Prod. de logiciels	09/09
Finlande	J. Kärkkäinen Oy	114	Commerce de détail	08/09
Finlande	Delta Motor Oy	112	Commerce de véhicules automobiles	09/09
R. Tchèque	PA EXPORT, a.s.	108	Commerces de gros	09/09
Italie	CABLELETTRA S.P.A.	108	Fab. de pièces et accessoires pour véhicules automobiles et leurs moteurs	06/09
Autriche	Theresia Häupl GmbH	102	Agriculture & industries primaires	03/09
Danemark	Jeh 53339 A/S Under Konkurs	100	Fab. de produits alimentaires et de boissons	2009
Italie	AVICOLA MARCHIGIANA - SOCIETA'COOPERATIVA IN LIQUIDAZIONE	100	Travail des grains, Fab. de produits amylacés et d'aliments pour animaux	06/09

Hermes' strategy

Euler Hermes' strategy can be divided into three axes in order to cope with the short, medium and long-term challenges:

1) Short-term strategy

Euler Hermes' short-term strategy focuses mainly on protecting its capital base whatever the macroeconomic conditions may be. This strategy becomes even essential in the present conditions, as most developed countries experienced a sharp contraction in economic activity in 2009 and the recovery forecast for 2010 remains vulnerable.

Protecting the capital base focuses on four areas:

a) Adequate management of risk based pricing applied to the commercial portfolio and tight management of the risk portfolio in order to keep the loss ratio below 75%;
b) Strict cost control designed to keep the combined ratio below 100%;
c) A reinsurance cover that protects the capital base by offering adequate assignment of major risks to the reinsurance market, thus limiting the direct impact of a major claim to less than 5% of the group's shareholders' equity;
d) Prudent management of the financial portfolio by giving priority to low risk investments (government bonds, short-term deposits, etc.) with stable returns.

By executing this strategy, exceptional claims excluded, Euler Hermes targets a net profit, even in the recessionary macroeconomic environment of the past two years.

2) Medium-term strategy

Euler Hermes considers that its business is closely linked to global economic cycles consisting of alternating periods of growth and of contraction in activity that can vary in length. Over ten years, Euler Hermes aims to offer its shareholders a return on equity of around 15% based on an average combined ratio of 80% and an average return on its investment portfolio of 4%.

Euler Hermes also aims to reassure its policyholders as to its financial solidity by targeting an S&P rating of at least A+ at any moment of the cycle.

3) Long-term strategy

Euler Hermes' long-term strategy is to develop its core credit insurance business by focusing on four major axes:

a- Very strong leadership in the European market

Europe, including Eastern Europe, is Euler Hermes' core market. Euler Hermes is the market leader in most European countries and remains on the lookout for any opportunity to consolidate its position in the European market.

Euler Hermes' profitability in its core market enables it to invest in new sources of growth outside Europe, in line with its clients' growing needs and in the regions with the most dynamic economies.

b- Significant new sources of growth, notably in the Americas and Asia

The main source of new growth outside Europe is North America, where Euler Hermes builds on a long-term growth strategy through improvement of its geographic coverage by enlargement of its sales network.

South America and Asia are also markets with strong potential where Euler Hermes intends to reinforce its investments in risk management capacity by consolidating its proprietary information databases and developing its risk underwriting capacities and sales networks.

c- Generalising the use of standardised and shared software tools throughout the group.

Euler Hermes began to introduce standardised software tools within the group in the early 2000s when it introduced the IRP application (Information, Risk and Policy management), developed in-house, which facilitates the extensive use of detailed information across the world. This software application has been used by all the group's subsidiaries since 2004.

Each group company is responsible for underwriting decisions for its own account in its geographical area of competence and for arbitrating underwriting requests from sister companies relating to credit risk in its area of regional competence.

Also, the sharing of Best Practices throughout the group continues to be an essential means of increasing productivity at all subsidiaries. In this respect, Euler Hermes has started in 2006 an harmonisation project of its claims handling processes by rolling out a new standard IT tool for claims management. Euler Hermes has also launched a standardisation project of its debt collection processes throughout the group by implementing a new group IT tool which allows to create a better interactivity with the policyholders and also to develop a commercial offer for clients that are not policyholders by using the same IT platform.

In 2008, the reinsurance activity completed the migration of all reinsurance agreements to a shared platform, thus enabling the automation of operating and accounting processes between the various group entities and the reinsurers.

Euler Hermes has also launched a project to harmonise accounting software throughout the group by rolling out SAP at all its main operational entities. At end-2009, all its large European subsidiaries had migrated to this shared platform and the North American subsidiary will migrate to the same platform in 2010.

Euler Hermes plans to modernize in 2010 its commercial management tools. This plan will cover the entire value chain from the prospects, the commercial contracts to the billing of the premiums and exchange of information with the policyholder.

d- A new operational governance structure implemented in 2009, which will accelerate the group's integration at operating level in order to cope with the globalisation of its markets

The Group Management Board has decided to review the group's governance structure, redefining the tasks and objectives. The Group Management Board's members will no longer be responsible for overseeing an individual operating entity but to each member will be assigned a global operational responsibility to be exercised throughout the group. The Group board of management will be composed of five members with the following positions: a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, a Group Head of Sales and Marketing and a Group Head of Risk;

The Group Management Board will be responsible for determining the group's short, medium and long-term strategies and ensuring that the operating entities have the resources needed to implement these strategies at local level.

To ensure that the strategies decided at group level are properly implemented, the Group Management Board has decided to group the local entities in six operating regions, each managed by a regional management team supervised by a Head of Region. Beside, international business is managed through Euler Hermes World Agency.

The Region Heads are members of an extended management board called the Leadership Management Team (LMT) together with the members of the Group Management Board and CEO of Euler Hermes World Agency.

In these LMT meetings, the Group Management Board will discuss the strategy plans determined at central level and validated by the Supervisory Board with the Region Heads. The group Management

Board will communicate on the action plans to be implemented at regional level in order to achieve the targets set in the strategic plans.

This new organisation should accelerate the group's integration and improve its ability to respond efficiently to ever-more rapidly changing market conditions and lead to productivity gains through more standardised and automatic operating processes.

Key events of the period

2009 featured the following significant events:

Changes in the share capital and in share ownership

The Shareholders' General Meeting of May 15, 2009 decided to distribute a dividend of €1.50 per share.

At end-December 2009, the Allianz group owned 30,744,048 shares out of a total of 45,083,210 shares, corresponding to 68.20% of the share capital of Euler Hermes, as a consequence of which Euler Hermes is included in Allianz's consolidation scope.

During 2009, 980 new shares were created by the exercise of options. At end-December 2009, Euler Hermes' share capital was composed of 45,083,210 shares, including 1,567,944 shares held in treasury stock.

Change in the retention rate

The premium retention rate is the ratio of premiums after reinsurance to premiums before reinsurance. This rate dropped from 77.4% at end-December 2008 to 65.6% at end-December 2009. Earned premiums net of reinsurance declined by 19.1% year on year, of which 14.6% was due to the lower retention rate.

SAFIM Factoring dispute

On July 21, 2009, the Appeal Court of Rome rejected the appeal filed by the group's Italian subsidiary, Euler Hermes SIAC, in connection with a long-standing legal dispute initiated by SAFIM Factoring (in liquidation) against Euler Hermes SIAC en 1995.

The Appeal Court's rejection of the appeal filed by the group's Italian subsidiary reopens the appeal procedure initiated by the other party even though EH SIAC had won the first hearing and the risks linked to this dispute had up to now been assessed by the company and its legal advisors as being limited.

The judge has now appointed an expert to assess the potential financial prejudice to SAFIM Factoring. A final decision is not expected before the first half of 2010, but Euler Hermes has initiated a detailed review of the case with its legal advisors in order to reassess the related financial risks. An additional provision of €16 million has been booked in respect of this dispute in the fourth quarter of 2009.

