

News Release

MARKET SENSITIVE INFORMATION
15 August 2008

Euler Hermes UK Cash Flow & Profit Report Q2 2008

UK companies register sharpest fall in profitability in nearly 10 years.

Key points:

- Profits down at survey record pace.
- Growth of free cash flow weakest for almost 3 years.
- Increase in payment delays the sharpest for eleven years.

Summary

Further depressing news on the health of the UK economy was signalled by the latest survey data, with profitability declining steeply and cash flow increasing only modestly in nominal terms during Q2 2008. The Euler Hermes UK Cash Flow & Profit Report showed that tighter credit conditions, surging costs and deteriorating demand – particularly at home – served to undermine the performance of UK companies.

In line with the worsening economic climate, payment delays from clients continued to increase, rising at their fastest rate in nearly eleven years of data collection.

Profits hit hard by rising costs

The Q2 survey showed that profits contracted at their strongest rate in nearly ten years, and extended the current period of falling margins to three successive quarters. Surging costs were the principal issue facing companies, with increased raw material prices the biggest depressor of profits, while higher labour costs also served to hit margins hard.

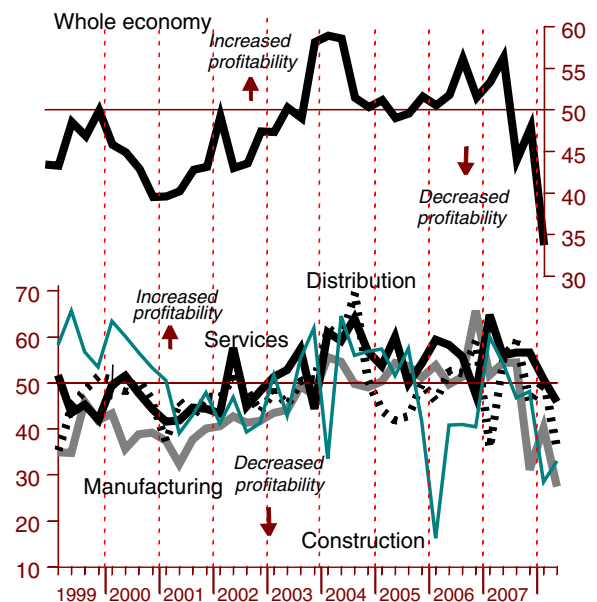
Price discounting was also seen as a key contributor to deteriorating profits, as companies tried (largely in vain) to stimulate demand and raise revenues. Companies implied that business sourced from the UK was poor – in line with the recent falls in sentiment and the adverse effects on spending levels of surging costs. Domestic demand

was cited as the fourth largest depressor of profitability during Q2.

Sterling was noted as another factor hurting profits in the second quarter, as it continued to raise the price of imports (in relative terms), although it did help to partly cushion weaker demand in export markets. While overseas demand had an overall negative impact on profitability, it was only modest and the weakest of all eight influences measured by the survey.

The Euler Hermes UK Profits Index

Indices, 50=no change on previous quarter



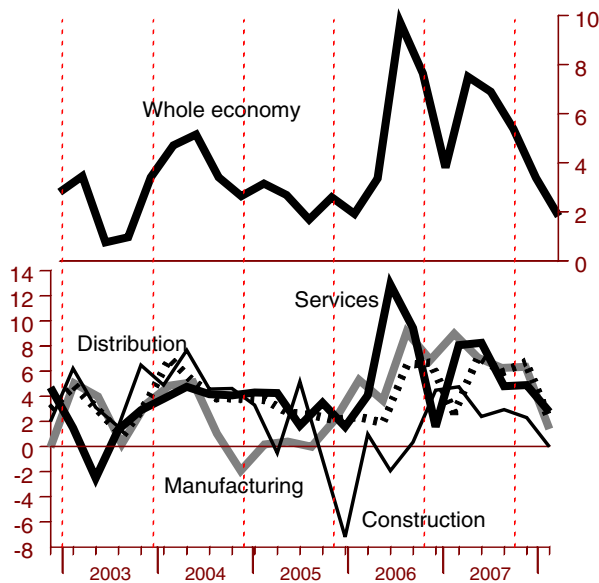
Free cash flow fell in real terms

Companies on average reported only a modest increase in free cash flow compared to twelve months' ago, with the rise the smallest in almost three years.

Latest data showed that, on average, free cash flow rose by just 1.8% – and with a retail price index reading of 4.6% in June, free cash flow actually fell in real terms.

