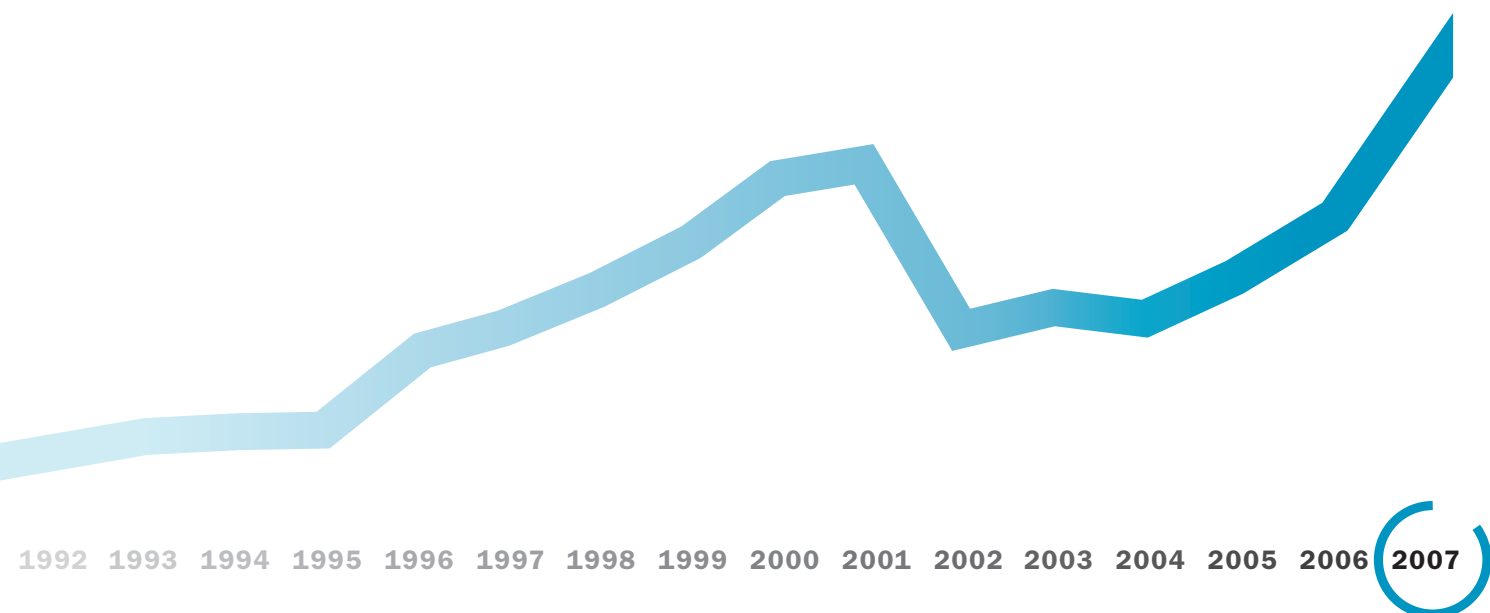
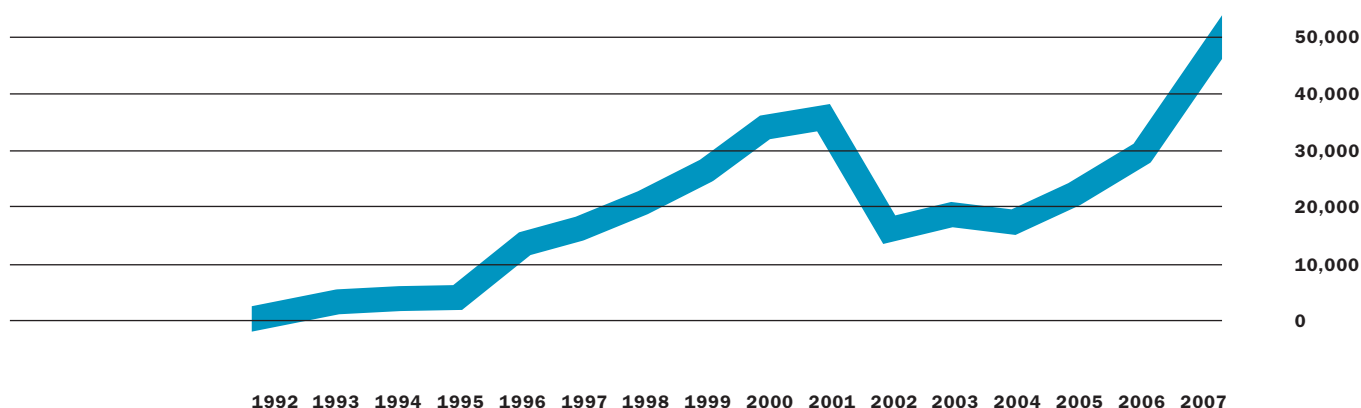


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CYCLICAL DEVELOPMENT IN VALUES OF NEW BUSINESS TRANSACTIONS IN EGAP'S STATE-SUPPORTED INSURANCE

NEWLY CONCLUDED CONTRACTS 1992–2007 (IN CZK MILLION)
THE CYCLICAL DEVELOPMENT



The curve reflects the cyclical development of values of newly concluded EGAP state-supported insurance contracts which is also typical for other credit insurance companies in developed OECD countries. The results in individual years have been significantly influenced by the success of Czech exporters in concluding several large contracts supported by long-term export credit insurance; their preparation usually takes several years. Final realisation of such transactions culminated in two peaks in the history of EGAP when favourable trends in demand on foreign markets met potential of Czech companies to succeed in demanding international competition. The year 2007 was the second such peak when EGAP achieved the best results ever as a consequence of the extensive exports, primarily to Russia and other CIS countries. The lowered demand brought about by the recent turbulence in the international financial markets in combination with the fully charged capacities of the majority of Czech exporters will probably lead to a repeated decline of the curve.

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WE HAVE BEEN 15 YEARS OLD

Last year it was 15 years since the moment we started the renaissance of credit insurance in our country. On this occasion, we invited to Prague top representatives of European state and private credit insurance companies and a number of other experts both from home and from abroad; the reason



was not to cast our minds back but to exchange opinions on further development of credit insurance on the threshold of the 21st century. It was a very useful informal exchange of views and for us it was a unique opportunity to contrast our thinking with the often very original and unconventional opinions and ideas of our European colleagues based on a deep-rooted experience and on theoretical and practical knowledge. I, for one, am confident that each of the participants took home a lot of interesting observations, as well as inspiration from this get-together. During the 15 years of EGAP's existence, much has happened. Economic settings and needs of our exporters changed quickly and we changed as quickly as well. The number of insurance products grew and there was also an increase in the value of insured export credits, bank guarantees and investments; they coincidentally reached a record sum of CZK 50 billion just last year. We have never before achieved such a volume in state-supported insurance. Several facts left their signature on it. Apart from the increasing export appetite of Czech exporters,



it was primarily the result the completion of negotiations regarding the financing and insuring of a number of large exports; each of which represented more than CZK 1 billion. A similar concentration in the finalisation of a number of large transactions which usually have a preparation time of several years were recorded in the years 2000 and 2001. They were followed by a period of rather smaller insurance contracts which did not significantly influence the total results. That is why we can expect such “natural” cyclical developments to repeat themselves and that a substantial growth in the insured volumes resulting from a larger number of realised large-scale exports shall only appear again after several years.

Last year was significant for us from another perspective as well. A majority strategic partner entered our Commercial Credit Insurance Company EGAP subsidiary. One very important chapter of our 15-year history had been finalised. At the beginning of the nineties, responding to interests of our exporters, we restored and further developed insurance of short-term receivables as an activity complementary to state-supported insurance. We firmly believe that our subsidiary is in good hands and its new owners will be an important impetus for further development of commercial credit insurance in our country.

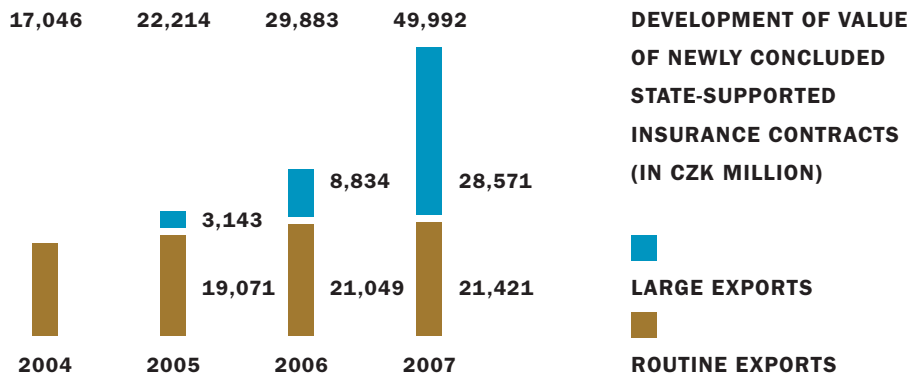
I would also like to mention an international award we received for our activities in relation to the cement factory construction project in Kazakhstan: Deal of the Year 2007 was bestowed independently by 2 influential and prestigious magazines, Global Trade Review and Trade Finance. The award was given, among others, for quickness and flexibility in insurance negotiations. We use this kind of recognition to inspire us in our future work.

Pavol Parížek, CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

EGAP IN NUMBERS

In 2007, we concluded under the state support scheme 364 new insurance contracts with a total value of CZK 50 billion. Almost three fifths of them were constituted by insurance contracts for large exports – projects with a value exceeding CZK 1 billion each have been classified as large.

Modernisation of FGUP
Uralvagonzavod in
Russian Federation
Supplier: ALTA, a.s.
Insured value: CZK 7.8 billion

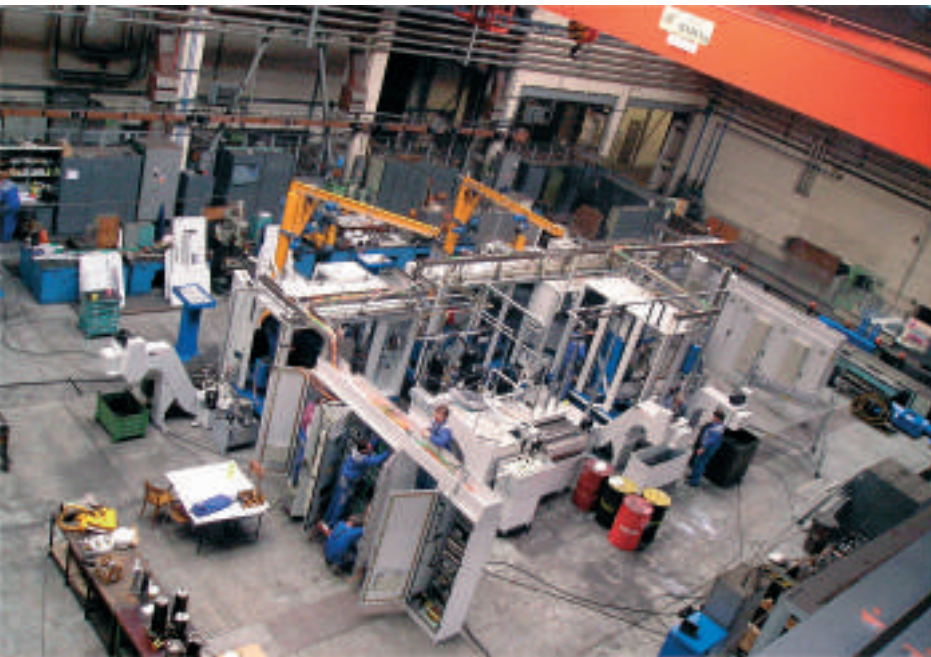


The result attained has represented an annual growth of 67.3%. When recalculated in €, the annual growth rate exceeded 70% and in USD as much as 86%.

As a result of the multiplier effect, state-supported insurance assisted Czech exports in the amount of almost CZK 98 billion in 2007.

We paid CZK 589 million in claims, primarily in connection with large insurance losses in pre-export financing and further from exports to Russia and Serbia from previous years.

Only a minor part fell on new insurance losses because we already succeeded in preventing a large number of those



losses during the waiting period. In aggregate, we prevented losses amounting to CZK 54 million and recovered claims worth CZK 193 million.

The net profit of CZK 906 million, one-half of which was from extraordinary receipts from the sale of the share in the subsidiary, makes it possible for us to continue to comply with international rules in long-term balanced operation without requirements for budget subsidies. The last time EGAP received a budget subsidy was in 2000 and since then it has been

covering its outstanding commitments as well as all expenses from own resources only.

For the whole duration of 2007, credits with the total value of almost CZK 128 billion were insured in commercial credit insurance for short-term export and domestic receivables which has, for the second year, been offered by Commercial Credit Insurance Company EGAP (KUP). KUP paid claims of CZK 133 million, recovered receivables worth CZK 41 million and prevented losses valued at CZK 287 million.

Volume of all credits newly insured by EGAP and KUP reached a so-far record total of almost CZK 178 billion in 2007 and grew by 12.5% in comparison with the previous year. For the whole period of its activities in the years 1992–2007, EGAP insured, together with KUP, credits exceeding CZK 1,000 billion, of which approximately $\frac{1}{3}$ fell on state-supported insurance.



Export of equipment for paper production for
OOO Majak-Technocell in
Bashkortostan, Russian Federation
Supplier:
PAPCEL, a.s.
Insured value:
CZK 0.5 billion

BASIC INDICATORS OF BUSINESS ACTIVITIES OF EGAP (IN CZK MILLION)¹

	2004	2005 ²	2006 ³	2007 ³
1. VOLUME OF NEWLY INSURED CREDITS	102,063	122,869	29,883	49,992
OF WHICH:				
STATE-SUPPORTED INSURANCE	17,046	22,214	29,883	49,992
COMMERCIAL INSURANCE	85,017	100,655	[128,079]	[127,638]
2. GROSS WRITTEN PREMIUM	559	563	911	1,381
OF WHICH:				
STATE-SUPPORTED INSURANCE	281	274	911	1,381
COMMERCIAL INSURANCE	278	289	[306]	[270]
3. CLAIMS PAID	850	713	471	589
OF WHICH:				
STATE-SUPPORTED INSURANCE	739	603	471	589
COMMERCIAL INSURANCE	111	110	[164]	[133]
4. DEBTS RECOVERED	470	205	39	193
OF WHICH:				
STATE-SUPPORTED INSURANCE	452	181	39	193
COMMERCIAL INSURANCE	18	24	[23]	[41]

¹In order to allow for international comparisons, the following exchange rates shall be used:
Average exchange rates for 2007 for flow data: EUR 1 = CZK 27.762, USD 1 = CZK 20.308
Exchange rate as at Dec 31, 2007 for stock data: EUR 1 = CZK 26.620, USD1 = CZK 18.078

²Data for commercial insurance for 2005 includes data for KUP for the period October-December 2005

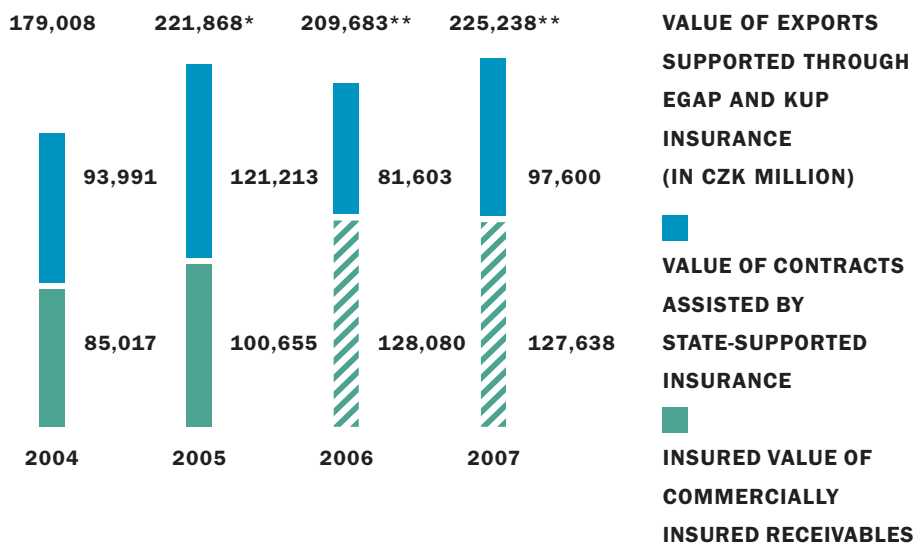
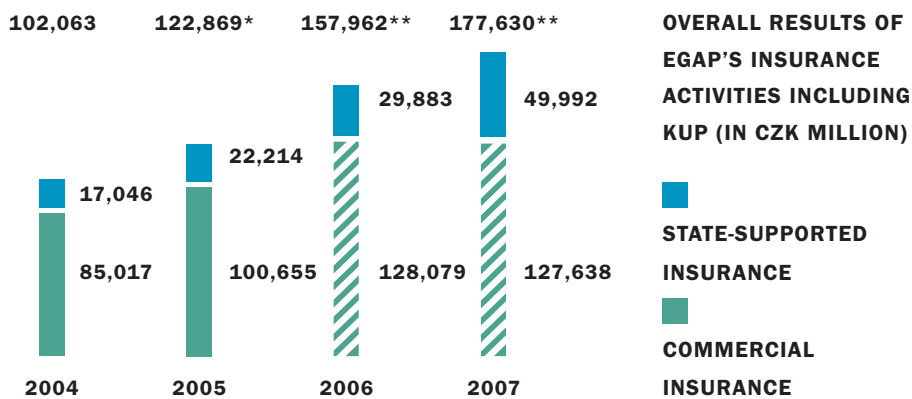
³Results of KUP for 2006 and 2007 are in brackets (they have not been included in the overall results of EGAP).