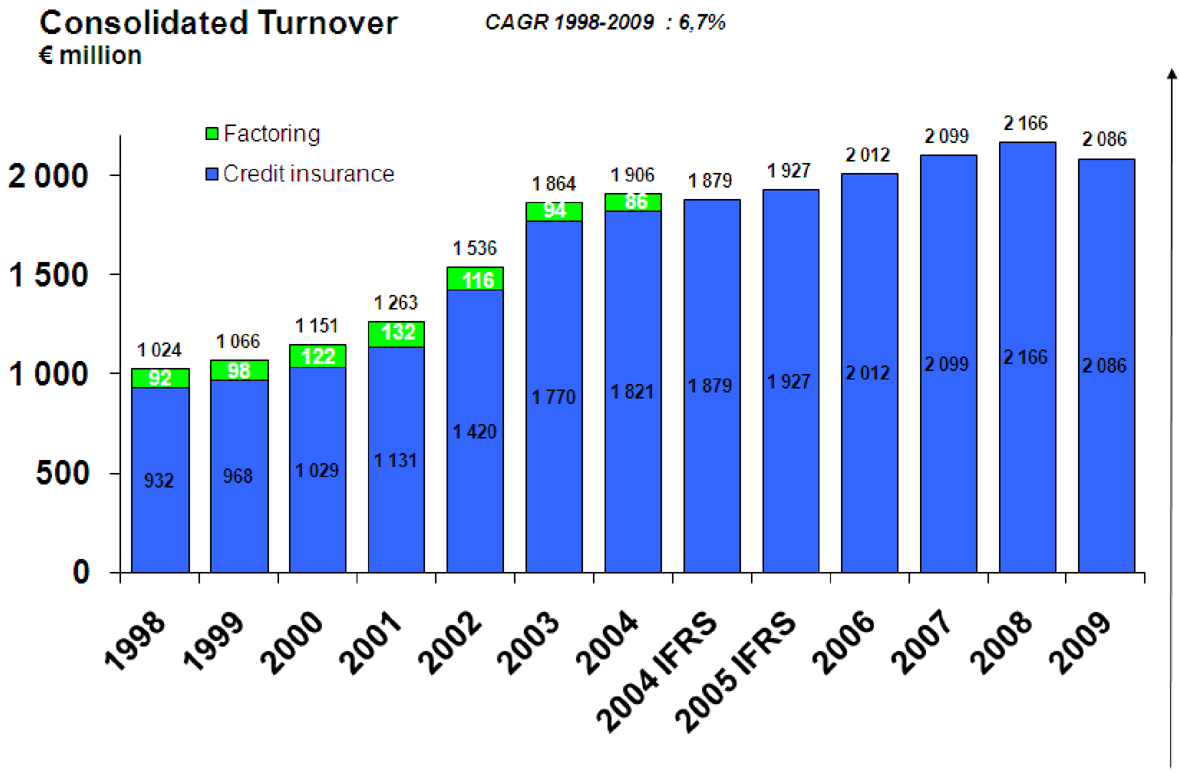
One Euler Hermes

On September 10, 2009, Euler Hermes announced the implementation of the "One Euler Hermes" project with effect from January 1, 2010. This project focuses on implementing the organisational changes needed to create a client-oriented and more efficient group. A key objective is to put in place at all Group entities an organisation that enables them to adapt quickly to new client demands and provide a comprehensive range of solutions.

The new organisation will be in continuity with Euler Hermes' history, business model and corporate values. It is based on two pillars:

- A new governance system and stronger central functions;
- A balanced geographic organisation composed of six regions, each with full responsibilities.

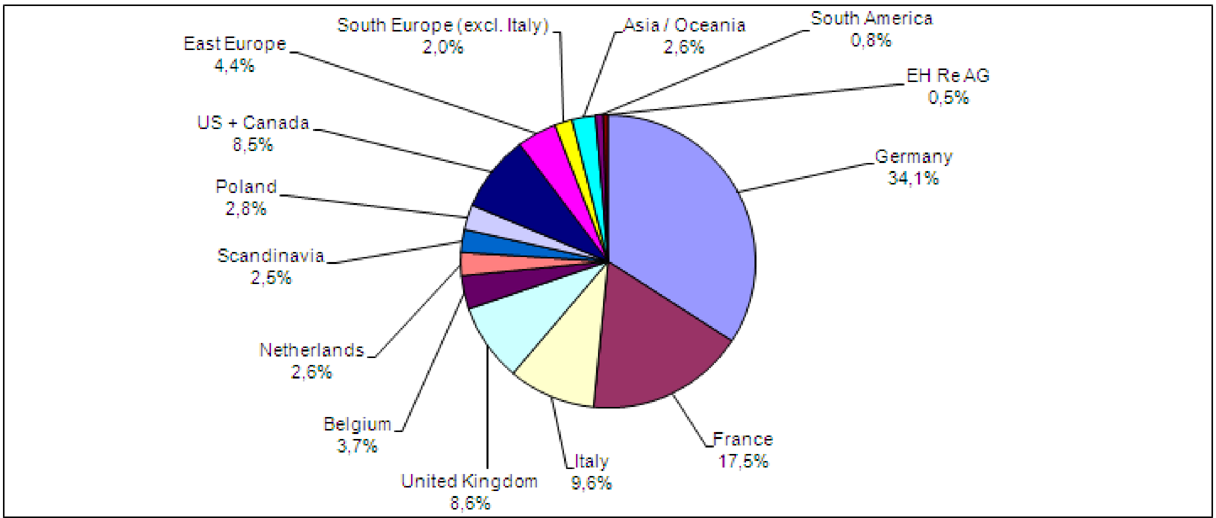
Turnover

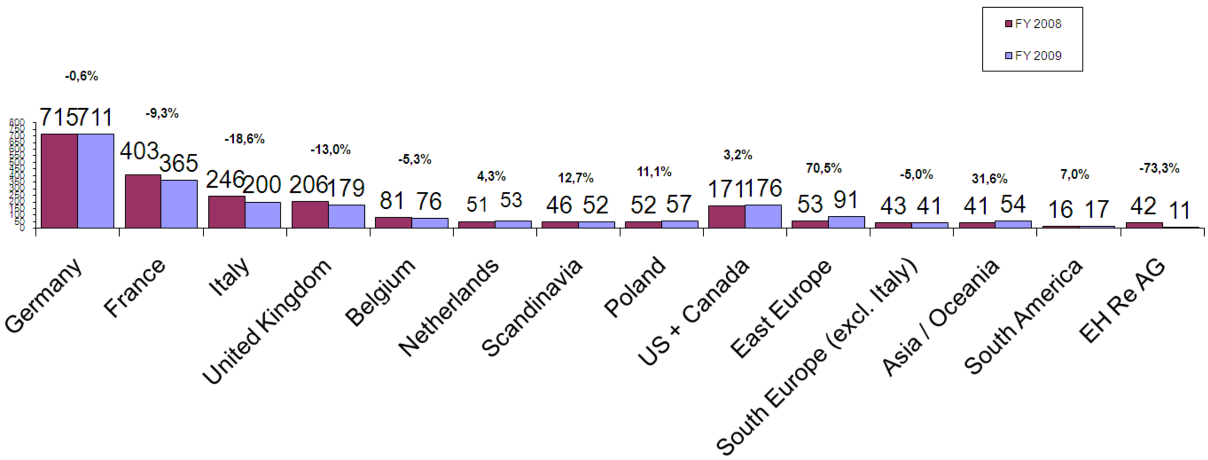


Historical data up to 2004, pro forma figures for 2005.

Turnover for 2009 equals to €2,085.7 million, down by 3.7% compared with €2,166.4 million in 2008.

Geographic analysis of turnover





The chart above is based on 2009 turnover after adjusting for changes in consolidation scope and exchange rates and excluding accounting restatements.

The decline in turnover in 2009 is relatively small given the difficult crisis background. Turnover declined by 2.5% excluding changes in consolidation scope and currency effects.

While turnover continued to grow in new markets, the traditional European and North American markets were faced with a sharp contraction in clients' turnover, which impacted earned premiums volumes. This results in a 3.4% fall in turnover at constant scope and exchange rates.

In most countries, the rises in premium rates did not manage to offset the decrease in premium volume linked to the downturn in policyholders' turnover.

Breakdown of turnover between premium income and related revenues

In € thousands	**2008**	**2008**	Variation in amount	Variation %
Premium	1 694 486	1 773 959	-79 474	-4,5%
Other Revenues	391 226	392 492	-1 266	-0,3%
Total Credit insurance turnover	**2 085 712**	**2 166 451**	**-80 739**	-3,7%

Premiums equals to €1,694 million in 2009, down by 4.5% mainly as the result of the fall in insured sales caused by the difficult economic conditions. Premium-related revenues remained virtually stable, with the rise in debt collection business linked to the higher claims rate offsetting the fall in information services business.

Consolidated results

The loss ratio is defined as the cost of claims relative to earned premiums after deduction of policyholder refunds. The cost ratio is defined as the sum of the contract acquisition expense, administration expense, other underwriting income and expense after deduction of premium-related services, relative to earned premiums after deduction of refunds. Other non-technical income and expense is excluded from the cost ratio (with the exception of buildings used for operations).

Earned premiums

In € thousands	**2009**	**2008**	Variation %
Gross earned premiums	1 694 486	1 773 959	-4,5%
Ceded premiums	-583 325	-400 740	45,6%
Net earned premiums	1 111 161	1 373 220	-19,1%
Cession rate	-34,4%	-22,6%	

Gross earned premiums totalled €1,694.5 million, down 4.5% compared with 2008.

Net earned premiums fell by 19.1% due to the 45.6% increase in premiums ceded. This increase resulted from the group's decision to assign more business to reinsurers from 2009 onwards.

Consequently, the cession rate to reinsurers rate increased significantly in 2009 (by 11.8 points). Of the 19.1% drop in earned premiums net of reinsurance, 14.6% can be attributed to the drop in the retention rate.