Tight trading conditions and increasing payment delays were widely reported to have hit cash flow in the latest survey period. Data showed a further increase in the incidence of late payments, both from domestic and foreign companies, amid reports that clients were struggling in the face of sharply rising costs and the difficult economic climate. Payment delays from UK customers actually increased at the sharpest rate in nearly eleven years of data collection.

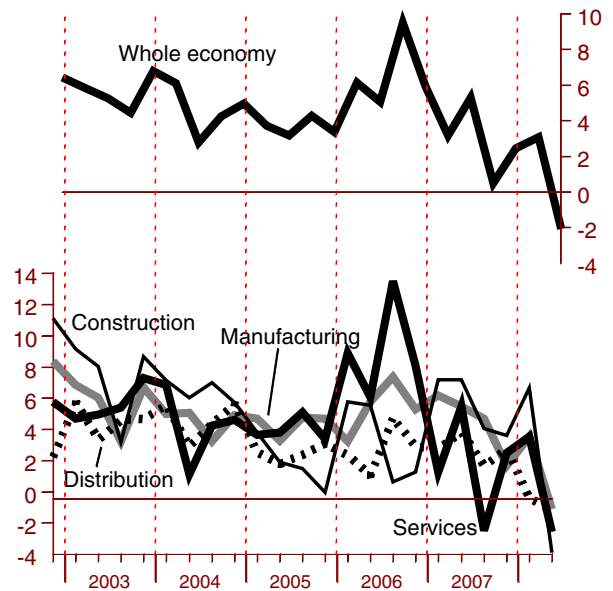
Cash Flow Index - Actual
% change over past twelve months



Outlook negative for coming year

Q2's survey showed that expectations for free cash flow were broadly negative, with companies on average expecting a fall of 2.1% in twelve months' time – the first negative forecast in nearly six years of data collection. Companies expect the economic climate to remain tough and payment delays to continue.

Cash Flow Index - Forecast
% change over next twelve months



Comment:

Commenting, Fabrice Desnos, Chief Executive Officer, at Euler Hermes UK said:

"Yet more poor news on the UK economy. The latest data suggested that UK plc is, not surprisingly given the lethal cocktail of stagnant activity and rising costs, suffering markedly, registering the greatest fall in profitability in at least nine-and-a-half years."

"Not surprisingly cost pressures had the biggest negative impact on profitability, although highlighting the increasingly fragile nature of the economy, domestic demand also had a strong negative impact on profits."

"Moreover, latest data showed a cut in real terms of free cash flow, as payment delays become more common in an increasingly difficult operating climate."

-Ends-

The Euler Hermes UK Profits Index

Index 50 = no change on previous quarter / year

	2006	2007	Q4 2007	Q1 2008	Q1 2008
All companies	52.6	51.3	44.0	47.9	33.8
Services	55.3	58.6	56.6	50.8	46.0
Manufacturing	55.2	48.0	31.2	40.3	27.5
Distribution	52.5	49.1	45.6	50.5	35.5
Construction	34.7	52.4	48.2	28.6	33.0

Cash Flow at Q2 2008

Average % change in cash flow over:

	past 12 months	next 12 months
All companies	1.8%	-2.1%
Services	2.8%	-2.6%
Manufacturing	3.2%	-1.1%
Distribution	-1.9%	-1.1%
Construction	0.0%	-3.9%

Payments: average number days late:

	2006	2007	Q4 2007	Q1 2008	Q2 2008
from UK customers	22	22	25	23	25
from overseas	24	24	24	20	21

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Notes to Editors:

The Euler Hermes UK Quarterly Cash Flow & Profit Report is a survey of financial trends based on questionnaire responses from financial directors or persons in similar roles in around 300 UK based companies. The panel of companies is carefully monitored to accurately reflect the true structure of the UK private sector economy, covering manufacturing, services, construction and distribution (retail and wholesale).

The survey is designed to provide a unique insight into cash flow and profitability trends and thereby fills a gap in the existing financial and economic data available to business decision makers and economic policy makers.

About Euler Hermes

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000 employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and **posted a consolidated turnover of €2.1 billion in 2007.**

Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €800 billion.

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

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Markit is a leading provider of independent data, portfolio valuations and OTC derivatives trade processing to the global financial markets. The company receives daily data contributions from 90 dealing firms, and its services are used by almost 1,000 institutions to enhance trading operations, reduce risk and manage compliance.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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