RESULT OF EGAP'S BUSINESS ACTIVITIES (IN CZK MILLION)

	2004*	2005 *	2006	2007
BALANCE OF THE TECHNICAL ACCOUNT	11	(594)	721	174
BALANCE OF THE NON-TECHNICAL ACCOUNT	764	553	78	732
BUSINESS RESULTS	775	(41)	799	906

*in 2004 and 2005 including commercial insurance: in 2005, EGAP offered commercial insurance until 30 September 2005 only; after this date it was provided independently by KUP.



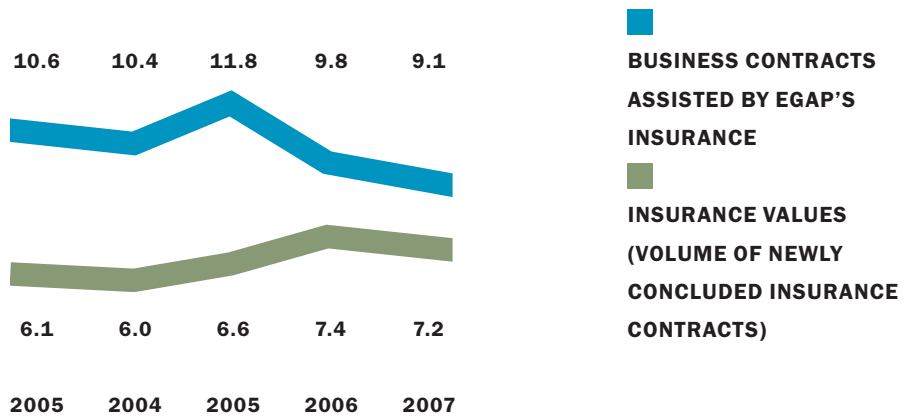
*including results of KUP for the period October–December 2005

**including results of KUP for 2006 and 2007

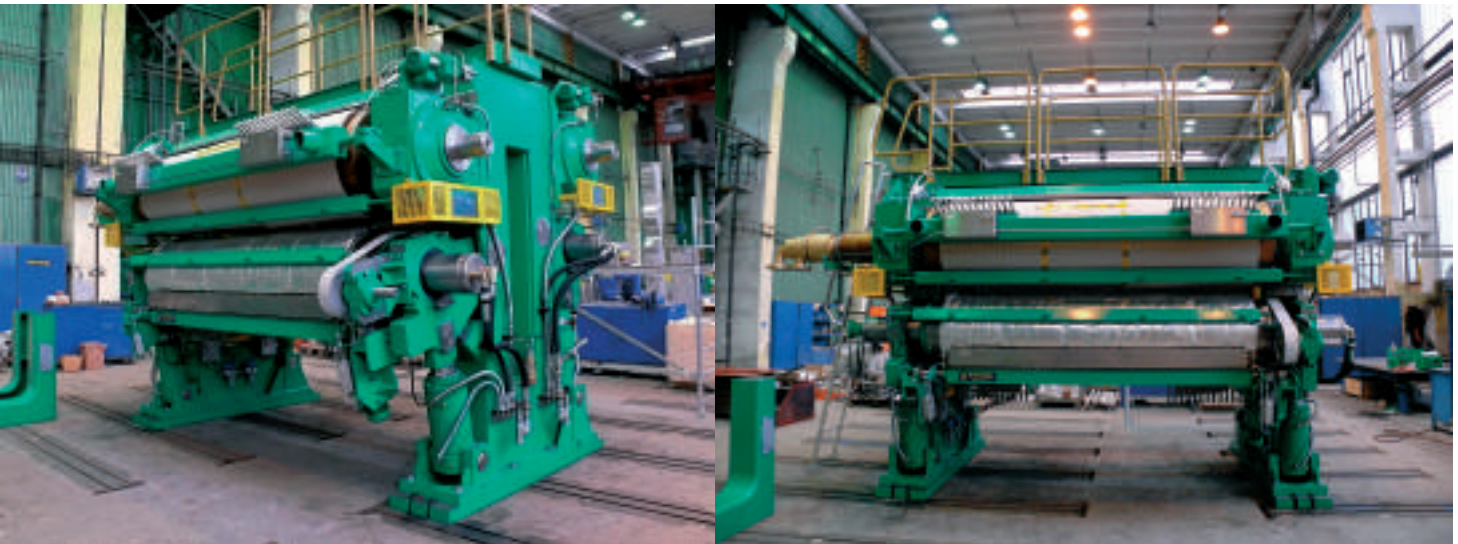
Note: Total amounts for individual years include values of export contracts supported by state-supported insurance and of insurance values of insured receivables of commercial insurance



DEVELOPMENT OF THE SHARE OF INSURED EXPORT CREDITS AND OF CONTRACTS OF CZECH EXPORTERS SUPPORTED BY INSURANCE IN THE AGGREGATE CZECH EXPORT



Note: Including Commercial Credit Insurance Company EGAP since October 2005.



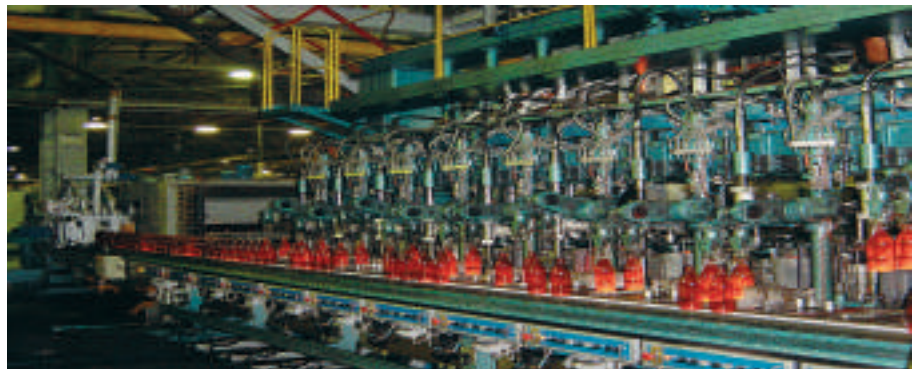
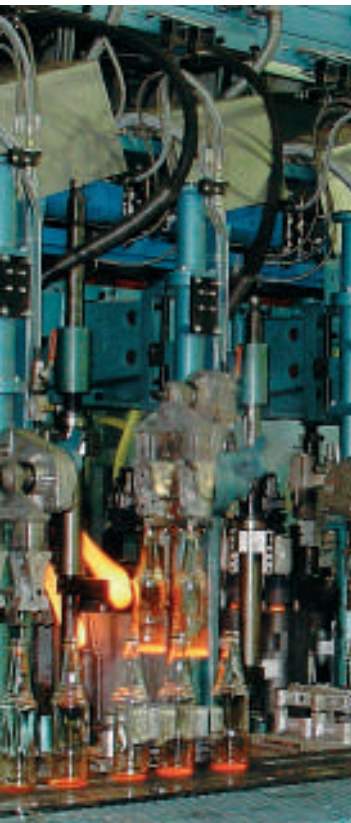
Total outstanding commitments of EGAP from state-supported insurance have reached almost CZK 90 billion at the end of 2007. This was significant growth against previous years, when it had fluctuated around CZK 70 billion. As a result of the high concentration of exports to Russia and other CIS countries, the share of these territories in the aggregate outstanding commitments markedly strengthened. The insurance capacity laid down in the state budget in the amount of CZK 120 billion was then used by about 75% at the end of 2007.

Export of technology for glass works in Moscow region and in the Marij El region, Russian Federation
 Supplier: Sklostroj Turnov CZ, s.r.o.
 Insured value: CZK 1.6 billion

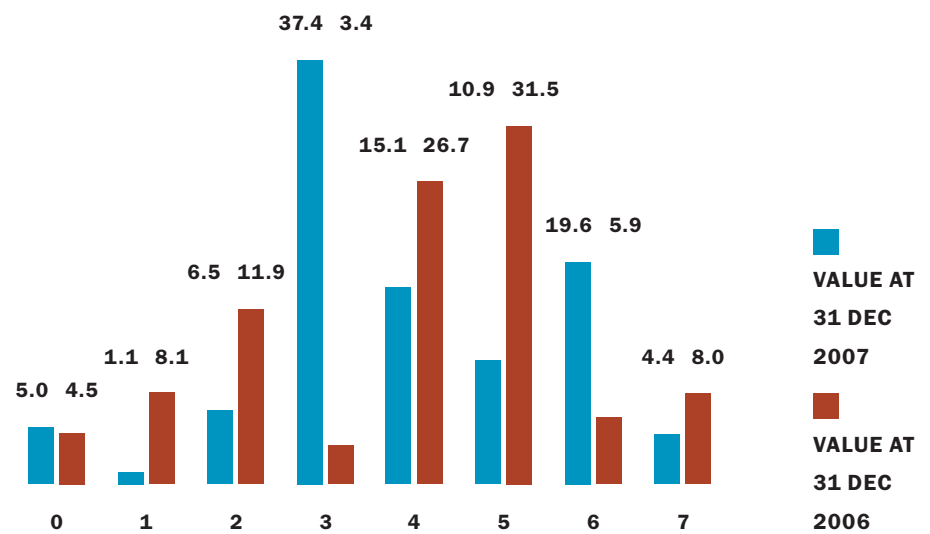
OUTSTANDING COMMITMENTS BY INDIVIDUAL COUNTRIES AS AT 31 DEC 2007 (%)



Note: The indicator of outstanding commitments is defined in compliance with § 2, letter s) of Act No. 58/1995 Coll., on insuring and financing export with state support as amended, and it represents “a summary of values of insured export credit risks from concluded insurance contracts in their nominal value, including interest and contractual fees and from the reinsurance activities, reduced by the value of risks which have expired, and of values of insurance promise contracts to the extent of 50% of their nominal value”.



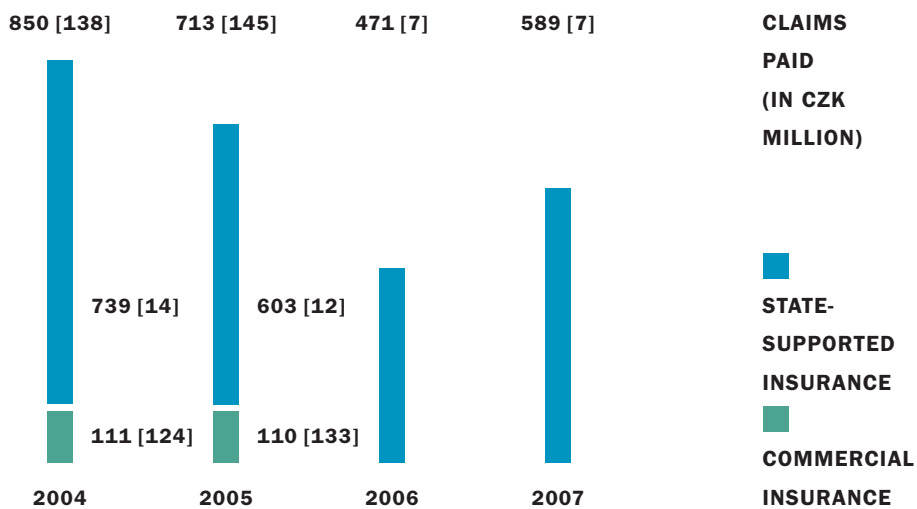
STRUCTURE OF OUTSTANDING COMMITMENTS BY COUNTRY RISK CATEGORY OF THE EXPORT CREDIT DESTINATION (%)



Note: Category 0 represents the lowest and category 7 the highest level of export credit risks. The chart compares distribution of shares of groups of countries by risk level categories assigned to them on a given date, i.e. as at 31 December 2006 and 2007. In January 2008, there were further changes in the structure of risk distribution from 31 December 2007 caused by the new evaluation of risks of some countries; however, they had no significant influence on the overall risk level of the portfolio.



Investment into hydro power plants and distribution networks in Georgia
 Supplier: ENERGO-PRO a.s.
 Insured value: CZK 5.8 billion



Note: Number of paid claims is shown in brackets



TRADITIONALLY, AND YET DIFFERENTLY



Construction of
steam/gas power plant
in Krasavino
in Vologda region,
Russian Federation
Supplier:
PSG-International, a.s.
Insured value:
CZK 2.4 billion

When insuring the export of Czech goods, services and investments with state support in 2007, the trends from previous years showing increasing success of Czech exporters in the international field were continued. While several years ago, they were able to win mostly smaller sub-deliveries in international consortia or contracts for the delivery of spare parts only, participation by Czech suppliers in large projects worth hundreds of millions of EUR has now been becoming a common occurrence. Simultaneously, Czech companies are more frequently than before general contractors of capital goods for various sectors, most often energy, chemistry, precision engineering, the glass industry, production of building materials, the food industry and the like.



One of these export projects won a prestigious award, Deal of the Year 2007, independently from 2 respected economic magazines – Global Trade Review and Trade Finance. The supplier for the cement factory has been the company PSP Engineering Prerov and the whole project was financed by the Belgian Fortis Bank through its Prague branch-office. EGAP insured the export buyer credit in the value of almost CZK 2 billion. The recipient of the credit was the Kazakh bank AO BTA,

Almaty (former Bank TuranAlem) and, after completion of the construction in April 2009, it shall lease the delivered equipment in the form of financial leasing to the company BI Cement for 10 years; the company is a subsidiary of one of the largest private construction companies, Bild Investments Group, in Kazakhstan. It is a relatively less frequent transaction where the insured is a foreign bank financing Czech exports on the basis of its framework credit agreement with a debtor, in this case with the bank AO BTA. The position of a debtor both in the role of a buyer and lessor is also unusual. And, thirdly, jurors had high regard for the unusually quick insurance negotiations within less than 5 months after the first contact of Fortis Bank from Prague with us.



We in EGAP do our utmost to react flexibly to the changing needs of Czech exporters and to offer them such forms of insurance which enable optimal financing of concluded contracts. A combination of insurance of pre-export financing, of risk of withdrawal from the contract, of a buyer credit and/or of a credit for procurement of an investment abroad has been in high demand.

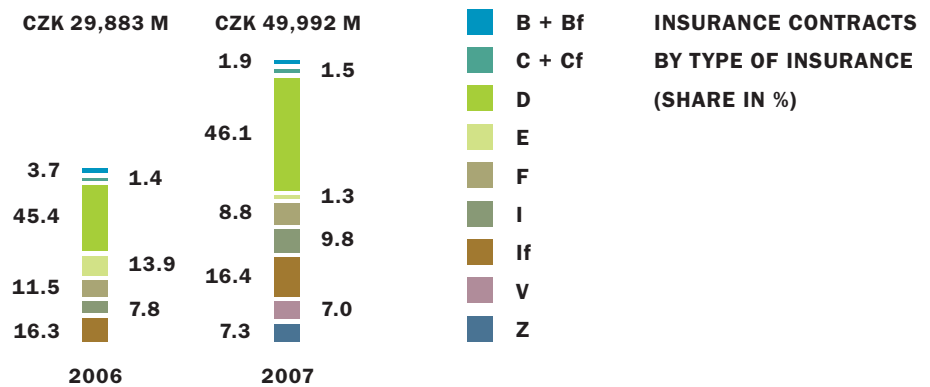
The biggest share in insured export credits in 2007 was with the Russian Federation. Recently, there have been fundamental changes in the structure of business deals specifically in this territory. Russian importers more and more often try to become debtors of foreign suppliers and to leave out local banks from the entire transaction; their participation in the business deal raises the overall financial costs of transactions. It means a transition for us to **corporate risk** where the analysis and assessment are more complicated than in the case of a known bank. However, a number of successfully completed contracts confirm that this way has a very good perspective.

Another change is the increasingly frequent requirement of Czech exporters for insurance of **project financing** where repayment of the credit is based on the sales of goods and services of a new company specifically established for this purpose. In such cases, we assess in an analysis of the risks very thoroughly as well as the outlook of future sales and the overall operating economics of the company. This requires, among others, a detailed knowledge of the local market. As a good





example of this attitude there are several dozens of successfully executed contracts for the delivery of container glass production factories by the company Sklostroj Turnov to CIS countries. Project financing finds a wide application in the area of power generation engineering as well.