Cost of claims

In € thousands	**2009**	**2008**	Variation %
Gross claims costs	-1 276 079	-1 307 430	-2,4%
Ceded claims costs	363 935	234 636	55,1%
Net claim costs	**-912 144**	**-1 072 794**	-15,0%
Gross Claims ratio	**75,3%**	**73,7%**	
Net Claims ratio	**82,1%**	**78,1%**	

The gross claims costs fell by 2.4% in 2009 compared with 2008. The slight improvement (€31.3 million) was the result of two opposing trends, with a relatively good performance in terms of cost of claims for the current attachment year (down 9.5% or €137.5 million) being partly offset by the substantial fall in prior-years run-offs (down by 75.2% or €106.4 million).

Claims ceded to reinsurers increased by a substantial 55.1% as the result of the higher cession rate fixed in the quota shares agreements. The higher cession of claims compared to ceded premiums is explained mainly by the geographic location of the claims and their cession rate to the reinsurance market.

Consequently, 2009 featured a significant fall in the net claims costs, down by €160.7 million or 15.0% relative to 2008**.**

However, as the decrease in the net claims costs was smaller than the drop in net premiums, the net loss ratio for 2009 equals to 82.1%**,** up by 4 points compared with 2008.

Cost of claims for the present attachment year

In € thousands	**2009**	**2008**	Variation %
Gross claims costs current attachment year	-1 311 371	-1 448 875	-9,5%
Ceded claims costs current attachment year	414 612	275 650	50,4%
Net claim costs current attachment year	**-896 760**	**-1 173 225**	-23,6%
Cession rate current attachment year	***32%***	***19%***	

As from 2008 Euler Hermes put in place action plans designed to reduce its loss ratio. The effectiveness of these action plans together with the absence of any major claim in 2009 resulted in a 9.5% reduction in the gross claims amount. It is important to remind that a major claim (Woolworths) had been recorded in 2008 with a gross impact of nearly €59 million on the accounts for the year.

Therefore, despite the drop in gross earned premiums mentioned above, the gross loss ratio for the present attachment year improved by 4.3 points, to 77.4%.

The claims cession rate having increased by 13 points due to reduced retention, the net claims costs for the year was down by 23.6% compared with 2008.

Net liquidation surpluses/deficits

In € thousands	**2009**	**2008**	Variation %
Gross claims costs previous attachment years	35 293	141 445	-75,0%
Ceded claims costs previous attachment years	-50 677	-41 014	23,6%
Net claims costs previous attachment years	**-15 384**	**100 431**	**-115,3%**

Euler Hermes recorded a high decrease of 75% of the gross run-offs from previous attachment years totalling €35.3 million at end-December 2009 compared with €141.5 million at end of December 2008. This decrease is due to the fact that the positive run off booked in Germany, in Italy and France allowed to offset negative run offs registered in Eastern Europe, England and south America due to the higher loss ratio than expected for the 2008 attachment year. In addition, Euler Hermes needed to increase case reserves on Safin case.

Ceded run-offs in 2009 appear disproportionate relative to gross liquidation surpluses mainly because of the non-cession to reinsurers of the reserves linked to the Safim dispute on the one side and the cession of nearly 100% of the recoveries relating to the Parmalat claim on the other side.

After taking reinsurance into account, Euler Hermes recorded a net negative run-off of €15.4 million compared with a surplus of €100.4 million at the end of 2008.

Operating expenses

(in € thousands)	**End of DEC 2009**	**End of DEC 2008**	variation %
Personnal costs	-389 495	-380 688	2,3%
Other expenses linked to personnal	-45 233	-41 247	9,7%
Commissions	-208 690	-225 983	-7,7%
IT expenses	-63 476	-63 224	0,4%
Renting and maintenance expenses	-43 283	-39 225	10,3%
Allowance & amortisation	-31 692	-27 298	16,1%
Legal, advertising & consulting expenses	-30 678	-32 691	-6,2%
Other non recurring expenses	-5 790	17 562	-133,0%
Other recurring expenses	-114 008	-93 719	21,6%
Total expenses by nature	**-932 344**	**-886 512**	**5,2%**
Claims handling expenses allocated	-72 903	-63 479	14,8%
Investment management charges	-10 341	-10 936	-5,4%
Total Gross Expenses	**-849 100**	**-812 097**	**4,6%**

The increase by 5.2% (2.5% excluding non-recurrent items) was the result of opposing trends:
- A limited gross of personnel costs & other linked expenses (3%)
- Commission down by 7.7%, in line with gross earned premium decrease;
- IT expenses virtually flat;
- An increase by more than €4 million of depreciations linked IT software going into production;
- A significant variation of non-recurrent items. Income in 2008 is mainly due to foreign exchange gains booked in technical expenses and reclassified in 2009 in financial income.

Expenses in 2009 are due to the set up of the One Euler Hermes project and to cost related to the capital increase of Euler Hermes RE AG;

- A significant increase of the other recurrent expenses mainly explained on the one side by cost overruns generated by crisis management (information and debt collection expenses) and strong reduction of capitalization of internal costs linked to IT projects on the other side.

In € thousands	**End of DEC 2009**	**End of DEC 2008**	Variation %
Total recurrent expenses	-843 310	-829 660	1,6%
Total non recurrent expenses	-5 790	17 562	-133,0%
Total gross expenses	-849 100	-812 097	4,6%
of which non technical expenses	-12 153	-3 081	
Total gross technical expenses	-836 947	-809 017	3,5%
Service fees	391 226	392 492	-0,3%
Expenses net of fees	-445 721	-416 525	7,0%
Gross earned premium	1 694 486	1 773 959	-4,5%
Reinsurance commission	194 073	154 743	25,4%
Ceded premiums	-583 325	-400 739	45,6%
Net technical expenses	-251 648	-261 782	-3,9%
Net premium	1 111 161	1 373 221	-19,1%
Gross technical expense ratio	26,3%	23,5%	
Net technical expense ratio	22,6%	19,1%	

Despite the difficult economic conditions already described, Euler Hermes managed to limit the growth in operating expenses, excluding non-recurrent items, to 1.6%.

After deduction of premium-related income, expenses net of fees increased by 7%, a figure that should be viewed in the light of the 4.5% drop in earned premiums. This explains the 2.8 points rise in the gross cost ratio.

Reinsurance commissions on quota share treaties rose by 25.4%. The fall in commission rates was more than offset by higher commissions received due to higher ceded premiums to reinsurers.

Despite a 3.9% decrease in net operating expenses, the net cost ratio rose by 3.9 points as a logical result of the fall in net earned premiums (-19.1%).

Ordinary operating income before financial income

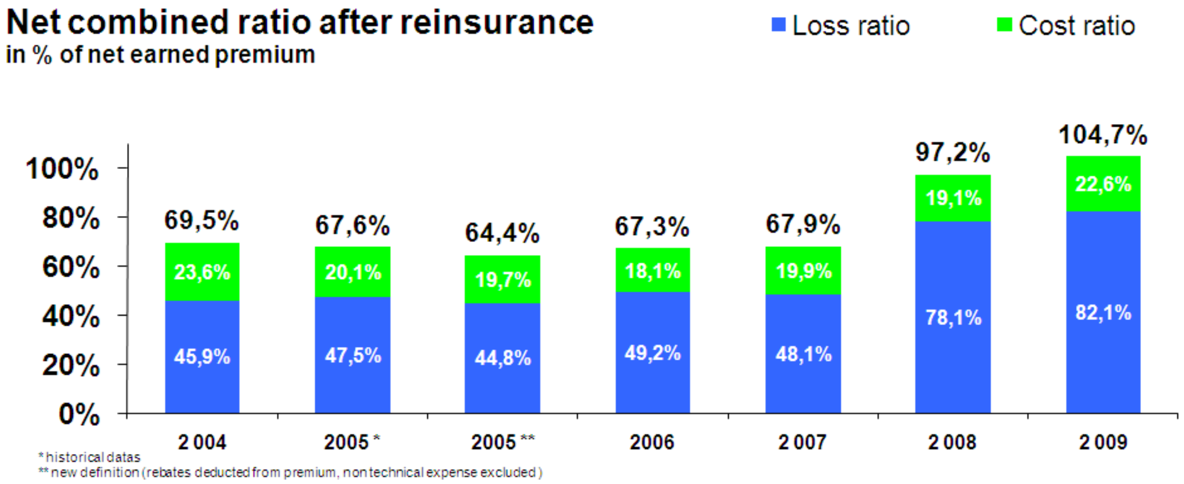
Ordinary operating income before financial income fell by 282.2%, resulting in a loss of €64.8 million. This loss can be attributed mainly to the significant decreases in liquidation surpluses and in net earned premiums, both of which are linked to the severe global economic and financial crisis.

In € thousands	**2009**	**2008**	Variation %
Net earned premium	1 111 161	1 373 220	-19,1%
Net claims costs	-912 144	-1 072 794	-15,0%
Net operating expenses	-251 648	-261 785	-3,9%
Other non techincal charges	-12 153	-3 081	294,5%
Ordinary Operating income excluding financial income	-64 784	35 560	-282,2%
Combined ratio	-104,7%	-97,2%	

Net combined ratio

The net combined ratio after reinsurance equals to 104.7% for 2009, up by 7.5 points compared with 2008.