Note: A summary of individual types of insurance is shown on page 38

Since 1 January 2007 new general insurance conditions for all insurance products are in force, which enable banks to keep the zero risk weighting for all insured credits, bonds and investments even under the more demanding banking regulatory framework BASEL II. From the perspective of the structure of insurance products, year 2007 confirmed the growing demand for **insurance of export buyer credits (type D)** extended by banks. As much as almost one-half out of the total insured volume of CZK 50 billion was this type of



insurance. An important reason for it was the fact that Czech exporters were able to conclude a number of large projects which had been in preparation for several years and were financed primarily by bank credits.

In the investment insurance, there was great interest recorded in insurance of a credit for the financing of investments abroad (type If). This insurance was a novelty in our offer last year and immediately, in the first year, it participated significantly with a 16% share in our best result thus far. Insurance of a credit for investment abroad enables investors to supplement flexibly their own resources by a credit from a bank which can be used both for acquisition of long-term tangible, intangible or financial assets of a foreign company, as well as for enlargement of inventories of the foreign company or for financing its operations. The insurance is unique in the way it also covers commercial risk of the investment in a foreign country, i.e. it guarantees the financing bank that the credit for acquisition or operation of the investment will be properly and in due time repaid. In this way we already helped Czech investments in Russia, Georgia, China, Mongolia and Vietnam to come into the world.

Beginning in 2007, EGAP introduced another two insurance products **for insurance of ceded receivables from export supplier credits (types Bf and Cf)** which enable banks to purchase export receivables without recourse against the exporter.

Insurance of pre-export credits (type F) for small and medium-sized companies has been continually growing as a part of our support for this category of businesses which allows for easier access to credit financing of exports by the way of a substantial simplification and unification of analysis processes made by banks and us. An agreement on co-operation in this direction has been signed with a number of commercial banks, and we are negotiating it with other banks so we are able to meet the potential demand in a maximum way.





In 2007, **insurance of bank guarantees (type Z)**, which plays an important role primarily in the participation of Czech companies in competitive tendering and significantly influences multiplier effect of state-supported insurance. This means that insurance of a relatively small guarantee often opens doors to a contract having several times higher value.

INSURANCE CONTRACTS CONCLUDED IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007 BY COUNTRIES



Czech exports with EGAP insurance were directed most often at the Russian Federation in 2007; it made approximately CZK 20 billion and represented more than $\frac{2}{5}$ of the overall insured volume. The second place was taken by Georgia, where the company ENERGO PRO privatised, with the assistance of an insured credit for financing investments, a range of hydroelectric power stations and electricity distribution networks. In 2007, we insured export contracts to 59 countries. In comparison with 2006, 9 new countries showed up in the list, 3 of them, Angola, Georgia and New Zealand for the first time ever. For the entire time we have been active, we have insured exports to 94 countries on every continent.

In 2007 similarly to previous years, the Class 7 SITC Machinery and transport equipment predominated in the commodity structure; its share made out 85.6%. It was 77% in the previous year, while its total volume was significantly lower. In 2007 deliveries of machinery and equipment were 50% of this class, 40% were deliveries of power equipment and the remainder was insurance of deliveries of means of transport. In comparison with 2006, the share of the power equipment increased significantly, while the share of the means of transport decreased moderately. In other commodity classes, the most often insured were exports of footwear, textiles, products from wood and rubber, of metal castings and scientific instruments.



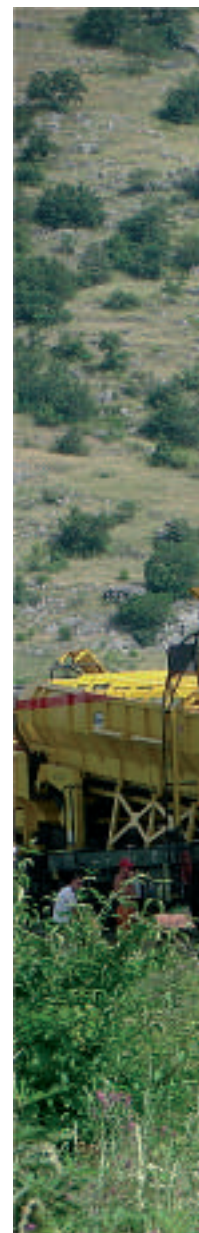


THAT CZECH CROWN OF OURS

The strengthening of the national currency against the main currencies in which Czech export are contracted and the appropriate date for accession to the Eurozone were a frequent theme of discussions, deliberations and also for various get-togethers where exporters met economists and politicians in 2007. And their intensity grew continuously because the Czech crown persistently strengthened and reached a historical maximum of CZK 25.93/EUR. When calculated at the average annual exchange rate, the Czech crown strengthened by 1.9% to 27.76 against EUR and by as much as 10.1% against USD to CZK 20.31.

Noticing what problems brings strengthening of the domestic currency to Czech exporters and taking into account our business results in recent years, we reduced price of our insurance by 10% in January 2007. We abolished a surcharge for supplementary insurance of exchange rate risks which guaranteed an exporter or a bank that when a claim was paid, the current exchange rate was applied for conversion to the Czech crown from a foreign currency in which the credit had been extended.

A large majority of clients have been concluding this supplementary insurance because without it they would have been exposed to the risk of the movement of the exchange rate between the crown and the foreign currency. This is now covered already by basic insurance premium rates. For our clients it means that while having lower expenses we pay them in case of an insurance loss the same amount in Czech crowns as they would have received when paid out in a foreign currency. The price reduction goes for both export buyer and supplier credits and credits for pre-export financing, financing of Czech investments abroad as well as for bank guarantees for an exporter's performance. Assumption of the exchange rate risk and the corresponding reduction of the burden for exporters is one of a range of measures for supporting the competitiveness of Czech exporters in international markets.





WE MARRIED OFF OUR DAUGHTER

Our 15th year of existence was a historical one for us not only from the aspect of a record insured volume of export credits, bank guarantees and investments but, also for the fact of the sale of a majority stake in our subsidiary Commercial Credit Insurance Company EGAP, j.s.c., (KUP) to a strategic partner. On 18 April 2007, the Government of the Czech Republic approved the consortium of the Belgian credit insurance company Delcredere/Ducroire NV. SA and Italian insurance company SACE BT SpA as the winner of a public tender; they offered the highest price of CZK 738.3 million. Their entry into KUP was formally finalised by takeover of 66% controlling interest on 11 October 2007.

Commercial credit insurance of short-term receivables had been in our offer as a complementary service; its introduction was required by the fact that in the early nineties of the last century there were no private subjects on the Czech market offering credit insurance. However, from the aspect of the volume and complexity of risks covered by active insurance policies, state-supported insurance had always been predominant. High risks were not only typical for this insurance but primarily long-term periods lasting in some transactions for up to 15 years, unlike simple and short-term risks in commercial insurance.

Rehabilitation and electrification
of a railway track
Nikšič – Podgorica
in Montenegro
Supplier:
OHL ŽS, a.s. and AŽD Praha, s.r.o.
Insured value:
CZK 1.4 billion





**BALANCE OF INSURED
VOLUME OF NEWLY CREDITS AT YEAR-END 2007
INSURED CREDITS 2007 (OUTSTANDING COMMITMENTS)**

EGAP	CZK 50 BILLION	CZK 89 BILLION
KUP	CZK 128 BILLION	CZK 12 BILLION

The decision on outsourcing commercial insurance to the independent KUP in 2005 was, therefore, a decision on separating activities which in EGAP have only had a complementary character for the entire period and represented, after use of quota share reinsurance with a group of major European reinsurers, a significantly lower risk in comparison with state-supported insurance and did not require nor obtained any support from the state.



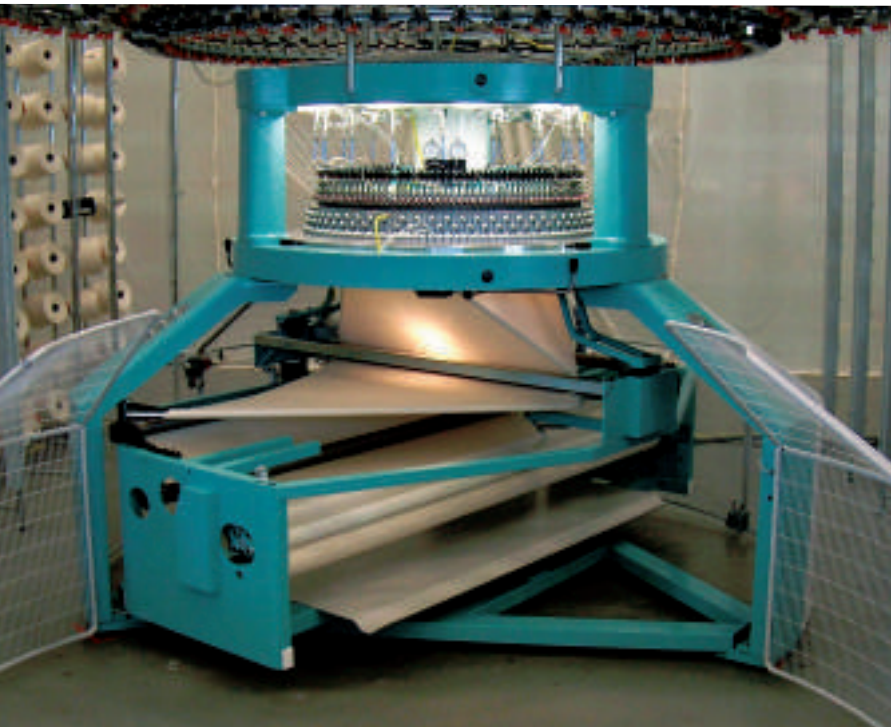
WORLD AROUND US



Export of large-diameter knitting machines to Turkey
Supplier:
AMTEK, spol. s r.o.
Insured value:
CZK 50 million

The world economy was developing quite positively in the first 6 months of 2007 but the second half of the year brought a crisis in the American mortgage market out, of it resulting problems in credit markets and restricted access to finances. Particularly in the last quarter, economic growth slowed down in the USA followed by West European countries and Japan. However, emerging economies headed by China and India continued to perform very well because they were able to utilise the driving force of domestic demand and also exporters of mineral resources were able to profit from higher prices on world markets.

In 2007, the volume of export credits exceeding USD 146 billion was insured by the members of the International Union of Credit and Investment Insurers (the Berne Union) representing



state and private credit insurance companies from 5 continents of the world; this surely confirms the importance of state-supported exports for the global economy. Simultaneously, the year 2007 showed a certain shift in forms of state support in OECD countries. In addition to massive development of financial and capital markets and consolidation of banking systems, there was a dynamic development in insurance of larger and more complex risks related primarily to project finance and investments abroad as well as to insurance of risks on the part of exporters. We kept up with it and our offer of insurance products reflects all up-to-date trends.

When supporting Czech exporters and investors, we utilised all available instruments including long-term international co-operation with partner insurance companies and participation in international organisations. Among others, we concluded 2 individual reinsurance agreements covering Czech deliveries within the framework of international contracts with participation of suppliers from several countries where the main insurer was the Austrian export credit insurer Österreichische Kontrollbank. The subject of the insurance were deliveries of machinery and equipment for a production line in Russia. Vice versa, we were in the role of the main insurer in the case of insurance of exports for a Krasavino steam-gas power station also located in Russia, where we acquired reinsurance for deliveries from Switzerland from the Swiss export credit agency SERV.



Complying with the Recommendation of the OECD, we have tightened rules for combating bribery in international trade since 1 January 2007. We will not insure an export contract when there was bribery of public officials involved in the country of final destination of export.

Within the European Union, we regularly participated in meetings of the Council Working Group for Export Credits where individual member states of the EU, together with representatives of the European Commission, exchange experience and coordinate principles for the Union actions in negotiations on state-supported credits with regards to the OECD. Another traditional aspect of international cooperation was participation in spring and autumn meetings of the International Union of Credit and Investment Insurers (the Berne Union) and of the Prague Club and in a number of international seminars and workshops.

On the 15th anniversary of start of our activities, in September 2007, we organised an international conference in Prague on the future of credit insurance. Delegates of the Berne Union, Prague Club and representatives of European countries in the working groups of OECD and EU for export credits participated in it in addition to representatives of foreign credit insurance companies, Czech ministries, exporters and banks. The two day get-together brought about a valuable and much needed exchange of opinions on issues about how to efficiently face challenges of a rapid change and the continuously more globalised environment, how to newly define principles, tools and objectives of export support of national and international companies and consortia at the beginning of the 21st century.



One of basic preconditions for conclusion of insurance has always been a thorough assessment of the possible environmental impact of exports and investments in countries of their final destination. All our procedures are in compliance with valid international rules in the field of environmental protection including the latest recommendations of the OECD Council. In 2007, no business transaction was classified in the category A; exports with a very negative environmental impact belong in this category. Altogether 4 business transactions where negative environmental impact was less severe, locally limited and probably removable were classified as category B on the basis of an opinion of an authorized external expert in 2007: delivery of equipment for a cement factory in Kazakhstan, construction and reconstruction of the first of three sections of the road Baku – Quaba in Azerbaijan, construction of already mentioned power plant in Krasavino in Russia and delivery of production line for painting of railroad freight cars for another Russian buyer.



IN A YEAR, WE WILL BE EVEN MORE SKILLED

In 2007, we prepared a strategic vision in the form of a conceptual paper on further development of state-supported credit insurance with respect to the overall economic growth of the Czech Republic and the related increased ability of producers and exporters to win contracts for extensive deliveries of machinery and power generation equipment, construction materials technology and large investment units with complicated financing schemes, usually to countries with a higher level of risk. A new trend is high interest in expanding business by means of investment abroad which we address through new insurance products.

Following from this conception, we will concentrate on further improvement of conditions for insurance and on increasing the user-friendliness of its utilising for our clients, primarily by:

→ **lowering costs for insured** by optimising insurance premium rates within the framework of the OECD Arrangement regime and extending insurance coverage of risks, e.g. manufacturing risk insured separately will newly become a part of insurance of export buyer credit while present insurance premium rates remain unchanged.

→ **expanding insurance services** and modifying general insurance conditions; insurance of risks related to pre-export financing will be extended by insuring of investments in science, research and development for subsequent utilisation of the achieved export results (pre-export financing of intangible exports).

→ **further liberalising requirements on origin of goods and services** as a reaction to globalisation trends; transition from the current “Made in” principle to “Made by” one or to the principle of national interest, and extension of insurance coverage on subsidiaries of Czech exporters abroad.



We will continue to thoroughly monitor and improve the quality of our services in compliance with the ISO 9001:2000 certificate on the system of quality management; its validity has been prolonged for another 3 years on the basis of the recertification audit in January 2008.

Small and medium-sized enterprises shall remain in the forefront of our interest. In addition to substantial simplification of procedures in insurance of pre-export credits and bank guarantees for SMEs we have been offering since 2006, we are also expanding our cooperation with banks and factoring companies for short-term export receivables to non-marketable territories, i.e. countries outside the OECD. We will not leave small and micro companies out of our focus, their export activities are directed predominantly to neighbouring countries but their parameters are not adequate enough for commercial credit insurers. We firmly believe that we will also be able to show the first tangible results in this field in a year's time.



“I am glad to participate personally in promoting of innovations in the state-supported export insurance”, says Ivan Fuksa, 1st Deputy Minister of Finance and, since February 2008, the Chairman of the Supervisory Board of EGAP. **“We will create such conditions for our exporters under which they are able to concentrate fully on their own performance only and, at the same time, they know they would have at their disposal the same high-quality and sophisticated support from the state as their competitors in the most developed countries.”**

ROOM FOR IMPROVEMENT IS ALWAYS HERE

During the 15 years since the start of its activities, EGAP has worked its way up to an institution respected not only at home but also abroad. Our offer of insurance products can be boldly compared with respected institutions of a similar type in countries where credit insurance has a tradition going back many decades.



Today's EGAP is a strong, reliable credit insurance company able to successfully accompany Czech exporters through the pitfalls of international trade and to assist them in winning tenders for large orders, but it is also an insurance company which does not forget small and medium-sized companies and their needs. At the same time, thousands of concluded insurance contracts saved our exporters in many cases from big problems when someone was unable or did not want to pay them or when unforeseen events occurred in some country. In the year of the 15th anniversary of its existence, EGAP achieved the best result to date in state-supported insurance. CZK 50 billion in insured export credits, bank guarantees and investments were in the first place and naturally a reflection of the ability of Czech exporters to break through in international markets. But without the flexible, rapid and fully professional cooperation on EGAP's part, their position would have been much worse in comparison with the competition. Today, state support of exports belongs among the basic



instruments of all developed countries and it is a market conform tool which not only assists in overcoming non-marketable risks connected with international exchange of goods and services but which also has a positive impact on domestic employment and development of companies, on the balance of trade and balance of payments and, last but not least, on the international prestige of the country.