The rise reflects the increases in both the loss and cost ratios.



Financial markets

2009 was marked by the co-ordinated action taken by governments and central banks to avoid a systemic crisis.

Investors had, at the beginning of the year, feared the financial system could implode.

This fear, following on Lehman's collapse in 2008, triggered a slump in the equity markets that lasted until March. The S&P 500 index fell by 25% over the period.

However, the government and central bank support extended to the banking system to re-launch the interbank market, the substantial economic stimulus packages implemented, the first signs of economic stabilisation and very attractive valuation levels paved the way for an upturn in the financial markets.

Finally, all the equity markets ended 2009 with positive performances, with the euro zone index up 21%, the US index up 23% and the emerging markets index up by 75%.

Other asset classes (corporate bonds and commodities) also benefited from these movements thanks to the zero interest rate policy maintained by the US Federal Reserve and the cuts in key rates implemented by the ECB and Bank of England, to 1% and 0.5% respectively.

This enabled a return to more normal conditions in the interbank markets and the euro zone overnight rate ended 2009 at 0.40% compared with 2.35% a year earlier.

Similarly, risk premiums in the credit market, which had soared to record highs in March when risk aversion was at its height, gradually returned to pre-crisis levels.

In the bond markets, the search for risky assets as from the second quarter enabled loans that had been very adversely affected in 2008 (such as Italian government bonds) to perform well, ending the year with positive performances.
In contrast, rates rose for AAA-rated sovereign issuers, which had been favoured by investors at the end of 2008, mainly on the long term issues.

In the foreign exchange markets, the US dollar rose steadily over the early months of the year, confirming its role as a refuge currency and it gained 9% against the euro to 1.27. Subsequently, as investors regained their confidence, the dollar once again weakened against the euro, dropping to 1.50 before ending the year at a firmer level (1.43) due to the uncertainties linked to the economic situations of Greece, Portugal and Spain.

Lastly, the commodities markets benefited to the full from the abundance of liquidity. The price of oil rose 31.7% to $79.4 per barrel and gold reached a record high at $1,200 per ounce, before dropping back to end the year at $1,091/oz, up 23% for the year as a whole.

Financial income

Against a backdrop of very tense financial markets, the group's financial income came to €148.4 million, thanks in particular to realised capital gains of €71.3 million compared with €16.5 million realized in 2008.

These capital gains, realised mainly on sales of bonds and investment property, offset the fall in investment revenues resulting from the drop in short-term interest rates and higher foreign exchange losses.

In € thousands	2009	2008	Variation %
Income from investment property	**5 741**	**7 159**	**-19,8%**
Income from securities	**74 524**	**86 940**	**-14,3%**
Other financial income	**16 711**	**37 805**	**-55,8%**
Investments income	**96 976**	**131 905**	**-26,5%**
Investment expenses	**(10 341)**	**(10 936)**	**-5,4%**
Net FX result	**(9 525)**	**(4 549)**	**109,4%**
Net gains and losses on sales of investments less impairment and amortisation	**71 300**	**16 521**	**331,6%**
Net financial income (excluding financing expense)	**148 409**	**132 940**	**11,6%**

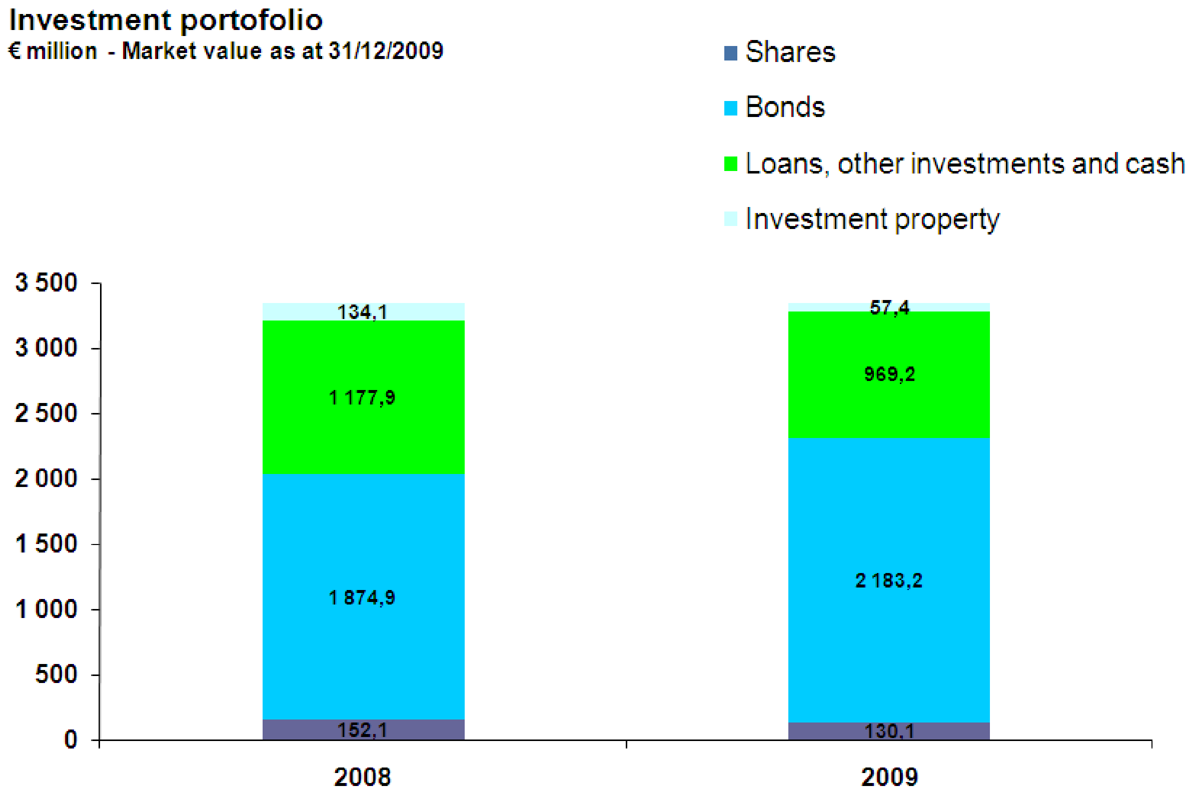
At end-December 2009, the market value of the group's investment portfolio was virtually unchanged (up by €0.8 million) at €3,339.9 million.

Taking into account the capital gains realised (€71.3 million) and the overall evolution of the markets, unrealised capital gains reserves decreased only by €39.2 million to €101.8 million, corresponding to a little more than 3.0% of the investment portfolio.

Despite these difficult conditions, the economic performance of the investment portfolio net of expenses held firm at 4.5% in 2009.

In € thousands

	31/12/2009					31/12/2008				
	Amortised cost	Unrealised gain reserve	Net book value	Market value	unrealised gains and losses	Amortised cost	Unrealised gain reserve	Net book value	Market value	unrealised gains and losses
- Shares :	110 646	19 428	130 074	130 074	-	136 083	16 064	152 147	152 147	-
- Bonds :	2 133 361	49 850	2 183 211	2 183 211	-	1 812 265	62 584	1 874 849	1 874 903	54
- Loans and other investments :	527 450	-	527 450	527 450	-	563 990	-	563 990	563 990	-
Total financial investments	2 771 457	69 278	2 840 735	2 840 735	-	2 512 338	78 648	2 590 986	2 591 040	54
Build third party use	-	-	24 917	57 391	32 474	-	-	71 834	134 139	62 305
Cash	-	-	441 792	441 792	-	-	-	613 907	613 907	-
Total	-	-	3 307 444	3 339 918	32 474			3 276 727	3 339 086	62 359



Ordinary operating income

After including net financial income, ordinary operating income from the credit insurance business amounted to €83.6 million in 2009 compared with €168.5 million in 2008.

In € thousands	2008	2007	Variation %
Technical result	(64 783)	35 561	-282,2%
Financial income net of expenses	148 409	132 940	11,6%
Ordinary operating income	**83 625**	**168 501**	**-50,4%**

Consolidated net income

After interest expense and tax, consolidated net income came to €19 million, down by 77.3% compared with 2008.

In € thousands	2009	2008	Variation %
Ordinary operating income	**83 625**	**168 500**	**-50,4%**
Other non ordinary income and expense	-8 856	0	n/a
Financing expenses	-10 013	-16 089	-37,8%
Income from companies accounted for by equity method	6 644	7 875	-15,6%
Corporation tax	-48 259	-72 196	-33,2%
Minority interest	-4 153	-4 498	-7,7%
Consolidated net income	**18 988**	**83 592**	**-77,3%**

Tax rate	**-67,6%**	**-45,0%**

In 2009, Euler Hermes booked non-recurrent expenses totalling €8.9 million in connection with the restructuring plan implemented at its Italian subsidiary.

The tax rate remained high at 67.6% at end of 2009, penalizing the net income due to significant parent/subsidiary tax rate differentials (mainly in the UK and Switzerland) and special tax situations in the Baltic and Asian branches of EH KV that did not enable the group to record deferred tax assets.