Again and again, rapidly changing forms of international trade together with widening, deepening and more varied forms of entry of Czech exporters in international cooperation processes have positioned EGAP before new tasks. The concept of further development of credit state-supported insurance prepared and discussed in detail in 2007 is a guarantee that the Czech exporters will have a reliable partner in EGAP which is also willing and able to support their international activities to the maximum possible extent in the future.

Václav Petříček, CHAIRMAN OF THE SUPERVISORY BOARD

**SUMMARY OF
INSURANCE PRODUCTS
WITH STATE SUPPORT**

All types of insurance are provided by EGAP in the regime of state-supported insurance pursuant to Act No. 58/1995 Coll., on insuring and financing export with state support and on the amendment to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, as amended.

Export of
printing machines
to Russian Federation
and Ukraine
Supplier:
SOMA spol. s r.o.
Insured value:
CZK 75 million

B INSURANCE OF A SHORT-TERM EXPORT SUPPLIER CREDIT

The insurance product for insurance of short-term export supplier credits extended to buyers in commercially uninsurable countries. The risk of the non-payment of a credit with a maturity shorter than 2 years is insured. The exporter is the insured.

**Bf INSURANCE OF A SHORT-TERM EXPORT SUPPLIER CREDIT FINANCED BY
A BANK**

The insurance enables purchase of a receivable of a Czech exporter in the form of the export supplier credit to a buyer in any country with the maturity shorter than 2 years. The bank is the insured.

C INSURANCE OF A MEDIUM- AND LONG-TERM EXPORT SUPPLIER CREDIT

The insurance covers the risk of the non-payment of an export supplier credit with the maturity exceeding 2 years. The exporter is the insured.

**Cf INSURANCE OF A MEDIUM- AND LONG-TERM EXPORT SUPPLIER CREDIT
FINANCED BY A BANK**

The insurance enables purchase of a receivable of a Czech exporter in the form of the export supplier credit with the maturity exceeding 2 years. The bank is the insured.



D INSURANCE OF AN EXPORT BUYER CREDIT

The insurance covers the risk of the non-payment of a credit extended by a bank of the Czech exporter to a foreign buyer or to a foreign buyer's bank. The bank is the insured.

E INSURANCE OF A CONFIRMED LETTER OF CREDIT

The insurance covers the risk of the full or partial non-payment under conditions of the Letter of Credit. The bank is the insured.

F INSURANCE OF A CREDIT FOR THE PRE-EXPORT FINANCING OF THE PRODUCTION

The insurance covers the risk of possible inability of an exporter to fulfil conditions of an export contract and to thus create funds for the repayment of the credit for the financing of the production for the export or of the credit for the investment into production for the export. The bank is the insured.

I INSURANCE OF INVESTMENTS OF CZECH LEGAL PERSONS ABROAD

The insurance covers so-called political risks as is the risk of restriction or losses of returns on investments as a result of prevention of their transfer to the Czech Republic, expropriation of the investment without corresponding compensation or politically motivated violent damage and breach of contractual obligations on the host country's part. The investor is the insured.



**If INSURANCE OF A CREDIT FOR THE FINANCING OF INVESTMENTS OF
CZECH LEGAL PERSONS ABROAD**

The insurance covers both political and commercial risks. The credit may be used either for acquiring of long-term tangible, intangible or financial assets abroad as well as for the operational financing of a company owned by a Czech investor. The bank is the insured.

**P INSURANCE OF A CREDIT FOR THE FINANCING OF THE PROSPECTION OF
FOREIGN MARKETS**

The insurance enables exporters to acquire financial funds for the marketing and prospection of foreign markets in the form of a credit. The bank is the insured.

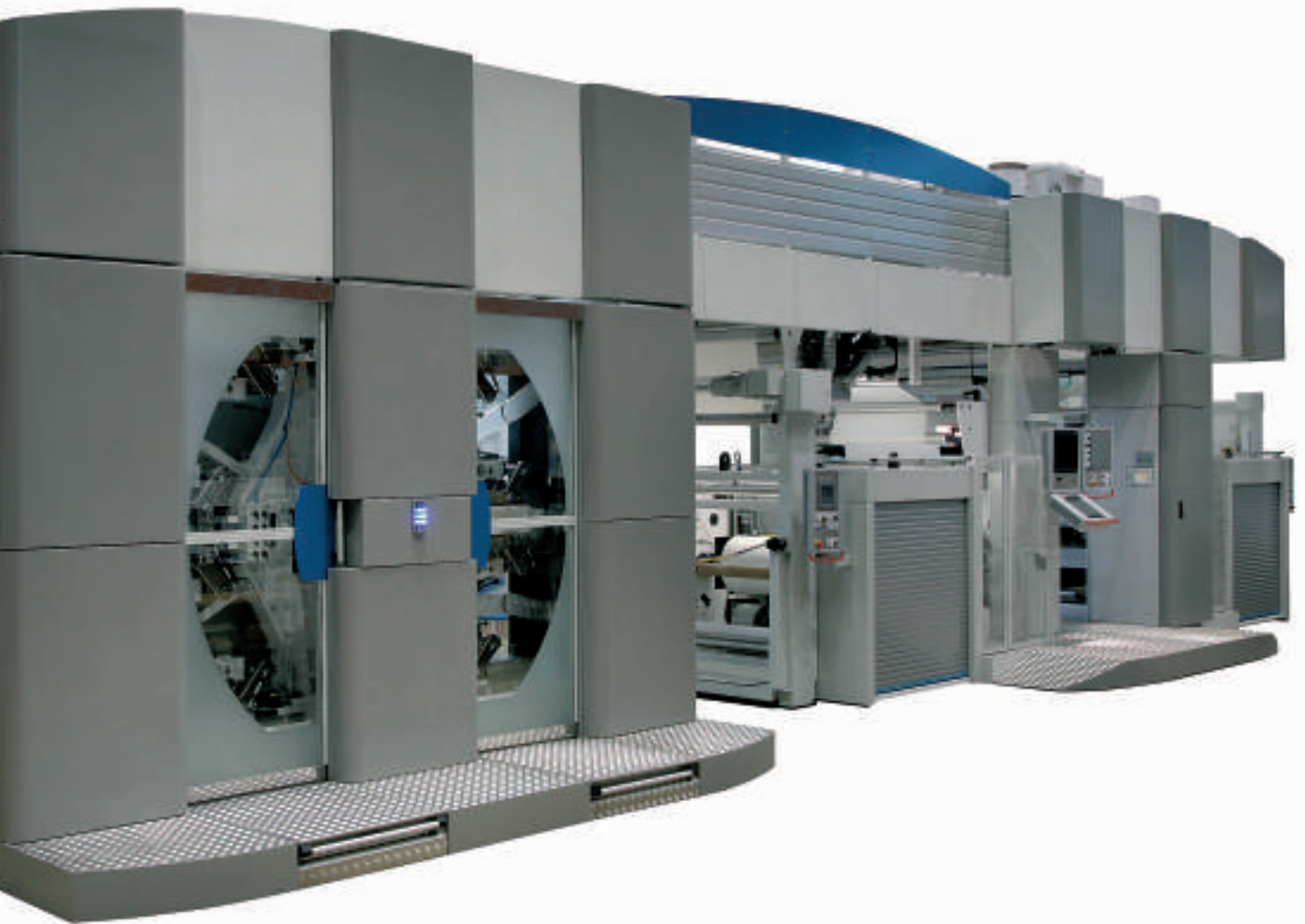
**V INSURANCE AGAINST THE RISK OF INABILITY TO FULFIL AN EXPORT
CONTRACT**

The insurance of so-called manufacturing risk covers the risk of losses from irrevocably incurred production expenses in case the foreign buyer has interrupted or cancelled the contract before its completion. The exporter is the insured.

**Z INSURANCE OF A BANK GUARANTEE ISSUED IN RELATION TO AN EXPORT
CONTRACT**

The insurance covers the risk of an unfair and fair calling of the guarantee issued by a bank for obligations of an exporter to a buyer, i.e. EGAP accepts not only the risk of misuse of the guarantee by the buyer but also the risk that the exporter is unable to fulfil the obligations from the export contract. Bid bonds, advance payment bonds and performance bonds or similar guarantees are insured. The bank is the insured.





BODIES OF THE COMPANY



BOARD OF DIRECTORS (composition on 31 December 2007)

CHAIRMAN

Pavol Parížek, MANAGING DIRECTOR

MEMBERS

Karel Šimsa, PROXY HOLDER, UNTIL 28 JUNE 2007 DEPUTY MANAGING DIRECTOR, SECTION OF STATE-SUPPORTED INSURANCE

Václav Bok, DEPUTY MANAGING DIRECTOR, FINANCIAL AND ADMINISTRATION SECTION

Ms. Jana Ammerlaan, CHIEF EXECUTIVE DIRECTOR, LEGAL AND INTERNATIONAL RELATIONS SECTION

Miroslav Somol, SINCE 28 JUNE 2007 CHIEF EXECUTIVE DIRECTOR, SECTION OF STATE-SUPPORTED INSURANCE

Dalibor Vainer, CHIEF EXECUTIVE DIRECTOR, CLAIMS SETTLEMENT AND DEBT RECOVERY SECTION





SUPERVISORY BOARD (Composition on 31 December 2007)

CHAIRMAN

Václav Petříček, UNTIL 28 FEBRUARY 2008, MINISTRY OF INDUSTRY AND TRADE

VICE-CHAIRMAN

Ivan Fuksa, MINISTRY OF FINANCE

MEMBERS

Martin Tlapa, MBA, MINISTRY OF INDUSTRY AND TRADE

Ivo Hlaváč, SINCE 19 FEBRUARY 2007, MINISTRY OF AGRICULTURE

Ms. Edita Hrdá, UNTIL 28 FEBRUARY 2008, MINISTRY OF FOREIGN AFFAIRS

Jiří Šiman, MINISTRY OF FINANCE

Martin Bartoš, EGAP

Pavel Klaban, EGAP

Ms. Jiřina Ravná, EGAP

SUPERVISORY BOARD (Composition on 31 March 2008)

CHAIRMAN

Ivan Fuksa, SINCE 28 FEBRUARY 2008, MINISTRY OF FINANCE

VICE-CHAIRMAN

Martin Tlapa, MBA, SINCE 28 FEBRUARY 2008, MINISTRY OF INDUSTRY AND TRADE

MEMBERS

Václav Petříček, CHAMBER OF TRADE AND INDUSTRY FOR CIS COUNTRIES

Ivo Hlaváč, MINISTRY OF AGRICULTURE

Milan Sedláček, SINCE 28 FEBRUARY 2008, MINISTRY OF FOREIGN AFFAIRS

Jiří Šiman, MINISTRY OF FINANCE

Martin Bartoš, EGAP

Pavel Klaban, EGAP

Ms. Jiřina Ravná, EGAP

**REPORT ON RELATIONS
BETWEEN INTER-RELATED PERSONS**

Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity (hereinafter "inter-related persons") for the period from 1 January 2007 to 31 December 2007 pursuant to provisions of the § 66a par. 9 of the Commercial Code, as amended.

IDENTIFICATION DATA OF THE COMPANY

BUSINESS NAME:

Export Guarantee and Insurance Corporation, joint-stock company (hereinafter "EGAP")

SEAT OF THE COMPANY:

Prague 1, Vodičkova 34/701, post code 111 21

COMPANY REGISTRATION NUMBER:

45 27 93 14

TAX REGISTRATION NUMBER:

CZ 45 27 93 14

ENTRY INTO COMPANIES REGISTER:

Companies register kept at the City Court in Prague, Section B, Insert 1619

SHARE CAPITAL:

CZK 1,300,000,000

PAID UP:

100%

FORM OF SHARES:

shares are in a dematerialised form; they are not publicly traded

IDENTIFICATION NUMBER OF THE SECURITY (ISIN):

770010000519

NOMINAL VALUE OF ONE SHARE:

CZK 1,000,000

NUMBER OF VOTES ASSOCIATED WITH ONE SHARE:

one vote

Pursuant to Act No. 363/1999 Coll., on insurance and on amendment to some related acts (the Insurance Act) and in compliance with Act No. 58/1995 Coll., on insuring and financing export with state support and on amendment to



Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, as amended (hereinafter “Act No. 58/1995 Coll.”), and on the basis of the licence for carrying out insurance and reinsurance activities and activities related hereto issued by the Ministry of Finance, the line of business consists of the following activities:

- a) Insurance activity pursuant to § 7 par. 3 of Act No. 363/1999 Coll., in the extent of insurance classes No. 14, 15 and 16 of the non-life insurance:
1. Insurance of export credits and domestic receivables against marketable commercial and political risks of the non-payment on the commercial basis and with commercial reinsurance, insurance of short-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks.
 2. Insurance of export credit risks in compliance with § 1 par. 2) of Act No. 58/1995 Coll., including:
 - 2.1. Insurance of short-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks,
 - 2.2. Insurance of long-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks, or non-payment caused by non-marketable commercial risks,
 - 2.3. Insurance of investments of Czech legal persons abroad against political risks, particularly against the risk of prevention of the transfer of returns on the investment, expropriation or politically motivated violent damage,
 - 2.4. Insurance against losses of exporters related to preparation and realisation of business transactions,
 - 2.5. Insurance of credits extended to a producer or to exporter for the financing of the production designated for the export against the risk of the non-

payment of the credit caused by inability of the producer or exporter to fulfil terms and conditions of an export contract,

2.6. Insurance of bank guarantees or other services extended by exporter's bank to a foreign entity on behalf of the exporter against the risk of non-fulfilment of contractual obligations of the exporter from an export contract,

2.7. Insurance of risks of the exchange rate loss of the Czech crown against foreign currencies arising in case of the claim payment and resulting from the difference between the exchange rate valid at conclusion of the insurance contract and the exchange rate valid at the claim payment,

b) Reinsurance pursuant to § 3 par. 3 of the Insurance Act in the extent of facultative reinsurance activity pursuant to § 9 par. 5 of Act No. 363/1999 Coll., on insurance for insurance classes No. 14 and 15 of the non-life insurance, i.e. insurance of the credit, and pursuant to § 1 par. 2 letter h) of Act No. 58/1995 Coll., towards foreign credit insurance companies in relation to insurance provided pursuant to items 2.1., 2.2., and 2.6. in connection with participation of an exporter in deliveries of goods or extension of services to an importer which have been realised by a foreign entity in the extent of the share of the exporter in these deliveries,

c) activities related to the insurance activity pursuant to § 3 par. 4 of Act No. 363/1999 Coll., on insurance:

1. Intermediary activity carried out in connection with the insurance activity,
2. Consultancy activity carried out in connection with the insurance activity,
3. Investigation of insurance losses carried out on the basis of a contract with an insurance company.



DESCRIPTION OF RELATIONSHIP BETWEEN INTER-RELATED PERSONS

1. Relationship between the controlling entity and controlled entity.

EGAP has had a sole shareholder – the state – the Czech Republic, which is a controlling entity in relationship to EGAP (controlled entity).

Pursuant to Act No. 58/1995 Coll., shareholder's rights of the state have been exercised by the following ministries:

Ministry of Finance, 520 votes

Ministry of Industry and Trade, 468 votes

Ministry of Foreign Affairs, 156 votes

Ministry of Agriculture, 156 votes

Representatives of the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and Ministry of Agriculture participate in the Supervisory Board of EGAP in compliance with Act No. 58/1995 Coll.

2. Relationship between EGAP and the Commercial Credit Insurance Company EGAP, joint-stock company

EGAP was the sole shareholder of the Commercial Credit Insurance Company EGAP, joint-stock company (hereinafter the "KUP") and its controlling entity since its establishment in 2005. A public tender for the sale of 66% of the shares to a strategic partner had been organised on the basis of the Government Resolution No. 432 from 19 April 2006. By its resolution No. 395 from 18 April 2007, the Government confirmed the companies Ducroire–Delcredere SA/NV, Belgium and SACE BT SPA, Italy, as the winner of the tender; the majority share had been handed over to their joint-ownership on 11 October 2007. Thus, EGAP ceased to be a controlling entity of KUP.

3. Relationship between EGAP and the Czech Export Bank

EGAP owns 27.03% of the share capital of the Czech Export Bank (hereinafter the "CEB") and 72.97% of the share capital of the CEB is owned by the state – the Czech Republic which is therefore a controlling entity of CEB.

4. Relationship between other inter-related parties and EGAP

EGAP has no capital participation in other companies. The state as the controlling entity of EGAP is simultaneously, according to EGAP's understanding, a controlling entity or a founder, apart from the Czech Export Bank, of the following entities with whom EGAP has concluded contracts:

Czech Moravian Guarantee and Development Bank
Czech Consolidation Agency
Prague Securities Centre

(hereinafter referred to jointly as "other controlled entities")

BUSINESS RELATIONS

1. Agreements concluded between the state and EGAP valid as at 31 December 2007

EGAP has not concluded any such agreements. The relationship between EGAP and the state do not go beyond standard relations usual between a shareholder and EGAP, and beyond Act No. 58/1995 Coll., and other legal regulations.