Performance of the group's main geographic segments

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

Germany

This segment includes the direct insurance and reinsurance activities carried out by the German companies in their home market.

In € thousands

	2009	2008	
Earned premiums	637 486	631 949	0,9%
Premium-related revenues	172 103	175 950	-2,2%
Turnover	**809 589**	**807 899**	**0,2%**
Net financial income	53 943	60 782	-11,3%
Total revenues from ordinary activities	**863 532**	**868 681**	**-0,6%**
Insurance services expense	(489 053)	(370 867)	31,9%
Reinsurance and retrocession expense	37 784	(376)	-10148,9%
Other expenses	(335 709)	(306 931)	9,4%
Total other expenses	**(786 978)**	**(678 174)**	**16,0%**
Ordinary operating income	**76 554**	**190 507**	**-59,8%**
Net combined ratio	*95,0%*	*52,8%*	

Turnover remained stable in 2009 for the Germany zone, which was a better performance than that achieved by the group as a whole (-3.7%). This stable performance was attributable to the 0.9% increase in earned premiums, which offset a 2.2% fall in premium-related revenues.

The fall in premium-related revenues was attributable to a decline in information sales and monitoring fees.

The drop in financial income is due essentially to lower interest rate returns on the bond portfolio.

Insurance service expense increased by 31.9% in 2009. This increase reflects the sharp rise in claims for the year, both in terms of number and amount, resulting from the downturn in the global economy, and a 2.3% drop in run-offs.

Reinsurance income increase as the result of the significant increase in claims assigned for the attachment year.

Operating expense increased by 9.4%, due mainly to the higher cost of purchasing information.

Operating income fell sharply, principally as the result of the increase in claims for the year and higher information costs.

Eastern and Northern Europe IDC (International Development Centre)

This segment includes the direct insurance and reinsurance activities carried out in Eastern European (Hungary, Poland, Czech Republic, Romania and Slovakia) and North European countries (Baltic countries, Finland, Sweden, Denmark and Norway).

In € thousands

	2009	2008	
Earned premiums	105 597	99 109	6,5%
Premium-related revenues	48 532	53 055	-8,5%
Turnover	**154 129**	**152 164**	**1,3%**
Net financial income	2 159	3 891	-44,5%
Total revenues from ordinary activities	**156 288**	**156 055**	**0,1%**
Insurance services expense	(148 840)	(81 509)	82,6%
Reinsurance and retrocession expense	55 483	17 640	214,5%
Other expenses	(61 222)	(65 078)	-5,9%
Total other expenses	**(154 579)**	**(128 947)**	**19,9%**
Ordinary operating income	**1 709**	**27 108**	**-93,7%**

Turnover increased by 1.3% in 2009 thanks to strong growth (6.5%) in the insurance business, despite the significant depreciation of local currencies against the euro, which was the main explanation for the fall in premium-related revenues.

The drop in financial income was due mainly to the fall in interest rates on the bond portfolio and to the depreciation of the local currencies against the euro.

Insurance services expense increased strongly in 2009 versus 2008 due to the very severe global downturn which resulted in a significant rise in claims in Eastern and Northern Europe.

The zone posted reinsurance income thanks to a higher cession of claims to reinsurers.

Other expenses decreased, mainly as the result of the fall in services activities which led to a reduction in information purchases.

All in all, ordinary operating income was down sharply, by 93.7%.

Asia/Pacific IDC

This segment includes the services activities carried out by branches based in Asia, Australia and New Zealand.

In € thousands

	2009	2008	
Earned premiums	-	-	-
Premium-related revenues	12 418	16 921	-26,6%
Turnover	**12 418**	**16 921**	**-26,6%**
Net financial income	(663)	-	100,0%
Total revenues from ordinary activities	**11 755**	**16 921**	**-30,5%**
Insurance services expense	-	-	-
Reinsurance and retrocession expense	-	-	-
Other expenses	(9 596)	(17 392)	-44,8%
Total other expenses	**(9 596)**	**(17 392)**	**-44,8%**
Ordinary operating income	**2 159**	**(471)**	**-558,4%**

Turnover from premium-related services fell sharply, by 26.6% or €4.5 million, in 2009. This fall was attributable mainly to the decreases in premium-related revenues recorded in Hong Kong and Singapore, of €2.7 million and €1.5 million respectively.

Premiums, and more generally the insurance business, in Asia, are underwritten directly by EH KV AG and are therefore included in the Germany segment. Earned premiums corresponding to the Asia zone amounted to €42.4 million in 2009, up by 55.3% relative to 2008 (€27.3 million). The net loss ratio was 116.23% in the Asia zone in 2009.

Other expenses fell by 44.8% or €7.8 million, reflecting mainly the fall in information costs linked to the decline in premium-related activities, combined with the cost cutting programs policy implemented by the group.

Ordinary operating income was up by 558.4% to €2.2 million

France & IDC

This segment includes all the activities carried out by the French companies in their home market as well as those carried out in Spain, Morocco and Greece.

In € thousands

	2009	**2008**	
Earned premiums	327 131	363 651	-10,0%
Premium-related revenues	89 144	93 497	-4,7%
Turnover	**416 275**	**457 148**	**-8,9%**
Net financial income	73 204	72 060	1,6%
Total revenues from ordinary activities	**489 479**	**529 208**	**-7,5%**
Insurance services expense	(167 943)	(237 245)	-29,2%
Reinsurance and retrocession expense	(23 547)	14 014	-268,0%
Other expenses	(168 042)	(176 156)	-4,6%
Total other expenses	**(359 532)**	**(399 387)**	**-10,0%**
Ordinary operating income	**129 947**	**129 821**	**0,1%**
Net combined ratio	*79,8%*	*76,6%*	

Turnover declined by 8.9%, reflecting the significant fall in policyholders' insured turnover which was only partly offset by premium rate rises. Premium-related revenues also fell due to a drop in surveillance activities.

Financial income grew slightly relative to the previous year thanks to capital gains on sales of bonds and investment property, which more than offset the lower interest rate returns on the bond portfolio.

The loss ratio dropped substantially compared with 2008, down from 144% to 72% in Spain, from 120% to 41% in Greece and down by 8 points in France. The pace of new claims slowed in the second half thanks to the action plans put in place to reduce the loss ratio and to a slight improvement in the economic conditions.

Operating expenses decreased, reflecting a drop in brokerage fees resulting from the drop in earned premiums and the strict cost control implemented throughout the zone.

Despite the drop in premiums, ordinary operating income before reinsurance was up substantially compared with 2008 thanks to tight cost control and the reduction in claims. Ordinary income after reinsurance was virtually unchanged relative to 2008 due to the impact of reinsurance, which was negative in 2009 and which had been positive in 2008.

Italy

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

In € thousands

	2009	2008	
Earned premiums	161 025	202 353	-20,4%
Premium-related revenues	44 534	49 161	-9,4%
Turnover	**205 559**	**251 514**	**-18,3%**
Net financial income	12 719	9 158	38,9%
Total revenues from ordinary activities	**218 278**	**260 672**	**-16,3%**
Insurance services expense	(85 141)	(203 640)	-58,2%
Reinsurance and retrocession expense	(38 064)	22 332	-270,4%
Other expenses	(92 964)	(107 851)	-13,8%
Total other expenses	**(216 169)**	**(289 159)**	**-25,2%**
Ordinary operating income	**2 109**	**(28 487)**	**-107,4%**
Net combined ratio	*110,6%*	*131,7%*	

Earned premiums fell sharply, by €41.4 million or 20.4%, which was attributable to policy cancellations for €18.6 million, to the decrease in policyholders' insured turnover for €21.3 million and to a drop in new production. Premium-related revenues fell by 9.4% compared with 2008, reflecting a 14.4% drop in limit fees and a 28.5% fall in investigation fees, which were both partially offset by the 28.8% rise in debt collection fees. Turnover as a whole fell by 18.3%, or €45.9 million.

Financial income increased by 38.9% or €3.6 million thanks mainly to the realized gains on bonds' sales in June 2009.

Insurance service expense was down by 58.2% or €118.4 million relative to 2008 thanks to a positive run off of €40.9 million in 2009 (including €20.8 million relating to Parmalat) and to lower number of claims and average claim amounts recorded in 2009 compared to 2008.

The impact of reinsurance turned negative as overall claims situation has improved.

Operating expenses fell by 13.8%, corresponding to savings of €14.9 million, thanks to a €4.7 million decrease in brokerage fees and a €20.1 million decrease in information costs, both being partially offset by increases in acquisition costs (€3.6 million), collection expenses (€3.7 million) and other income (€2.8 million).

The subsidiary booked an additional case reserve of €16 million in respect of the Safim case.

The combined ratio dropped by 21.1 points to 110.6% thanks to the drop in operating expenses and the substantial decrease in insurance service expense.

United Kingdom

This segment includes all the activities carried out by group companies located in the United Kingdom.

Turnover declined by 12.8% in the United Kingdom, reflecting a 12.4% drop in earned premiums and a 16.6% fall in premium-related revenues. At constant exchange rates, turnover was down only by 3.34%.