2. Agreements concluded between EGAP and CEB

Insurance contracts for the period from 1 January 2007 to 31 December 2007:

NUMBER CHARACTER OF CONTRACTS

31	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS TYPE D
12	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS TYPE F
20	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS TYPE Z
13	CONTRACTS ON INSURANCE OF A CREDIT EXTENDED IN RELATION WITH INVESTMENT OF CZECH LEGAL PERSONS ABROAD AGAINST THE RISK OF THE NON-PAYMENT OF THE CREDIT
1	CONTRACT ON INSURANCE OF A CONFIRMED LETTER OF CREDIT



Further agreements valid as at 31 December 2007:

- Current account agreement
- Contract lease for non-residential space
- Agreement on use of a compatible medium in the system of payments
- Deposit account agreement
- Agreement on opening deposit accounts and on rules and conditions for term deposits with individual interest rates for deposit accounts

3. Agreements concluded with other inter-related persons valid as at 31 December 2007

3.1. Czech-Moravian Guarantee and Development Bank, joint-stock company:

Contract on settlement of block trades with securities

The contract enables realisation and settlement of trading in securities.

Contract on opening and operating of a special current account

The contract specifies settlement of trading on financial markets carried out by the bank.

Framework agreement on term deposits

The contract specifies realisation and settlement of term deposits with the bank.

3.2. Prague Securities Centre:

Contract on maintenance of an Issuer's register

Contract on issuance and usage of identity card.

4. Lawsuits

In 2007, EGAP was not engaged in any lawsuits with the controlling entity. The Czech Consolidation Agency filed a suit against EGAP in order to determine the right of lien to properties owned by CKD REFIN, a joint-stock company. The suit had been filed in connection with ongoing bankruptcy proceedings against the bankrupt CKD DOPRAVNÍ SYSTÉMY, a joint-stock company where receivables of EGAP had also been registered. There were no litigations between EGAP and CEB or with other inter-related persons in 2007.

DECLARATION OF THE BOARD OF DIRECTORS:

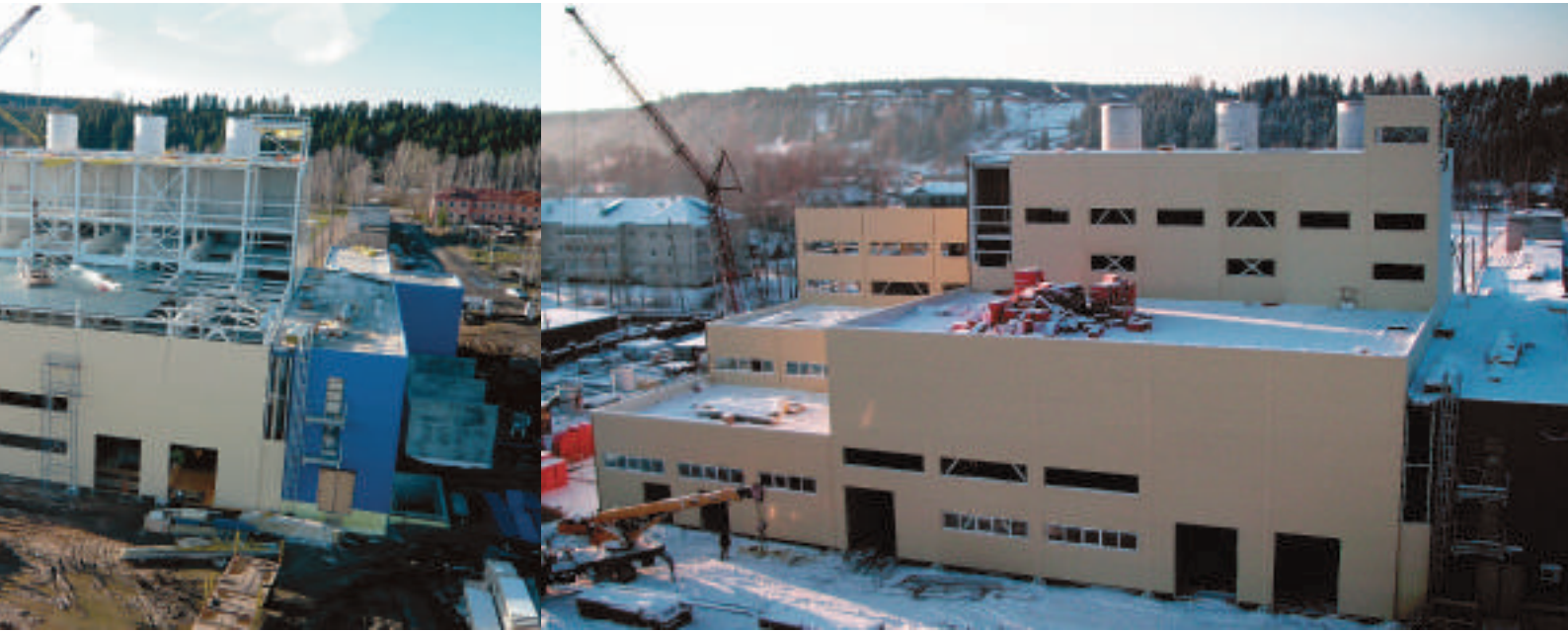
The Board of Directors of EGAP declares herewith that EGAP has not concluded any contracts with the controlling entity in the last accounting period and that all relations have been maintained in compliance with legal regulations, particularly with Act No. 58/1995 Coll. Contracts concluded with the CEB, KUP and with other entities controlled by the same controlling entity were within the framework of usual business relations and they have not established disadvantageous positions of EGAP, CEB, KUP or other controlled entities. Furthermore, the Board of Directors declares that in the last accounting period the controlling entity has not used its influence to enforce taking of any measures or conclusion of any contract from which material detriment might have arisen for EGAP. The Board of Directors of EGAP declares that data stated in the report are truthful and contain all ascertainable data on inter-related persons.

Prague, 15 February 2008



Pavol Parížek, CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR





REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board of the Export Guarantee and Insurance Corporation (EGAP) on activities of the Supervisory Board in the last period and the opinion of the Supervisory Board on the financial statements for 2007, on the proposal for distribution of the profit for the year 2007 and on the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2007 to 31 December 2007 for the meeting of Ministries exercising the right of the state as the sole shareholder of EGAP which is to take place on 28 May 2008.

At the beginning of the past period, the Supervisory Board worked in the following composition:

Václav Petříček, Chairman

Ivan Fuksa, Vice-Chairman

Martin Tlapa, MBA, member

Ivo Hlaváč, member

Jiří Šiman, member

(Ms) Edita Hrdá, member

(Ms) Jiřina Rovná, member

Pavel Klaban, member

Martin Bartoš, member

There were 5 meetings of the Supervisory Board in the past period on following dates **28 June 2007, 19 September 2007, 12 December 2007, 28 February 2008** and **28 April 2008**.

In these meetings, the Supervisory Board discussed issues predetermined for it by Articles of Association, i.e. conceptual documents, reports of the Board of Directors on its activities, substantial business transactions and insurance claims, personal changes in the Supervisory Board and in the Board of Directors as well as the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2007 to 31 December 2007.



In the meeting taking place on **28 June 2007**, it discussed resignation of Mr. Karel Šimsa from the post of a member and Vice-Chairman of the Board of Directors and elected Mr. Miroslav Somol to be a member of the Board of Directors. In its meeting organised on **28 February 2008**, the Supervisory Board debated the resignation of Ms. Edita Hrdá from the position of a member of the Supervisory Board and took notice of election of Mr. Milan Sedláček for a member of the Supervisory Board. It also discussed the resignation of Mr. Václav Petříček from the position of the Chairman of the Supervisory Board and Mr. Ivan Fuksa from the position of the Vice-Chairman of the Supervisory Board in this meeting. Afterwards, it elected Mr. Ivan Fuksa as the Chairman of the Supervisory Board and Mr. Martin Tlapa, MBA, as Vice-Chairman of the Supervisory Board. Further, the Supervisory Board examined with the positive outcome the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2007 to 31 December 2007.

In its meeting on **28 April 2008**, the Supervisory Board examined and approved the Report on Fulfilment of EGAP's Business Plan for 2007, including annual financial statements and Proposal for Distribution of Profit. The Supervisory Board also approved in this meeting the Evaluation of Indicators for Awarding Bonuses to Employees for the Fulfilment of the Business Plan for 2007, Proposal for Criteria of Material Motivation for 2008 and the Draft Business Plan for the year 2008.

The Supervisory Board made the examination of the annual financial statements on the basis of documents delivered by the Board of Directors but, primarily, on the basis of the Report on Fulfilment of the Business Plan of EGAP for 2007; in doing it, the Supervisory Board had not discovered any discrepancies. The Supervisory Board also took notice of the EGAP Auditor's Report recapitulating the audit of the annual financial statements for 2007. This report had stated that the financial statements accurately and fairly presented the

financial position of the Company as at 31 December 2007 and its financial management in 2007. After the examination:

- 1. The Supervisory Board recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the Report on Fulfilment of EGAP's Business Plan of EGAP for 2007.**
- 2. The Supervisory Board takes notice of the positive opinion of the Auditor and recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the annual financial statements for the year 2007.**
- 3. The Supervisory Board recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the submitted Proposal for Distribution of Profit.**
- 4. The Supervisory Board takes notice of the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2007 to 31 December 2007.**

Export of
equipment for
cement production
in Kazakhstan
(visualisation)
Supplier:
PSP Engineering a.s.
Insured value:
CZK 2.1 billion

Prague, 28 April 2008



Václav Petříček, CHAIRMAN OF THE SUPERVISORY BOARD
(until 28 February 2008)



Ivan Fuksa, CHAIRMAN OF THE SUPERVISORY BOARD
(since 28 February 2008)



Financial Results

ENGLISH TRANSLATION

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF EXPORTNÍ GARANČNÍ A POJIŠŤOVACÍ SPOLEČNOST, A.S.

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2007, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Shareholder of Exportní garanční a pojišťovací společnost, a.s.
Independent auditor's report

Auditor's Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

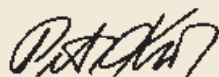
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2007 and its financial performance for the year then ended in accordance with Czech accounting legislation.

18 April 2008



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Martin Mančík
Auditor, Licence No. 1964

Translation note

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

BALANCE SHEET
AS AT 31 DECEMBER 2007

		31 DEC 2007			31 DEC 2006	
		GROSS AMOUNT	ADJUST- MENT	NET AMOUNT	NET AMOUNT	
		NOTE				
ASSETS						
B.	LONG TERM INTANGIBLE FIXED ASSETS	5	34,044	33,077	967	1,243
C.	FINANCIAL INVESTMENTS	4	14,689,019	-	14,689,019	13,209,229
C.I.	LAND AND BUILDINGS (OPERATIONAL)		730,067	-	730,067	729,882
C.II.	FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES		1,128,785	-	1,128,785	1,351,164
	1. PARTICIPATING INTERESTS IN SUBSIDIARIES		-	-	-	655,412
	2. PARTICIPATING INTERESTS IN ASSOCIATES		1,128,785	-	1,128,785	695,752
C.III.	OTHER FINANCIAL INVESTMENTS		12,830,167	-	12,830,167	11,128,183
	1. VARIABLE INCOME SECURITIES		174,590	-	174,590	52,742
	2. BONDS AND OTHER DEBT SECURITIES		8,362,219	-	8,362,219	7,298,597
	3. DEPOSITS WITH FINANCIAL INSTITUTIONS		4,293,358	-	4,293,358	3,776,844
E.	DEBTORS	6	184,221	85,731	98,490	202,312
E.I.	RECEIVABLES FROM DIRECT INSURANCE – POLICY HOLDERS		1,684	519	1,165	23,933
	OF WHICH ASSOCIATES		-	-	-	20,372
E.III.	OTHER RECEIVABLES		182,537	85,212	97,325	178,379
	OF WHICH SUBSIDIARIES		-	-	-	16
	ASSOCIATES		42	-	42	39
F.	OTHER ASSETS		105,716	65,196	40,520	9,576
F.I.	LONG TERM TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS	5	75,654	65,196	10,458	8,671
F.II.	CASH IN HAND AND CASH ON ACCOUNTS WITH FINANCIAL INSTITUTIONS		30,062	-	30,062	905
G.	PREPAYMENTS AND ACCRUED INCOME	7	113,832	-	113,832	177,822
TOTAL ASSETS			15,126,832	184,004	14,942,828	13,600,182



CZK '000

NOTE 31 DEC 2007 31 DEC 2006

LIABILITIES			
		31 DEC 2007	31 DEC 2006
A.	EQUITY	8 10,509,830	9,603,215
A.I.	SHARE CAPITAL	1,300,000	1,300,000
A.IV.	OTHER CAPITAL FUNDS	5,690,309	5,672,317
A.V.	STATUTORY RESERVE FUND AND REVENUE RESERVES	2,613,624	1,832,336
A.VII.	PROFIT / (LOSS) FOR THE CURRENT PERIOD	905,897	798,562
C.	TECHNICAL RESERVES	9 4,107,613	3,691,296
C.1.	UNEARNED PREMIUM RESERVE:	2,929,083	2,191,098
	A) GROSS	2,959,095	2,201,475
	B) SHARE OF REINSURERS	(30,012)	(10,377)
C.2.	RESERVE FOR INSURANCE CLAIMS (GROSS)	1,126,292	1,444,980
C.3.	RESERVE FOR BONUSES AND DISCOUNTS (GROSS)	44,954	50,812
C.4.	EQUALISATION RESERVE (GROSS)	7,284	4,406
E.	OTHER PROVISIONS	10 204,749	116,081
E.1	CORPORATE INCOME TAX PROVISION	201,545	113,849
E.2	OTHER PROVISIONS	3,204	2,232
G.	CREDITORS	11 117,594	189,495
G.V.	OTHER PAYABLES, OF WHICH:	117,594	189,495
	TAX LIABILITIES AND LIABILITIES FROM SOCIAL AND HEALTH INSURANCE	106,578	178,952
H.	ACCRUALS AND DEFERRED INCOME	3,042	95
H.I.	ACCRUALS AND DEFERRED INCOME	3,042	95
	TOTAL LIABILITIES	14,942,828	13,600,182

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

CZK '000	NOTE	2007		2006		
		BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL
I.		TECHNICAL ACCOUNT – NON-LIFE INSURANCE				
1.		EARNED PREMIUMS, NET OF REINSURANCE:				
		A) GROSS WRITTEN PREMIUM	14 1,381,288		910,850	
		B) OUTWARDS REINSURANCE PREMIUM	13 (22,948)		(11,757)	
		SUBTOTAL		1,358,340		899,093
		C) CHANGE IN THE GROSS AMOUNT OF UNEARNED PREMIUM RESERVE		757,620		379,871
		D) CHANGE IN THE REINSURER'S SHARE OF THE UNEARNED PREMIUM RESERVE		(19,635)		(10,377)
		SUBTOTAL		737,985		369,494
		TOTAL		620,355		529,599
2.		OTHER TECHNICAL INCOME, NET OF REINSURANCE			10,024	5,507
3.		CLAIMS EXPENSES, NET OF REINSURANCE:				
		A) PAID CLAIMS:				
		AA) GROSS		590,244		471,885
		SUBTOTAL		590,244		471,885
		B) CHANGE IN RESERVE FOR CLAIMS:				
		BA) GROSS		(318,688)		(798,232)
		SUBTOTAL		(318,688)		(798,232)
		TOTAL		271,556		(326,347)
4.		CHANGE IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE			(5,858)	(9,630)
5.		NET OPERATING EXPENSES:				
		A) ACQUISITION COSTS		11,702		10,750
		B) ADMINISTRATIVE EXPENSES	14	176,410		134,242
		C) COMMISSIONS FROM REINSURERS AND PROFIT PARTICIPATIONS	13	(3,442)		(1,176)
		TOTAL		184,670		143,816
6.		OTHER TECHNICAL EXPENSES, NET OF REINSURANCE			3,249	9,703
7.		CHANGE IN THE EQUALISATION RESERVE			2,878	(3,167)
8.		RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE			173,884	720,731



CZK '000	NOTE	2007			2006		
		BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL	TOTAL
III	NON-TECHNICAL ACCOUNT						
1.	RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE			173,884			720,731
2.	INCOME FROM FINANCIAL INVESTMENTS:						
		A) INCOME FROM OTHER FINANCIAL INVESTMENTS (OTHER INVESTMENTS)	345,457		275,776		
		SUBTOTAL		345,457		275,776	
		B) REVALUATION GAINS ON FINANCIAL INVESTMENTS		52,095		50,114	
		C) INCOME FROM SALE OF FINANCIAL INVESTMENT	1,16	738,276		-	
		TOTAL		1,135,828			325,890
3.	EXPENSES FROM FINANCIAL INVESTMENTS:						
		A) MANAGEMENT FEES AND SIMILAR CHARGES		1,605		1,420	
		B) REVALUATION LOSSES ON FINANCIAL INVESTMENTS		74,290		65,149	
		C) COST OF FINANCIAL INVESTMENTS REALIZATION RELATED TO SALE OF FINANCIAL INVESTMENT	16	175,137		-	
		TOTAL		251,032			66,569
4.	OTHER INCOME			220,103			73,448
5.	OTHER EXPENSES			90,513			13,505
6.	INCOME TAX ON PROFIT FROM ORDINARY ACTIVITIES		12	280,852			240,235
7.	PROFIT FROM ORDINARY ACTIVITIES AFTER TAX			907,418			799,760
8.	OTHER TAXES			1,521			1,198
9.	PROFIT FOR THE CURRENT PERIOD			905,897			798,562