The fall in earned premiums is essentially attributable to the decline in insured turnover while the fall in premium-related revenues was linked to a decrease in limit fees.

In € thousands

	2009	2008	
Earned premiums	168 585	192 466	-12,4%
Premium-related revenues	18 497	22 173	-16,6%
Turnover	**187 082**	**214 639**	**-12,8%**
Net financial income	7 926	9 519	-16,7%
Total revenues from ordinary activities	**195 008**	**224 158**	**-13,0%**
Insurance services expense	(129 240)	(182 359)	-29,1%
Reinsurance and retrocession expense	(3 265)	29 700	-111,0%
Other expenses	(78 304)	(85 176)	-8,1%
Total other expenses	**(210 809)**	**(237 835)**	**-11,4%**
Ordinary operating income	**(15 801)**	**(13 677)**	**15,5%**
Net combined ratio	*126,7%*	*119,8%*	

The decline in financial income is essentially attributable to low interest rates on financial portfolio and the depreciation of the British pound against the euro.

Insurance services expense decreased by a significant 29.1%. Note that in 2008, Euler Hermes was affected by a major claim (Woolworth), whose gross impact on the financial statements came to nearly €59 million.

The strong decrease in reinsurance and retrocession charges reflects the decrease in claims cession in 2009.

Other income and expense fell by 8.1%. At constant exchange rates, it increased by 1.9%.

The decrease in financial income combined to the negative impact of the reinsurance result explains the 15.5% fall in ordinary operating income.

United States & IDC

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

In € thousands

	2009	2008	
Earned premiums	170 279	163 454	4,2%
Premium-related revenues	28 223	29 562	-4,5%
Turnover	**198 502**	**193 016**	**2,8%**
Net financial income	13 121	5 695	130,4%
Total revenues from ordinary activities	**211 623**	**198 711**	**6,5%**
Insurance services expense	(136 311)	(133 814)	1,9%
Reinsurance and retrocession expense	7 829	14 934	-47,6%
Other expenses	(78 132)	(72 811)	7,3%
Total other expenses	**(206 614)**	**(191 691)**	**7,8%**
Ordinary operating income	**5 009**	**7 020**	**-28,6%**
Net combined ratio	*109,8%*	*98,4%*	

Turnover increased by 2.8% for this segment compared with 2008. The North America zone posted turnover of €179.2 million, up by 4.7% versus 2008. At constant exchange rates, the increase came to only 0.7% as the dollar strengthened slightly against the euro. The South America zone posted a 4.95% increase in turnover to €19.3 million, corresponding to an increase of 13.7% at constant exchange rates.

The very strong 130.4% increase in financial income reflects mainly the capital losses recorded in 2008 and the gain on the sale of US government bonds and treasury bills for €2 million in 2009.

Insurance services expense increased by 1.9%, remaining high in both North and South America given the rise in the number and amounts of claims linked to the severe global downturn suffered in 2008 and 2009.

Loss ratios contrasted sharply, however, between zones. In North America the loss ratio equals to 79.25%, up by 0.05 points compared with 2008, whereas it equals to 115.26% in South America, due mainly to Brazil where the loss ratio reached 168.8% at end-2009.

Net reinsurance and retrocession income fell by 47.6%, reflecting the negative impact of the reinsurance result in 2009.

Other income and charges increased by 7.3% reflecting mainly the rise in brokerage fees in the United States and services expense in Mexico and Canada.

Ordinary operating income was down by 28.6% as the result of the rise in claims and the negative impact of the reinsurance result.

Belgium

This segment includes the activities of the Belgian subsidiaries.

In € thousands

	2009	2008	
Earned premiums	61 374	66 363	-7,5%
Premium-related revenues	18 628	17 052	9,2%
Turnover	**80 002**	**83 415**	**-4,1%**
Net financial income	4 174	3 580	16,6%
Total revenues from ordinary activities	**84 176**	**86 995**	**-3,2%**
Insurance services expense	(72 307)	(62 722)	15,3%
Reinsurance and retrocession expense	5 324	4 644	14,6%
Other expenses	(28 292)	(23 772)	19,0%
Total other expenses	**(95 275)**	**(81 850)**	**16,4%**
Ordinary operating income	**(11 099)**	**5 145**	**-315,7%**
Net combined ratio	*140,3%*	*96,3%*	

Earned premiums fell by 7.5% due mainly to the decrease in insured sales. This drop was partly offset by a 9.2% increase in premium-related revenues, reflecting increased demand for information services and growth in the debt collection business.

The increase in financial income is mainly the result of a €1 million capital gain realised on the sale of bonds.

Insurance services expense increased by 15.3% due to the very severe global downturn which has resulted in an increase in average claim amounts, and to a lesser extent, in their frequency.

The change in net reinsurance and retrocession income reflects the increase in the cost of claims assigned in 2009.

The increase in net other expense is mainly attributable to the higher net running costs in the Retail activity.

Netherlands

This segment includes the activities of the Dutch subsidiaries.

In € thousands

	2009	2008	
Earned premiums	40 793	39 634	2,9%
Premium-related revenues	15 505	14 847	4,4%
Turnover	**56 298**	**54 481**	**3,3%**
Net financial income	1 577	1 308	20,6%
Total revenues from ordinary activities	**57 875**	**55 789**	**3,7%**
Insurance services expense	(25 304)	(20 194)	25,3%
Reinsurance and retrocession expense	(2 814)	(3 076)	-8,5%
Other expenses	(25 758)	(26 523)	-2,9%
Total other expenses	**(53 876)**	**(49 793)**	**8,2%**
Ordinary operating income	**3 999**	**5 996**	**-33,3%**
Net combined ratio	*88,6%*	*76,3%*	

Turnover increased by 3.3%, reflecting a 2.9% increase in premiums combined with a 4.4% increase in premium-related revenues. The growth in earned premiums is attributable to the positive impact of the new sales organisation put in place in 2008. The growth in premium-related revenues reflects an increase of debt collection services.

Financial income increased by 20.6% as the result of realised gains on financial portfolio in 2009.

The higher cost of claims reflects the increased frequency of claims as well as a 25.3% increase in the average claim amount compared with 2008.

Other income and expense fell by 2.9% relative to 2008 thanks to the group's cost reduction policy.

The combined effects of all these factors resulted in a 12.3% increase in the combined ratio up compared with 2008.

Group reinsurance

This segment includes the group reinsurance activities in Luxembourg and Switzerland.

Turnover grew by a substantial 15.4% reflecting the centralisation, since 2008, at the Luxembourg and Swiss subsidiaries of all cession done by group subsidiaries. The biggest part of this turnover is eliminated at group level in the consolidated financial statements.

In € thousands

	2009	**2008**	
Earned premiums	703 153	609 434	15,4%
Premium-related revenues	-	-	0,0%
Turnover	**703 153**	**609 434**	**15,4%**
Net financial income	(2 079)	(3 432)	-39,4%
Total revenues from ordinary activities	**701 074**	**606 002**	**15,7%**
Insurance services expense	(583 401)	(519 771)	12,2%
Reinsurance and retrocession expense	23 633	41 420	-42,9%
Other expenses	(215 410)	(230 821)	-6,7%
Total other expenses	**(775 178)**	**(709 172)**	**9,3%**
Ordinary operating income	**(74 104)**	**(103 170)**	**-28,2%**
Net combined ratio	*130,9%*	*124,9%*	

The 12.2% increase in the cost of claims (which remain high) was due in part to the new reinsurance structure set up at group level in 2008 (the greater part of these charges are subsequently eliminated in the consolidated financial statements) and in part to the increase in claims experienced by nearly all the group's subsidiaries as the result of the very severe deterioration in global economic conditions in 2008 and 2009.

The 42.9% decrease in reinsurance and retrocession expense is attributable to the drop in reinsurance commission rates in 2009 and to the increase in premiums paid in excess of claims in order to improve the group's cover against exceptional risks.

The high level of net other expenses is linked to the new reinsurance structure set up at group level in 2008 (the greater part of these charges are subsequently eliminated in the consolidated financial statements).

Consolidated shareholders' equity and adjusted capital

Consolidated shareholders' equity

At end-December 2009, consolidated shareholders' equity amounted to €1,816.5 million compared with €1,855.3 million at the end of 2008. The table below describes the main changes in shareholders' equity during the year.

(In € thousands)	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Other		Shareholders' equity, group share	Minority interests	Total shareholders' equity
					Translation reserve	Treasury shares			
Shareholders' equity as at December 31.2008 - IFRS	**14 426**	**451 924**	**1 476 216**	**50 279**	**(73 191)**	**(84 697)**	**1 834 957**	**20 328**	**1 855 285**
Available-for-sale assets (AFS)									
Measurement gain / (loss) taken to shareholders' equity				23 936			23 936	(39)	23 897
Impact of transferring realised gains and losses to income statement				(29 207)			(29 207)		(29 207)
Other variations				(1 529)			(1 529)	26	(1 503)
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				20	13 918		13 938		13 938
Current and deferred tax taken directly to or transferred to shareholders' equity									
Net income recognised in shareholders' equity				**(6 779)**	**13 918**		**7 138**	**(13)**	**7 125**
Net income for the year			18 988				18 988	4 153	23 141
Total revenues and losses recognised for the period			**18 988**	**(6 779)**	**13 918**		**26 127**	**4 140**	**30 267**
Capital movements		35				(820)	(785)		(785)
Dividend distributions			(65 274)				(65 274)	(3 712)	(68 986)
Shareholders' equity component of share-based payment plans			444				444		444
Cancellation of gains/losses on treasury shares									
Other movements			310				310	(58)	252
Shareholders' equity as at December 31.2009 - IFRS	**14 426**	**451 959**	**1 430 684**	**43 500**	**(59 273)**	**(85 517)**	**1 795 779**	**20 698**	**1 816 477**

At end-December 2009, Euler Hermes' share capital was composed of 45,083,210 fully paid in shares, including 1,567,944 treasury shares. In accordance with IAS 39, available for sale securities have been restated at fair value through the revaluation reserve without any impact on the income statement. The change in the revaluation reserve for the period came to €6.8 million net of tax. The financial markets recovered in 2009, unlike in 2008 when they fell sharply.

The change in translation differences for the year relates mainly to the US dollar, for a negative impact of €5.3 million, and the British pound, which had a positive impact of €18.6 million.

980 new shares were created as the result of the exercise of stock options in 2009. As a result, the share premium of Euler Hermes SA increased by €0.04 million.

The movement of €0.444 million corresponds to the expenses relating to stock option plans in application of IFRS 2.

Adjusted capital

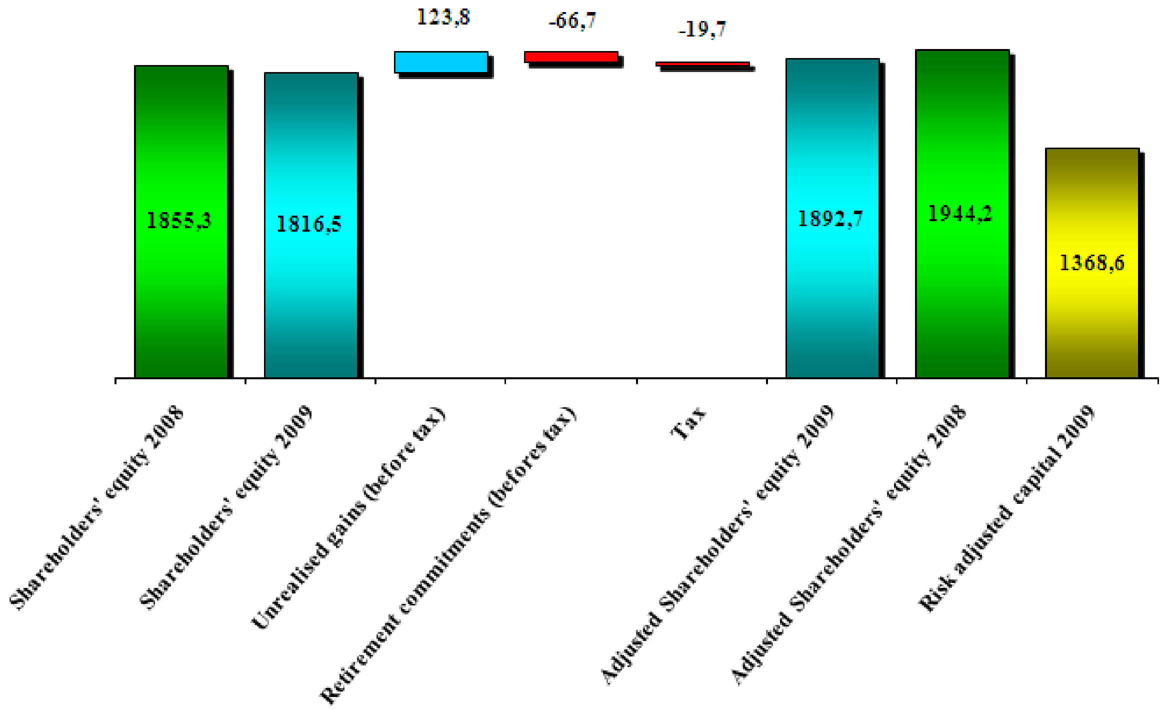
The group's adjusted capital after tax corresponds to its consolidated shareholders' equity after adjusting for the following:

- Unrealised gains on assets not recognised at fair value (mainly investment property and property used in the group's operations),
- Retirement commitments (IAS 19 corridor),
- Tax effect on unrealised capital gains and retirement commitments

Adjusted capital after tax amounted to €1,892.7 million versus €1,944.2 million at end-2008, corresponding to a drop of 2.6%**.** This was the result of:

- The decrease in shareholders' equity resulting from the Group's share of net income being lower in 2009 than the dividend paid out in May 2009.
- A 23.2% decrease in unrealised capital gains, attributable to the decrease in investment property resulting from sales of property, mainly explained by sales.
- A 261.6% increase in non-amortised actuarial differences on retirement commitments.

Adjusted capital after tax 31/12/09
In € million

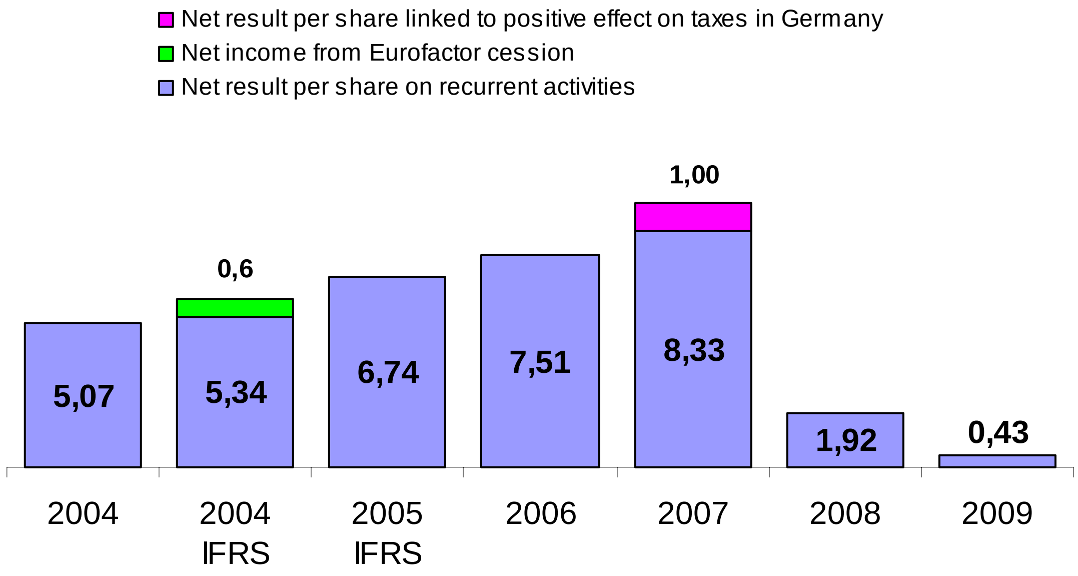


Creation of value for the shareholder

Earnings per share

Earnings per share before dilution came to €0.43 in 2009 versus €1.92 in 2008.

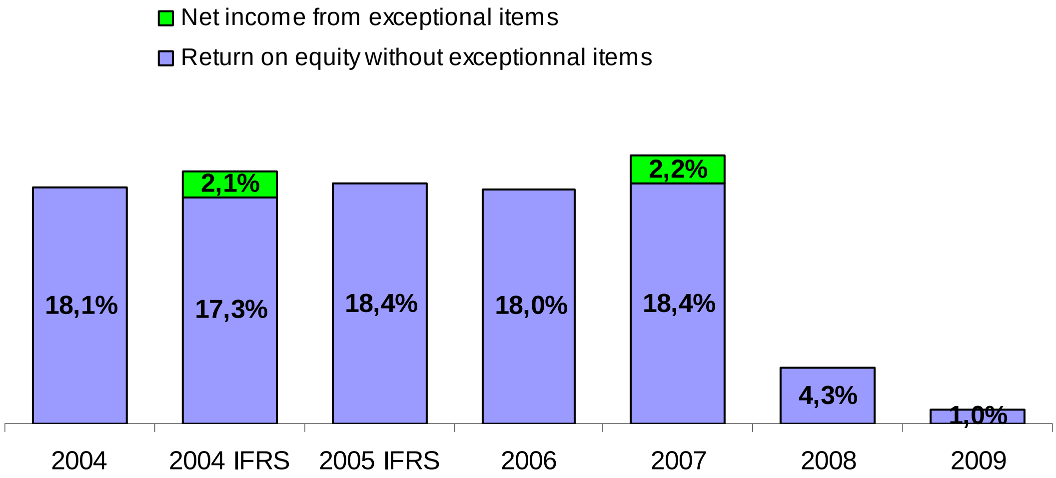
Net result per Euler Hermes share (in euros)



Return on equity

The return on equity in accounting terms[1] equals to 1.05%, down by 3.25 points relative to 2008 at comparable scope and excluding non-recurrent items.