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

CZK '000		STATUTORY	OTHER	OTHER		RETAINED		
	NOTE	SHARE CAPITAL	RESERVE FUND	REVENUE RESERVES	CAPITAL FUNDS	REVALUATION RESERVE	EARNINGS	TOTAL
AT 1 JANUARY 2006		1,300,000	219,000	1,634,449	5,109,108	556,002	(41,038)	8,777,521
REVALUATION DIFFERENCES NOT RECOGNIZED IN INCOME STATEMENT	8	-	-	-	-	25,326	-	25,326
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	12	-	-	-	-	4,712	-	4,712
NET PROFIT FOR THE PERIOD		-	-	-	-	-	798,562	798,562
TRANSFERS BETWEEN FUNDS	8	-	-	22,831	(22,831)	-	-	-
UTILISATION OF FUNDS FOR SETTLEMENT OF 2005 LOSS	8	-	-	(41,038)	-	-	41,038	-
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	-	-	(2,906)	-	-	-	(2,906)
AT 31 DECEMBER 2006		1,300,000	219,000	1,613,336	5,086,277	586,040	798,562	9,603,215
REVALUATION DIFFERENCES NOT RECOGNIZED IN INCOME STATEMENT		-	-	-	-	(47,242)	-	(47,242)
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	12	-	-	-	-	65,234	-	65,234
NET PROFIT FOR THE PERIOD	8	-	-	-	-	-	905,897	905,897
DISTRIBUTION OF LAST YEAR PROFIT	8	-	41,000	748,162	-	-	(789,062)	100
PROFIT SHARES REPAYMENT		-	-	-	-	-	(9,500)	(9,500)
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	-	-	(7,874)	-	-	-	(7,874)
AT 31 DECEMBER 2007		1,300,000	260,000	2,353,624	5,086,277	604,032	905,897	10,509,830



1 General information

Exportní garanční a pojišťovací společnost, a.s. (“the Company” or “EGAP”) was incorporated by signing of a Memorandum of Association on 10 February 1992 in compliance with the Resolution of the Government of CSFR No. 721/1991 on the programme for the support of export and was registered in the Commercial Register on 1 June 1992. On 6 May 1992, the Ministry of Finance issued a decision granting EGAP a licence to perform insurance activities pursuant to Act 185/1991, on Insurance. The licence was replaced as a result of an enactment of the new Act on Insurance 363/1999, by a new licence issued by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The main business activity of the Company is the insurance of credit risk with state support based on Act on insurance and financing of export with state support No. 58/1995 (“Act”).

The State, as the sole shareholder of the Company, exercises its rights through the appointed central organs, which reach the decision of a shareholder in exercising the competency of the General Meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed in the following way:

520 votes (i.e. 40%)	Ministry of Finance of the Czech Republic
468 votes (i.e. 36%)	Ministry of Industry and Trade of the Czech Republic
156 votes (i.e. 12%)	Ministry of Agriculture of the Czech Republic
156 votes (i.e. 12%)	Ministry of Foreign Affairs of the Czech Republic

The Statutory body of the Company is the Board of Directors. Statutory body of the Company acts on behalf of the Company by signature of Chairman of the Board of Directors or at least of two members of the Board of Directors being added to the printed or written name of the Company.

The Company is divided into sections – legal and international relations section, insurance with State support section, administration and finance section and claims liquidation and receivables recovery section, departments, divisions and offices. The Organisational Rules of EGAP establish the principles of internal organisation, position, competency and responsibilities of individual organisation units and of managers.

On 31 January 2005, the Company established a subsidiary Komerční úvěrová pojišťovna EGAP, a.s. (hereinafter “KUP”) with a share capital of CZK 160,000,000 and increased KUP’s share capital on 1 October 2005 by a contribution-in-kind in the form of part of its business related to marketable insurance (including the marketable insurance portfolio). On 11 October 2007 the sale of a 66% share in KUP has been accomplished co-ownership of Ducroire–Delcredere SA. N.V., Belgium and Sace BT SPA, Italy for total purchase price of CZK 738,276,000 (Note 16).

2 Accounting policies

a) Basis of accounts

The Company’s financial statements have been prepared under the historical cost convention as modified by the revaluation of financial investments and technical reserves to fair values (as defined by the Act on Insurance) and are set up in accordance with the Act on Accounting, the decree of Ministry of Finance and Czech accounting standards for insurance companies.



The amounts disclosed in the financial statements and notes are rounded to thousands of Czech Crowns (CZK '000) unless otherwise stated and are not consolidated.

b) Financial investments

The Company classifies the following items as financial investments:

- Land and buildings;
- Financial investments in subsidiaries and associates;
- Investments in securities;
- Deposits with financial institutions.

LAND AND BUILDINGS

Land and buildings are classified as financial investments and are initially recognised at cost. At the balance sheet date they are measured at fair value based upon expert valuation, which is updated at least every five years. Fair value represents the price, at which the land and buildings could be sold under usual circumstances in a competitive market. Changes in the fair value are recognised in equity net of tax effect and are transferred to the income statement at the date of disposal of land and buildings. The Company assesses at each balance sheet date whether there is any indication that the land and buildings may be impaired. If any such indication exists, the Company estimates the recoverable amount using an updated expert valuation and adjusts the fair value of the land and building. Impairment adjustment is also recognised in equity.

FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

This includes investments in equity or debt securities issued by and loans or other amounts due from subsidiaries and associates.

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies as to obtain benefits from its activities.

An associate is an enterprise where the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not control. The shares in subsidiaries or associates are stated at fair value at the balance sheet date. If the undertaking's shares are publicly traded the investment is stated at the market value. In the case that shares are not publicly traded, the fair value of subsidiaries or associates is stated in accordance with § 27, article 7 of Act on Accounting using the equity method. The difference between the fair value or the equity value and original cost and changes in the fair value is recognised in equity.

INVESTMENTS IN SECURITIES

Securities are valued on acquisition at cost. The cost of securities includes also direct costs related to the acquisition (e.g. fees and commissions paid to brokers, consultants or a stock exchange). Securities transactions are recognised on the settlement date.

All securities are stated at fair value at the balance sheet date. The fair value of a security is determined as the market bid price value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee's equity for equities;
- the risk adjusted net present value for debt securities and notes.



Other variable income securities include mainly mutual fund units and other securities with variable income other interests not included in investments in subsidiaries and associates. Changes in the fair value of other variable income securities are recognised in the income statement.

The Company classifies all bonds and other debt securities as available-for-sale debt securities.

Bonds and other debt securities available-for-sale are neither debt securities at fair value through profit or loss nor debt securities held-to-maturity. They comprise mainly debt securities held for liquidity management. Changes in the fair value are recognised in the income statement.

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- transfer to and from the at fair value through profit or loss portfolio are not allowed; and
- on the sale or transfer of any securities held-to-maturity, the Company must transfer the rest of the portfolio of debt securities held-to-maturity to available-for-sale debt securities and no debt securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed for sales within the last three months before maturity of the debt security or in the case of a significant deterioration in an issuer's creditworthiness.

DEPOSITS WITH FINANCIAL INSTITUTIONS

Deposits with financial institutions are stated at the balance sheet date at fair value, which usually approximates the amortised cost. Changes in the fair value are recognised in the income statement.

c) Tangible and intangible fixed assets

Tangible and intangible fixed assets other than land and buildings are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition, less depreciation and amortisation in case of depreciable tangible and amortisable intangible fixed assets respectively. Land and buildings are classified within financial investments (Note 2 b)).

Fixed assets other than land and buildings are depreciated/amortised by applying the straight-line basis (accelerated basis respectively) over their estimated useful lives. Tangible assets with a unit cost of less than CZK 40,000 (CZK 60,000 for intangible assets) are treated as low value assets and are expensed upon consumption. Intangible and tangible fixed assets are amortised/depreciated over the following number of years:

GROUP OF FIXED ASSETS	YEARS
SOFTWARE	4
COMPUTER TECHNOLOGY	3
MOVABLE ASSETS RELATED TO THE BUILDING	4–5
HEAT AND VENTILATION EQUIPMENT	8
MACHINES AND INSTRUMENTS	3–6
FURNITURE	6
PASSENGERS CARS	3

Where the carrying amount of a tangible or intangible fixed asset is greater than its estimated recoverable amount, a provision is established.

Repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 per item incurred within a one year period are capitalised.



d) Receivables

Insurance premium receivable and other receivables are recorded at their nominal value adjusted by appropriate provisions for overdue receivables.

Receivables, which have been ceded to the Company in relation to an insurance claim, are recognized at replacement cost reduced by expected expenses for their recovery in Other receivables against Other income in the Non-technical account. If expected expenses exceed the replacement costs, such receivable is not recognised in the balance sheet.

Amounts recovered subsequently in excess of the carrying amount are recognized in the period, when payment is received as Other income in the Non-technical account.

Receivables written-off are recognized in Other expenses in the Non-technical account. Receivables arising from the right to loss compensation are recognized in Off-balance sheet as defined in the Act on Insurance Contract. The recovered amounts from the right to loss compensation are recognized in Other technical income in the Technical account.

Creation/release of provisions for overdue receivables relating to the insurance business (with the exception of receivables ceded in relation to insurance claim) is recorded within Other technical expenses/income. Gross written premium is not affected by the creation/release of such provisions, nor in the event that receivables are written off.

Creation/release of provisions for overdue receivables ceded to the Company in relation to the insurance claim or not directly relating to the insurance business is recorded within Other non-technical expenses/income.

e) Foreign currencies

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of the transaction.

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (“CNB”) effective at the balance sheet date.

With the exception of foreign exchange differences related to assets and liabilities stated at their fair values or at equity at the balance sheet date, all other realised and unrealised foreign exchange gains and losses are recognised in the income statement.

Foreign exchange differences related to assets and liabilities stated at their fair values or equity value at the balance sheet date are included in fair values and are therefore not recognised separately.

f) Technical reserves

The technical reserve accounts comprise amounts of assumed obligations resulting from insurance contracts in force with the aim to provide coverage for obligations resulting from those insurance contracts. Technical reserves are stated at fair value, which is determined in compliance with the Czech legislation for insurance companies and as described below. The Company has established the following insurance technical reserves:

UNEARNED PREMIUM RESERVE

The reserve for unearned premium is created with respect to individual contracts for life and non-life insurance business from the part of premium written that relates to subsequent accounting periods.

The Company uses a “pro rata temporis” method to estimate the reserve.



RESERVE FOR CLAIMS

The reserve for insurance claims is discounted to reflect the time value of money and covers the following:

- insurance claims incurred and reported in the accounting period but not yet settled (RBNS);
- insurance claims incurred in the accounting period but not yet reported (IBNR).

RBNS is estimated as the total of loan instalments in default and net present value of related future instalments. IBNR is estimated based on historical experience using mathematical and statistical methods.

RESERVE FOR BONUSES AND DISCOUNTS

The liability for bonuses and discounts is established in accordance with insurance contracts and the general insurance conditions in the amount of expected discounts on insurance premiums.

EQUALISATION RESERVE

The equalisation reserve covers potential unexpected events, which have not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. The reserve is calculated in accordance with requirements of legislation.

g) Gross written premium

Gross written premium includes all amounts due during the accounting period as defined by an insurance contract, irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the

insurance contract relates to transfer of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

h) Claims expenses

Gross claims expenses are recognised when an insured loss occurs and after the amount of claims settlement is assessed. These costs also include the Company's costs relating to handling of claims arising from insured events.

i) Allocation of technical and non-technical expenses and revenues

Expenses incurred and revenues generated in the period are shown separately, depending on whether or not they directly relate to insurance business.

All expenses and revenues directly relating to the insurance business are reflected in the technical account. The non-technical account comprises all other expenses and revenues. The allocation of indirect expenses to administration overheads or other technical expenses is based on an internal allocation scheme.

j) Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

Regular contributions are made to the State to fund the national pension plan.

The Company makes contributions on behalf of its employees to a defined contribution pension plan and capital life insurance scheme. These contributions are accounted for directly as a staff expense.

The Company creates a social fund to finance the social needs of its employees and employees' programme. In



compliance with the Czech accounting requirements the allocation to the social fund is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund is not recognised in the income statement but as a decrease of the fund in the statement of changes in shareholder's equity. The social fund forms a component of equity and is not shown as a liability.

k) Inwards and outwards reinsurance

INWARDS REINSURANCE

Inwards reinsurance contracts are treated the same way as insurance contracts.

OUTWARDS REINSURANCE

Reinsurance assets resulting from the portion of the carrying value of technical reserves covered by existing reinsurance contracts are netted from the gross value of the technical reserves.

Receivables from and payables due to reinsurers are measured at cost.

Changes in reinsurance assets, reinsurance portions of claims, reinsurance commissions and premiums ceded to reinsurers are presented separately on the face of the income statement along with the corresponding gross amounts.

Reinsurance commissions are not deferred and are fully recognised in the income statement.

The Company regularly assesses its reinsurance assets from technical reserves and reinsurance receivables for impairment. Where the carrying amount of such assets is greater than its estimated recoverable amount, the carrying value is adjusted to recoverable amount.

l) Deferred taxation

A deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate for the period in which the Company expects to utilise the asset is used for the deferred taxation calculation.

Deferred tax arising from revaluation gains and losses reflected in the revaluation reserve in equity is recognised directly in equity.

In accordance with the Czech National Accounting Board Interpretation No. 4. the Company does not recognise deferred tax on revaluation difference of participating interest as such difference is considered to be permanent.

m) Related party transactions

Related parties are defined as follows:

- Companies, which form a Group of companies with the Company. The Company forms the Group with Czech Export Bank, a.s. (hereinafter “CEB”) and KUP;
- State financial institutions that EGAP enters business relations with: Českomoravská záruční a rozvojová banka, a.s., Česká konsolidační agentura and Středisko cenných papírů;
- Members of the Company’s statutory and supervisory bodies and management and parties close to such members.



In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

n) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to preparation of the financial statements, which are indicative of conditions, which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

3 Risk management

The financial condition and operating results of the Company are affected by a number of key risks namely insurance risk, financial risk, compliance risk and operational risk. The Company's policies and procedures in respect of management of these risks are set out below.

Operational risks are inherent in the business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, people and systems or from external events. Any adverse experience of these risks could have a negative impact on results. The nature of the insurance business means a large number of transactions are required to be processed and assigned to individual insurance products. Controls are in place within systems and processes, which are designed to ensure that the operational risks associated with the Company's activities, are appropriately controlled. However risk control procedures

and systems the Company has established can only provide reasonable and not absolute assurance against material misstatement or loss.

a) Strategy in using financial instruments

The nature of the operations of the Company involves the managed acceptance of risk arising from the underwriting of policies, which incorporate financial guarantees and commitments. To mitigate the risk that these guarantees and commitments are not met, the Company purchases financial instruments, which broadly match the expected policy benefits payable, by their nature and term.

The composition of the portfolio of investments is governed by the nature of the insurance liabilities, the expected rate of return applicable to each class of asset and the solvency capital available to meet the price fluctuations of each asset class.

In addition to insurance risk arising from the underwriting of policies, the Company is exposed to a number of risk factors including market risk, credit risk, foreign currency risk, interest rate risk and liquidity risk. These are discussed in more detail below.

b) Market risk

The Company takes on exposure to market price risks. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The market risk, the Company is primarily faced with, is the interest rate risk, due to the nature of its investments. Company management sets the strategy for the portfolio characteristics and limits on the level of risk that may be



accepted, which is monitored on a daily basis. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments in any one company or industry.

c) Credit risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

The Company use reinsurance in managing insurance risk. However, this does not discharge the Company's liability as primary insurer, and should a reinsurer fail to pay a claim for whatever reason, the Company would remain liable for the payment to the policyholder. The Company monitors periodically the creditworthiness of reinsurers and their financial situation. In 2007 the reinsurance is used only for selected insurance contracts.

When deciding on the structure of financial investments, the Company assesses the creditworthiness of counterparties or issuers, which is also subject to a subsequent regular review.

d) Currency risk

The Company's assets and liabilities are denominated primarily in domestic currency and amounts denominated in foreign exchange currencies are not significant.