Return on equity
(in %)



[1] Calculated on the basis of net income, group share relative to the average of shareholders' equity (excluding minority interests) at end-December 2008 and end-December 2009.

Return on allocated capital

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

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

Total capital allocated to the business amounted to €1,667.8 million in 2009. The return on allocated capital was 0.8**%,** down by 3.3 points relative to 2008 due to the lower contribution from operating activities. This change resulted from:

- the sharp fall in net income, group share before tax and in financial income,
- the decrease in standardised financial income
- an increase in the effective tax rate.

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

In € thousands	2009	2008	Variation %
Net income, Group share	18 988	83 593	-77,3%
Cancellation of actual financial income	-148 410	-132 940	11,6%
Standardised financial income	125 361	155 533	-19,4%
Opportunity cost of surplus capital	-1 522	-7 164	-78,8%
Cancellation of actual tax	48 261	72 196	-33,2%
Standardised tax	-28 845	-77 117	-62,6%
Operating contribution of activity	**13 833**	**94 101**	**-85,3%**
Allocated capital (based on S&Ps quotation A and not AA)	1 667 767	1 966 433	-15,2%
Return on allocated capital	**0,8%**	**4,8%**	

Activity of Euler Hermes SA

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

Acquisition of subsidiaries and participating interests

En 2009, Euler Hermes subscribed the totality of the capital increases of Euler Hermes Reinsurance AG and Euler Hermes World Agency in amounts of, respectively €119.1 million and €2.8 million.

Sale of subsidiaries and participating interests

In 2009, Euler Hermes sold its entire shareholdings in Euler Hermes Hitelbiztosito Rt and Euler Hermes Magyar Követeléskezelö Kft to Euler Hermes Kreditversicherungs-AG. These sales generated a net capital gain of €0.6 million.

Comments on the results

Net income for the year came to **€171.9** million compared with **€193.5** million in 2008. The table below shows the main components of the company's income:

In thousand of euros	**2009**	**2008**	**Variation %**
Income from participating interests	174 776	233 531	-25,2%
Other net financial expenses	-11 117	-24 822	-55,2%
Net operating expenses	-18 426	-8 641	113,2%
Provision for (-) or writeback of (+) depreciation of treasury shares	26 162	-30 359	-186,2%
Ordinary Income	**171 396**	**169 708**	**1,0%**
Exceptional items	972	-51	-1987,5%
Corporation tax	-492	23 800	-102,1%
Net Income	**171 875**	**193 457**	**-11,2%**

(1) Revenue from investments in associates decreased by €58.8 million.

(2) This heading comprised mainly interest expense on financial debt taken out with associates for €16.2 million, including accrued interest amounting to €1 million, foreign exchange gains for €2.6 million and interest on intra-group loans for €1.6 million.

The 55.2% or €13.7 million decrease relative to 2008 is attributable mainly to a decrease in interest on intra-group loans for €6.7 million, a €3 million provision for impairment of LIP, SAP and RSU in 2008 and lower realised gains on disposals of investment property for €0.9 million.

(3) The €9.8 million increase in net operating expense compared with 2008 is attributable mainly to an increase of the external expense linked mainly to the One EH project and to operating expenses for the IRP system and to the development of the Global Reporting and Collection projects, to less capitalized IT costs than in 2008 (€-3.7million) and to an increase of €1.9 million in payroll related costs.

(4) Non-recurrent items include mainly amounts received in connection with the guarantee of Eurofactor liabilities, in an amount of €0.4 million

(5) Euler Hermes SA also heads the tax group for French companies that are more than 95%-owned. In 2009, the tax group resulted in a surplus of €1.6 million compared with €19.6 million in 2008. The income tax charge came to €1.1 million and deferred tax liabilities came to €1 million.

Dividends

As recommended by the Group Management Board, the Supervisory Board proposes to the General Meeting that no dividend should be paid in cash.

		Proposed allocation of income	2009
Source			
	Retained earning from previous year		171 455
	Net income for the year		18 988
			190 443
Allocation			
	allocation to reserves		
	Legal reserve		0
	Special reserve for long-term capital gains		0
	Proposed dividend :		0
	Retained earnings		190 443
			190 443

The table below shows the dividend per share paid for the past five years.

	2009	2008(1)	2007 (2)	2006 (2)	2005 (2)	2004 (2)
Global amount (in thousands of euros)	0	67 623	225 263	174 193	151 824	103 621
Amount per share before tax credit (3)	0,00 €	1,50 €	5,00 €	4,00 €	3,50€	2,50€
Amount per share after tax	0,00 €	1,50 €	5,00 €	4,00 €	3,50€	2,50€

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

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

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

Outlook

The global economy has experienced a sharp slowdown in growth in all parts of the world since the beginning of 2008, which resulted in an economic recession in North America and Europe in 2009. Euler Hermes is expecting a generalised but weak recovery, as these economies are now faced with major challenges: domestic household consumption depressed by the sharp rise in unemployment, governments faced with strong growth in public debt and which will be forced to make greater efforts to contain the public deficit, thereby reducing the resources available to stimulate GDP growth.

The weak global economic recovery is likely to maintain corporates' high awareness of risks, particularly risks that could affect their cash situations and operating cash flows. This is likely to push them to underwrite credit insurance. These more difficult economic conditions are also likely to favour a better remuneration of risk through higher premium rates but also require Euler Hermes to build closer relations with its policyholders in order to better understand their needs and adjust the risk coverage offered accordingly. Constant dialogue is a key element of Euler Hermes strategy for 2010, with the priority aim of optimising clients' loyalty when their policies come up for renewal.

However, Euler Hermes' premiums are directly linked to policyholders' turnover which tends to stagnate or even decline during recessions. The economic recession has so far resulted in a decline in premiums of 5% in the second quarter of 2009 and of 10% in the second half of the year. Euler Hermes foresees an increase of premiums in the first semester 2010 compared to the second semester 2009, but lower overall premium volume than the one recorded in the first semester of 2009. Depending on the scale of economic growth in 2010, the second half of the year could feature more dynamic premium growth.

The very difficult economic environment in which Euler Hermes is conducting its business requires a risk underwriting policy adapted to the circumstances. The group has put in place a permanent risk monitoring programme for its portfolio, with specific monitoring plans for large and small risks. Euler Hermes' objective is to avoid any deterioration in the quality of its portfolio so as to limit the negative impact of the sharp rise in corporate insolvencies in all the major economies. This proactive risk management enabled Euler Hermes to avoid major claims in 2009 and benefit from a progressive improvement in the loss ratio throughout the year, with a loss ratio of 70% for the fourth quarter of 2009; which enabled it to generate a positive underwriting result. Our goal for 2010 is to consolidate the improvement in underwriting results achieved in recent quarters and bring the combined ratio for 2010 to below 100%.

Reinsurance continues to be an essential tool for managing Euler Hermes risk capital requirements. At the end of 2008, confronted with a strong rise in the loss ratio, Euler Hermes decided it was appropriate to increase external cession to reinsurers and therefore decided to lower the retention rate from 78% to 70% in 2009. The group had also decided to improve its major claims risk cover by reducing the impact of a major claim to a maximum of between €80 million and €90 million of its net technical result compared with €110 million in 2008.

Given the present uncertain macroeconomic environment, the group has decided to leave its reinsurance policy unchanged, maintaining a retention rate of 70% for its credit insurance business line and keeping cover against major risks at more and less €100 million in 2010, slightly higher than in 2009.

The new reinsurance cover will allow limiting risk capital requirements to €1.5 billion in 2010 to be compared to net equity of €1,816 million at the end of 2009.

The establishment of the reinsurance cover in 2010 was nonetheless accompanied by higher excess of loss premiums and a decline of the minimum variable reinsurance commissions paid by the reinsurers on premiums ceded by Euler Hermes through quota-share treaties. The additional cost of the reinsurance program of 2010 compared to 2009 can be estimated at €20 million.

The group intends to continue to harmonise its IT tools so as to improve service quality, maintain its competitive edge and keep costs under control.

Euler Hermes will also pursue its prudent investment portfolio management policy. It significantly reduced its exposure to equities in 2007 and 2008 and does not intend to increase exposure to equities in the short term. The group expects the bond portfolio to be the main contributor for its financial income in 2010 but expects a substantial decrease of realised capital gains in 2010, compared to €71.3 million realized gains in 2009, representing 48.4% of net financial income.

Euler Hermes intends to pursue its international expansion by continuing to invest in new economic powers (China and India, but also Russia) and in regional leaders, such as Turkey, Israel, Brazil and Argentina, in order to accompany its clients' development.

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

The group has confidence in its strategy. Euler Hermes has a strong financial structure and efficient management tools that should enable it to emerge from the crisis in a strong position. The uncertain macroeconomic outlook makes it difficult to set precise financial targets, but Euler Hermes' internal goal is to keep the combined ratio below 100%, providing it does not experience a major claim with an impact of more than €100 million