The Company is also subject to currency risk resulting from policies covering risks denominated in foreign currencies and reserves for related claims that are notified in foreign currency, and paid out in domestic currency an the exchange rate on the settlement date.

e) Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Income from financial investments may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise e.g. if the financial investment yield is lower than the technical interest rate. Cash flow based analysis is used to create a portfolio of securities whose value changes in line with the value of liabilities when interest rates change.

f) Liquidity risk

The Company is exposed to daily calls on its available cash resources. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. In compliance with the valid insurance legislation the Company maintains a sufficient portion of its financial investments in liquid and secure financial instruments, which are used to cover insurance claims.

g) Insurance risk

Insurance risk is present if either the amount or timing (or both) of the Company's payments vary directly with the amount or timing (or both) of losses incurred by the policyholder. Insurance risk includes the following risks:

- occurrence risk – the possibility that the number of insured events will differ from those expected;
- severity risk – the possibility that the costs of the events will differ from those expected;
- development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.



The Company manages insurance risk through following:

- close management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets;
- the maintenance and use of sophisticated management information systems which provide up to date, reliable data on the risks to which the business is exposed at any point in time;
- using of the reinsurance.

The nature of the insurance business is such that a number of assumptions have been made in compiling the financial statements. These include assumptions around investment returns, lapse rates and expenses in connection with in force policies. In accordance with the Act, the Company insures mainly risks that would not be insured on a normal insurance market. The amount of claims relating to these risks is limited by the approved insurance capacity and the maturity of these payables is secured by the state guarantee based on the Act.

h) Compliance and fiscal risk, regulation and solvency

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are submitted to the Board of Directors.

Compliance risk includes the possibility that transactions may not be enforceable under applicable law or regulation. In addition it includes the cost of the rectification and fines, and also the possibility that changes in law or regulation could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorized and by submitting new or unusual transactions to legal advisers for review.

Fiscal risks arise from changes in tax laws and enforcement policies and in reviews by authorities of tax positions the

Company has taken. This risk and risks associated with changes in other legislation and regulation were managed through ongoing review by relevant departments of proposed changes to legislation and by membership of relevant trade and professional committees which comment on draft proposals relating to changes.

Solvency margin requirements established by the regulator are in force for insurers to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. In addition, on long-term business, the requirements are in place to assess the ability of the insurer to meet "policyholder expectations".

The actual solvency margin describes measure the excess of the value of the insurer's assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year.

4 Financial investments

a) Land and buildings

OPERATING (CZK '000)	31 DEC 2007	31 DEC 2006
LAND		
ACQUISITION COSTS	103,960	103,960
REVALUATION DIFFERENCE	4,633	4,633
	108,593	108,593
BUILDINGS		
ACQUISITION COSTS	506,491	506,306
REVALUATION DIFFERENCE	114,983	114,983
	621,474	621,289
TOTAL ACQUISITION COSTS	610,451	610,266
TOTAL REVALUATION DIFFERENCE (NOTE 8)	119,616	119,616
TOTAL OPERATING LAND AND BUILDINGS AT FAIR VALUE	730,067	729,882



The Company owns building no. 701, Vodičkova 34, Prague 1 with the parcel of land no. 2061 with an acreage of 2,260 m², registered at LV no. 198, cadastral area Nové Město. The last revaluation of the land and building to fair value based on expert valuation has been performed as at 5 May 2003.

b) Financial investments in subsidiaries and associates

SUBSIDIARIES (CZK '000)	31 DEC 2007	31 DEC 2006
COST	-	265,360
REVALUATION DIFFERENCE (NOTE 8)	-	390,052
FAIR VALUE	-	655,412
ASSOCIATES		
COST	620,222	530,000
REVALUATION DIFFERENCE (NOTE 8)	508,563	165,752
FAIR VALUE	1,128,785	695,752

The sale of 66% share in KUP is described in Notes 1 and 16.

PARTICIPATING INTERESTS IN ASSOCIATES AS AT 31 DECEMBER 2007 (CZK '000)

ASSOCIATES	NUMBER OF SHARES	NOMINAL VALUE	COST	SHARE ON SHARE CAPITAL %	SHARE ON SHARE CAPITAL	2007 PROFIT/ (LOSS)	NET ASSETS
KOMERČNÍ ÚVĚROVÁ							
POJIŠŤOVNA EGAP, A.S.							
VODIČKOVA 34/701, PRAHA 1	68	1,000	90,222	34	68,000	(33,475)	621,625
REVALUATION DIFFERENCE			290,120				
TOTAL FAIR VALUE*			380,324				
ČESKÁ EXPORTNÍ BANKA, A.S.							
VODIČKOVA 34, PRAHA 1	50	10,000	530,000	27,03	500,000	110,000	2,769,000
REVALUATION DIFFERENCE			218,461				
TOTAL FAIR VALUE**			748,461				

*The carrying amount at 31 December 2007 is based on a selling price of 66% of its subsidiary KUP to a strategic partner in 2007 (Note 1 and 16)

**The carrying amount at 31 December 2007 is based on the subsidiary's equity.

**PARTICIPATING INTERESTS IN SUBSIDIARIES AND ASSOCIATES AS AT
31 DECEMBER 2006 (CZK '000)**

SUBSIDIARIES	NUMBER OF SHARES	NOMINAL VALUE	COST	SHARE ON SHARE CAPITAL %	SHARE ON SHARE CAPITAL	2006 PROFIT/ (LOSS)	NET ASSETS
KOMERČNÍ ÚVĚROVÁ							
POJIŠŤOVNA EGAP, A.S.							
VODIČKOVA 34/701, PRAHA 1	200	1,000	265,360	100	200,000	(9,587)	655,412
REVALUATION DIFFERENCE			390,052				
TOTAL FAIR VALUE*			655,412				
ASSOCIATES							
ČESKÁ EXPORTNÍ BANKA, A.S.							
VODIČKOVA 34, PRAHA 1	50	10,000	530,000	27.03	500,000	99,000	2,574,000
REVALUATION DIFFERENCE			165,752				
TOTAL FAIR VALUE*			695,752				

*The carrying amount at 31 December 2006 is based on the subsidiary's equity.

There were not and are no differences between percentage of ownership and percentage of voting rights in any undertaking mentioned above.

c) Other financial investments**INVESTMENTS IN SECURITIES (CZK '000)**

	31 DEC 2007	31 DEC 2006
VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS	174,590	52,742
BONDS AND OTHER DEBT SECURITIES – AVAILABLE-FOR-SALE	8,362,219	7,298,597
TOTAL FAIR VALUE	8,536,809	7,351,339

As a result of the low liquidity of many securities on the Czech market and market volatility, realisable prices may differ from the stated fair value.

VARIABLE INCOME SECURITIES (CZK '000)

UNQUOTED	31 DEC 2007	31 DEC 2006
ACQUISITION COSTS	170,000	50,000
REVALUATION DIFFERENCE	4,590	2,742
TOTAL FAIR VALUE	174,590	52,742

DEBT SECURITIES AVAILABLE-FOR-SALE (CZK '000)

	31 DEC 2007	31 DEC 2006
MAIN MARKET OF RECOGNISED STOCK EXCHANGES	3,368,118	2,781,977
AUXILIARY MARKET OF RECOGNISED STOCK EXCHANGES	-	304,899
FREE MARKET OF RECOGNISED STOCK EXCHANGES	2,693,873	2,679,882
SHORT-TERM BONDS MARKET OF RECOGNISED STOCK EXCHANGES	2,231,827	1,441,823
RECOGNISED FOREIGN STOCK EXCHANGES	55,786	62,368
AMORTISED AMOUNT	8,349,604	7,270,949
REVALUATION DIFFERENCE	12,615	27,648
TOTAL FAIR VALUE	8,362,219	7,298,597

*Securities traded on the auxiliary market in 2006 have been transferred to the main market in 2007.

DEPOSITS WITH FINANCIAL INSTITUTIONS (CZK '000)

	31 DEC 2007	31 DEC 2006
DOMESTIC BANKS	4,293,358	3,776,844



5 Intangible and tangible fixed assets

INTANGIBLE FIXED ASSETS

COST	1 JAN			31 DEC			31 DEC
	2006	ADDITIONS	DISPOSALS	2006	ADDITIONS	DISPOSALS	
SOFTWARE	29,687	878	-	30,565	388	1,706	29,247
OTHER INTANGIBLE ASSETS	4,797	-	-	4,797	-	-	4,797
ACQUISITION OF INTANGIBLE FIXED ASSETS	-	878	878	-	388	388	-
	34,484	1,756	878	35,362	776	2,094	34,044
ACCUMULATED AMORTISATION							
SOFTWARE	28,480	842	-	29,322	664	1,706	28,280
OTHER INTANGIBLE ASSETS	4,797	-	-	4,797	-	-	4,797
	33,277	842	-	34,119	664	1,706	33,077
NET BOOK AMOUNT	1,207			1,243			967

TANGIBLE FIXED ASSETS

COST	1 JAN			31 DEC			31 DEC
	2006	ADDITIONS	DISPOSALS	2006	ADDITIONS	DISPOSALS	
MACHINES AND EQUIPMENT	71,168	2,516	9,430	64,254	3,937	1,705	66,486
PASSENGER CARS	6,558	1,536	776	7,318	2,007	867	8,458
WORKS OF ART	519	-	-	519	69	-	588
TANGIBLE ASSETS NOT YET BROUGHT INTO USE	-	4,157	4,157	6,320	-	6,198	122
	78,245	8,209	14,363	72,091	12,333	8,770	75,654
ACCUMULATED DEPRECIATION							
MACHINES AND EQUIPMENT	61,691	5,096	9,430	57,357	3,177	1,705	58,829
PASSENGER CARS	6,558	281	776	6,063	1,171	867	6,367
	68,249	5,377	10,206	63,420	4,348	2,572	65,196
NET BOOK AMOUNT	9,996			8,671			10,458

6 Debtors

31 DECEMBER 2007 (CZK '000)	RECEIVABLES FROM POLICY HOLDERS	OTHER RECEIVABLES	TOTAL
CURRENT	1,422	2,149	3,571
OVERDUE	262	180,388	180,650
	1,684	182,537	184,221
PROVISION FOR OVERDUE RECEIVABLES	(519)	(85,212)	(85,731)
	1,165	97,325	98,490
31 DECEMBER 2006 (CZK '000)			
CURRENT	25,951	2,556	28,507
OVERDUE	2,747	188,789	191,536
	28,698	191,345	220,043
PROVISION FOR OVERDUE RECEIVABLES	(4,765)	(12,966)	(17,731)
	23,933	178,379	202,312

Other overdue receivables include receivable for loss prevention in the amount of CZK 169,000,000 from the company ECIMEX GROUP a.s. (hereafter "ECIMEX", Note 9). The receivable is secured by land and buildings owned by the debtor with expert valuation as at 1 September 2005 of CZK 315,885,000. In 2007, the income from realization of this collateral was considered to be lower and so a provision for this receivable of CZK 75,000,000 has been created. Except as described above, receivables have not been secured. Receivables against related parties are disclosed in Note 15.

Insured receivables resulting from insurance products might be transferred to the Company. In 2007 the nominal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 43,343,000 (2006: CZK 16,826,000). Recovered amounts from ceded and sold receivables in 2007 amounted to CZK 186,820,000 (2006: CZK 41,074,000).



The change in the provision for doubtful receivables may be analysed as follows:

CZK '000	2007	2006
OPENING BALANCE AT 1 JANUARY	17,731	14,060
CHARGE FOR THE YEAR	77,240	8,343
WRITTEN BACK DURING THE YEAR	(9,239)	(4,672)
CLOSING BALANCE AT 31 DECEMBER	85,732	17,731

7 Prepayments and accrued income

CZK '000	31 DEC 2007	31 DEC 2006
ACCRUED INCOME FROM INSURANCE CONTRACTS	107,889	169,028
PREPAYMENT FOR BUSINESS DATA, COMMUNICATIONS AND MEMBERSHIP FEES	4,542	7,620
INVENTORY	1,345	1,130
OTHER	56	44
	113,832	177,822

Accrued income from insurance contracts represents insurance premium invoices issued after the balance sheet date but related to the current accounting period.

8 Equity

AUTHORISED AND ISSUED SHARE CAPITAL

CZK '000	31 DEC 2007	31 DEC 2006
1 300 ORDINARY SHARES OF CZK 1,000,000; FULLY PAID	1,300,000	1,300,000

SHARE CAPITAL

The share capital was paid up by way of a monetary contribution of CZK 920,000,000 and a non-monetary contribution of CZK 380,000,000. The shares of the Company are owned by the State pursuant to the Section 4, article 1 of Act No. 58/1995, registered, dematerialised and not publicly traded.

STATUTORY RESERVE FUND

Statutory reserve fund of CZK 52,000,000 was established on the founding of the Company in 1992 for covering fluctuations in the business results of the Company. In subsequent years, the statutory reserve fund was increased by at least 5% of annual net profits, with the exception of the unprofitable years of 1999, 2002 and 2005. From the profit of 2006, CZK 41,000,000 has been allocated to the fund. The statutory reserve fund as at 31 December 2007 amounted to CZK 260,000,000, by which the limit of 20% of share capital has been achieved, i.e. minimum required limit for statutory reserve fund in accordance with the Commercial Code (2006: CZK 219,000,000).

CAPITAL FUNDS (CZK '000)

	INSURANCE WITH STATE SUPPORT	REVALUATION DIFFERENCE	TOTAL
2007			
OTHER CAPITAL FUNDS	5,086,277	604,032	5,690,309
OF WHICH: SUBSIDIES FROM STATE BUDGET	4,983,000	-	4,983,000
2006			
OTHER CAPITAL FUNDS	5,086,277	586,040	5,672,317
OF WHICH: SUBSIDIES FROM STATE BUDGET	4,923,000	-	4,983,000

**OTHER (SPECIAL-PURPOSE) FUNDS**

CZK '000	1 JAN 2006	ADDITIONS	USAGE	31 DEC 2006	ADDITIONS/ TRANSFERS	USAGE/ TRANSFERS	31 DEC 2007
INSURANCE WITH STATE SUPPORT FUND	1,211,557	236,642	41,038	1,407,161	644,062	-	2,051,223
EXPORT MARKETABLE RISKS FUND	236,642	-	236,642	-	-	-	-
LOSS PREVENTION FUND	171,607	22,831	-	194,438	100,000	-	294,438
SOCIAL FUND	14,643	-	2,906	11,737	4,100	7,874	7,963
TOTAL	1,634,449	259,473	280,586	1,613,336	748,162	7,874	2,353,624

The General meeting held on 1 June 2006 approved a transfer of funds that had been created to cover commercial risks and after the segregation and transfer of insurance business into the subsidiary KUP, lost their purpose. The balance of the export marketable risks fund was transferred to Insurance with State support fund in 2006.

The Loss prevention fund as at 31 December 2007 and 2006 includes a blocked amount of CZK 169,000,000, which had been provided to ECIMEX for loss prevention (Note 6).

REVALUATION RESERVE

CZK '000	31 DEC 2007	31 DEC 2006
LAND AND BUILDINGS (NOTE 4 a))	119,616	119,616
FINANCIAL INVESTMENTS IN SUBSIDIARIES (NOTE 4 b))	-	390,052
FINANCIAL INVESTMENTS IN ASSOCIATES (NOTE 4 b))	508,563	165,752
DEFERRED TAX (NOTE 12)	(24,147)	(89,380)
	604,032	586,040

PROFIT AFTER TAXATION

Based on a decision of the Ministries executing the sole shareholder rights of the State in the Company, 2007 net profit of CZK 905,897,000 will be used to strengthen the Company's equity funds with a majority of the profit allocated to the Insurance with State support fund.

Allocation of 2006 profit is shown in the Statement of changes in shareholder's equity.

9 Technical reserves

31 DECEMBER 2007	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
GROSS RESERVE	2,803,308	1,126,292	44,954	7,284	3,981,838
INWARDS REINSURANCE (NOTE 13)	155,787	-	-	-	155,787
PORTION COVERED BY REINSURANCE (NOTE 13)	(30,012)	-	-	-	(30,012)
NET RESERVE	2,929,083	1,126,292	44,954	7,284	4,107,613
31 DECEMBER 2006					
GROSS RESERVE	2,048,788	1,444,980	50,812	4,406	3,548,986
INWARDS REINSURANCE (NOTE 13)	152,687	-	-	-	152,687
PORTION COVERED BY REINSURANCE	(10,377)	-	-	-	(10,377)
NET RESERVE	2,191,098	1,444,980	50,812	4,406	3,691,296

RESERVE FOR CLAIMS

CZK '000	31 DECEMBER 2007	31 DECEMBER 2006
RBNS	781,573	1,366,743
IBNR	344,719	78,237
	1,126,292	1,444,980



Due to economic problems and unfavourable market development since the second half of 2005, the company ECIMEX went into bankruptcy on 16 March 2006. Due to insurance of loans granted to ECIMEX by banks, EGAP incurred claims. Following the true and fair view and principle of prudence, the Company created an IBNR reserve in the amount of CZK 430,000,000 in 2005, as due to all known information, it was clear that substantial problems of ECIMEX existed already as at 31 December 2005. Subsequently in 2006, the reserve of CZK 430,000,000 was transferred from IBNR to RBNS and the Company paid CZK 88,050,000 as a first part of the claim and another part totalling CZK 246,640,000 in 2007. Remaining part of the claim will be paid in 2008.

Run off analysis

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2007

CZK '000	CLAIMS ARISING IN THE YEAR							
	2001 AND OLDER	2002	2003	2004	2005	2006	2007	TOTAL
AT THE END OF ACCOUNTING PERIOD	2,005,819	201,821	57,623	518,265	760,169	141,315	644,764	
ONE YEAR LATER	3,514,160	136,786	32,223	486,696	453,853	125,824		
TWO YEARS LATER	3,558,604	136,773	32,295	486,583	449,912			
THREE YEARS LATER	3,427,686	137,181	34,306	175,433				
FOUR YEARS LATER	3,607,483	136,842	32,085					
FIVE YEARS LATER	3,443,618	29,067						
SIX YEARS LATER	3,401,513							
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	3,401,513	29,067	32,085	175,433	449,912	125,824	644,764	4,858,598
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2007	(3,106,623)	(29,067)	(31,502)	(161,902)	(351,505)	(51,707)	-	(3,732,306)
TOTAL RESERVE FOR CLAIMS	294,890	-	583	13,531	98,407	74,117	664,764	1,126,292

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2006

CZK '000	CLAIMS ARISING IN THE YEAR						
	2001 AND OLDER	2002	2003	2004	2005	2006	TOTAL
AT THE END OF ACCOUNTING PERIOD	2,005,819	201,821	57,623	518,265	760,169	141,315	
ONE YEAR LATER	3,514,160	136,786	32,223	486,696	453,853		
TWO YEARS LATER	3,558,604	136,773	32,295	486,583			
THREE YEARS LATER	3,427,686	137,181	34,306				
FOUR YEARS LATER	3,607,483	136,842					
FIVE YEARS LATER	3,443,618						
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	3,443,618	136,842	34,306	486,583	453,853	141,315	4,696,517
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2006	(2,840,919)	(136,842)	(31,502)	(137,405)	(104,869)	-	(3,251,537)
TOTAL RESERVE FOR CLAIMS	602,699	-	2,804	349,178	348,984	141,315	1,444,980

EQUALISATION RESERVE

CZK '000	31 DEC 2007	31 DEC 2006
INSURANCE CLASS 15 – GUARANTEE INSURANCE	310	-
INSURANCE CLASS 16 – OTHER FINANCIAL RISKS INSURANCE	6,974	4,406
EQUALISATION RESERVE TOTAL	7,284	4,406



MOVEMENTS ON GROSS TECHNICAL RESERVES CAN BE ANALYSED AS FOLLOWS:

CZK '000	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
AT 1 JANUARY 2006	1,821,604	2,243,211	60,442	7,573	4,132,830
ADDITIONS	801,882	995,948	561	63,552	1,861,943
USAGE	(422,011)	(1,794,179)	(10,191)	(66,719)	(2,293,100)
AT 31 DECEMBER 2006	2,201,475	1,444,980	50,812	4,406	3,701,673
ADDITIONS	1,257,256	810,863	1,677	74,443	2,144,239
USAGE	(499,636)	(1,129,551)	(7,535)	(71,565)	(1,708,287)
AT 31 DECEMBER 2007	2,959,095	1,126,292	44,954	7,284	4,137,625

10 Other provisions

CZK '000	31 DEC 2007	31 DEC 2006
PROVISION FOR TAXES (NOTE 12)	201,545	113,849
PROVISION FOR UNTAKEN HOLIDAYS	3,204	2,232
	204,749	116,081

Movements on other provisions can be analysed as follows:

CZK '000	PROVISION FOR TAXES	PROVISION FOR UNTAKEN HOLIDAYS	TOTAL
AT 1 JANUARY 2006	-	2,000	2,000
CHARGE	133,411	2,232	135,643
USAGE	-	(2,000)	(2,000)
ADVANCES FOR INCOME TAX	(19,562)	-	(19,562)
AT 31 DECEMBER 2006	113,849	2,232	116,081
CHARGE	287,994	3,204	291,198
USAGE	(113,849)	(2,232)	(116,081)
ADVANCES FOR INCOME TAX	(86,449)	-	(86,449)
AT 31 DECEMBER 2007	201,545	3,204	204,749

11 Creditors

CZK '000	31 DECEMBER 2007	31 DECEMBER 2006
LONG-TERM PAYABLES	101,623	174,463
SHORT-TERM PAYABLES	15,971	15,032
OTHER PAYABLES	117,594	189,495

The Company has no overdue liabilities for social insurance, contribution to the State employment policy, health insurance or tax liabilities payable to the relevant tax authority.



Other payables can be analysed as follows:

CZK '000	2007	2006
TAX PAYABLES – INCLUDING CORPORATE TAX	47	49
DEFERRED TAX LIABILITY (NOTE 12)	101,606	174,346
SOCIAL AND HEALTH INSURANCE PAYABLES	4,971	4,606
PAYABLES TO EMPLOYEES	3,345	2,935
OPERATING ADVANCES RECEIVED	4,490	4,514
OTHER PAYABLES	3,135	3,045
	117,594	189,495

Payables to related parties are disclosed in Note 15.

12 Taxation

Income tax charge in Income statement comprises:

CZK '000	2007	2006
CURRENT TAX EXPENSE	287,994	133,411
ADJUSTMENT OF PRIOR YEAR TAX EXPENSE	364	-
DEFERRED TAX (INCOME) / EXPENSE	(7,506)	106,824
	280,852	240,235

The current tax expense is calculated as follows:

CZK '000	2007	2006
PROFIT BEFORE TAXATION	1,186,749	1,038,797
NON-TAXABLE INCOME	(143,746)	(564,726)
NON-DEDUCTIBLE EXPENSES	157,433	82,397
NET TAXABLE PROFIT	1,200,436	556,468
GIFTS	(460)	(590)
ADJUSTED TAX BASE	1,199,976	555,878
CURRENT TAX CHARGE AT 24%	287,994	133,411
PROVISION FOR INCOME TAX	287,994	133,411
LESS ADVANCES PAID	(86,449)	(19,562)
PROVISION AS AT 31 DECEMBER (NOTE 10)	201,545	113,849
DEFERRED TAX LIABILITIES		
REVALUATION OF SUBSIDIARY (NOTE 8)	-	61,784
BUILDINGS REVALUATION IN EQUITY (NOTE 8)	24,147	27,595
ACCELERATED TAX DEPRECIATION – IMPACT IN EQUITY	76,295	76,295
ACCELERATED TAX DEPRECIATION	2,053	9,937
	102,495	175,611
DEFERRED TAX ASSETS		
TAX LOSSES, ALLOWANCES AND PROVISIONS	(889)	(1,265)
NET DEFERRED TAX LIABILITY (NOTE 11)	101,606	174,346

The change in the net deferred tax liability can be analysed as follows:

CZK '000	2007	2006
NET DEFERRED TAX LIABILITY AS AT 1 JANUARY	174,346	72,234
DEFERRED TAX (INCOME) / EXPENSE	(7,506)	106,824
DECREASE IN THE DEFERRED TAX LIABILITY RECOGNISED IN EQUITY	(65,234)	(4,712)
NET DEFERRED TAX LIABILITY AS AT 31 DECEMBER	101,606	174,346



The deferred tax asset/(liability) is calculated at 21% (the rate enacted for 2008), 20% (the rate enacted for 2009) and 19% (the rate enacted for 2010) depending on the period of temporary's difference expected reversal.

13 Reinsurance

INWARD REINSURANCE (CZK '000)	2007	2006
TECHNICAL RESERVES RELATED TO INWARD REINSURANCE (NOTE 9)	155,787	152,687
INWARD REINSURANCE PREMIUM (NOTE 14)	22,953	18,862
PORTION OF CHANGE IN TECHNICAL RESERVES COVERED BY REINSURANCE – UPR	(3,100)	(1,760)
COMMISSIONS FROM RE-INSURERS	(2,295)	(1,886)
REINSURANCE RESULT	17,558	15,216

OUTWARD REINSURANCE (CZK '000)	INSURANCE WITH STATE SUPPORT	
	2007	2006
PORTION OF TECHNICAL RESERVES COVERED BY REINSURANCE (NOTE 9)	30,012	10,377
NET REINSURANCE	30,012	10,377
OUTWARD REINSURANCE PREMIUM	(22,948)	(11,757)
PORTION OF CLAIMS PAID COVERED BY REINSURANCE	19,634	10,377
COMMISSIONS PAID TO REINSURERS	3,442	1,176
REINSURANCE RESULT	128	(204)

14 Technical account – Non-life insurance

NON-LIFE INSURANCE (CZK '000)

	GROSS WRITTEN PREMIUM	GROSS EARNED PREMIUM	GROSS CLAIMS EXPENSES	GROSS OPERATING EXPENSES
2007				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	1,010,403	542,443	313,216	135,189
GUARANTEE INSURANCE (SECTOR 15)	52,323	59,826	(41,660)	35,282
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	318,562	21,400	-	17,641
	1,381,288	623,669	271,556	188,112
2006				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	837,232	482,670	(270,946)	122,386
GUARANTEE INSURANCE (SECTOR 15)	65,408	39,679	(55,401)	22,136
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	8,210	8,630	-	470
	910,850	530,979	(326,347)	144,992

The gross written premium in 2007 includes inwards reinsurance premiums of CZK 22,953,000 (2006: CZK 18,862,000) (Note 13).

GEOGRAPHICAL STRUCTURE OF GROSS WRITTEN PREMIUM

All gross written premiums arise from insurance contracts concluded in the Czech Republic.



Administration overheads

CZK '000	2007	2006
ADMINISTRATION EXPENSES – NON-LIFE	176,410	134,242
THE ADMINISTRATION EXPENSES CONSIST OF:		
PERSONNEL EXPENSES	114,343	85,750
OTHER OPERATING EXPENSES	23,436	23,492
DEPRECIATION AND AMORTISATION OF FIXED ASSETS	5,011	6,169
BUILDING ADMINISTRATION EXPENSES	11,317	9,256
INFORMATION AND COMMUNICATION SERVICES	4,130	4,167
ADVISORY AND AUDIT FEES	18,173	5,408
	176,410	134,242

*increase is caused by expenditures for legal and advisory services relating to the sale of the share in KUP

PERSONNEL COSTS

Staff costs can be analysed as follows:

CZK MILLION	2007	2006
EMOLUMENTS OF BOARD OF DIRECTORS AND SUPERVISORY BOARD	24,588	10,513
EMOLUMENTS OF OTHER MEMBERS OF SENIOR MANAGEMENT	7,936	12,857
OTHER WAGES, PERSONNEL COSTS AND EMOLUMENTS OF EMPLOYEES	45,774	37,464
SOCIAL COSTS AND HEALTH INSURANCE	36,045	24,916
	114,343	85,750

STAFF STATISTICS**2007****2006**

AVERAGE NUMBER OF OTHER EMPLOYEES	78	76
NUMBER OF MEMBERS OF SENIOR MANAGEMENT	15	13
	93	89
NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS	5	5
NUMBER OF MEMBERS OF THE SUPERVISORY BOARD	9	9

Executive management includes the General Manager, his deputy, directors and heads of sections. The Board of Directors has been formed exclusively by members of executive management of the Company.

Statutory and supervisory bodies' membership functions are honourable, and earn no extra income. No advances, loans and credits nor guarantees were provided to the shareholder and to the members of statutory and supervisory bodies during 2007 or 2006. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which in 2007 amounted to CZK 2,806,000 (2006: CZK 2,565,000).

Company cars are made available for use by management, starting from executive directors. Total cost as at 31 December 2007 of such cars amounted to CZK 5,248,000 (2006: CZK 7,318,000).

OTHER ADMINISTRATION OVERHEADS

Other administration overheads include mainly travel expenses, postal and telecommunication charges, personal and property insurance, repairs and maintenance of the building and educational courses.



15 Related party transactions

The Company was involved in the following related party transactions in addition to transactions disclosed in Notes 14 and 16:

CZK '000	2007	2006
DIRECT GROSS PREMIUM WRITTEN	939,882	639,908
CREATION OF CLAIM RESERVES	516,090	693,568
INVOICING FROM RENTAL AGREEMENT	24,384	23,842
OTHER INVOICING FROM INSURANCE CONTRACTS	184	272
OTHER RE-INVOICING	1,329	926
INTEREST INCOME	11,704	3,594

These transactions were realised on normal commercial terms.

The following related party balances were outstanding at:

CZK '000	31 DECEMBER 2007	31 DECEMBER 2006
CURRENT ACCOUNTS	28,803	52
TERM DEPOSITS	490,956	257,173
CEDED RECEIVABLES	7,991	12,902
CLAIMS RECEIVABLES	-	20,372
OTHER RECEIVABLES	42	55
	527,792	290,554
RBNS	409,381	670,107
IBNR	209,782	78,237
	619,163	748,344

16 Sale of stake in the subsidiary KUP

On 31 January 2005, the Company established a subsidiary Komerční úvěrová pojišťovna EGAP, a.s. with the share capital of CZK 160,000,000.

As at 1 October 2005, the Company increased the share capital in its subsidiary by a contribution-in-kind in the form of a transfer of a part of the business related to marketable insurance and with an expert valuation of CZK 498,706,000. The share capital of the subsidiary has been increased to CZK 200,000,000 during the contribution process.

On 30 June 2006, the Company announced a public tender to sell a 66% share in its subsidiary to a strategic investor with a long-term interest in operating a marketable credit insurance business. The decision about the sale in compliance with Act No. 23/2006 has been confirmed by resolution No. 432 dated 19 April 2006 of the Czech government.

The sale process consisted of several steps: expressing interest, business plan proposals, creating a shorter list of bidders, due-diligence and preparation of contractual documentation. The final step – the actual selection of the strategic partner – was performed in January 2007.

On 18 April 2007, the Government of the Czech Republic decided via resolution No. 395 on the sale of a 66% share to the joint ownership of Ducroire-Delcredere SA. N.V., Belgium and Sace BT SPA, Italy, for the total purchase price of CZK 738,276,000.

On 25 May 2007, the share purchase agreement between EGAP and the above-mentioned strategic partners was signed and after fulfilment of suspensive conditions was approved by the decision of the sole shareholder in the power of Annual General Meeting on 10 October 2007. At the same time, a new KUP statute was approved and a new Supervisory Board with the majority participation of new shareholders was elected.



The following day the purchase was settled and shares were transferred in the Share register to the account of the new shareholders. EGAP retained a 34% share in KUP.

CZK '000	2007
INCOME FROM SALE OF SHARE IN KUP	738,276
COST RELATED TO SALE OF SHARE IN KUP	(175,137)
	563,139

17 Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2007.

18 Subsequent events

In previous years Československá obchodní banka ("CSOB") incurred debt during the financing of the gas installation project in Kamchatka in the Russian Federation as a result of the unpaid loan for financing the Czech part of the gas line supplied by Plynostav Pardubice. The loan granted has been insured by the Company and therefore EGAP paid the claim of approximately CZK 700,000,000 in the years 2004–2007 to CSOB.

In March 2008, CSOB received a payment in the amount of USD 37,800,000 from the Russian state company Kamčatgazprom as an instalment of this debt. By repayment of this amount the insured receivable was enforced in full. As at the date of preparation of the financial statements, EGAP had received an amount of USD 30,200,000 (i.e. CZK 483,055,000) from CSOB. In accordance with the accounting policies (see Note 2d), this income has been disclosed in Other income in Non-technical account for the year ending on 31 December 2008.

Except above mentioned, there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2007.

Signature of financial statements

18 April 2008



Pavol Parížek, CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

Export of ZETOR tractors to Angola
Supplier:
DIT Partner, spol. s r.o.
Insured value:
CZK 6.5 million

Translation note:

This version of the financial statements is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



ENGLISH TRANSLATION

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF EXPORTNÍ GARANČNÍ A POJIŠŤOVACÍ SPOLEČNOST, A.S.

Report on the Annual Report

We have audited the annual report of Exportní garanční a pojišťovací společnost a.s. ("the Company") for consistency with the financial statements for the year ended 31 December 2007 which are included in this Annual Report on pages 58 - 104. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2007 is consistent, in all material respects, with the financial statements referred to above.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year 2007 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

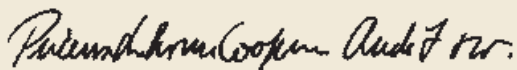
Shareholder of Exportní garanční a pojišťovací společnost, a.s.
Independent auditor's report

Report on review of the Report on Relations (continued)

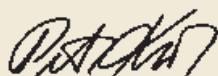
We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

28 May 2008



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner

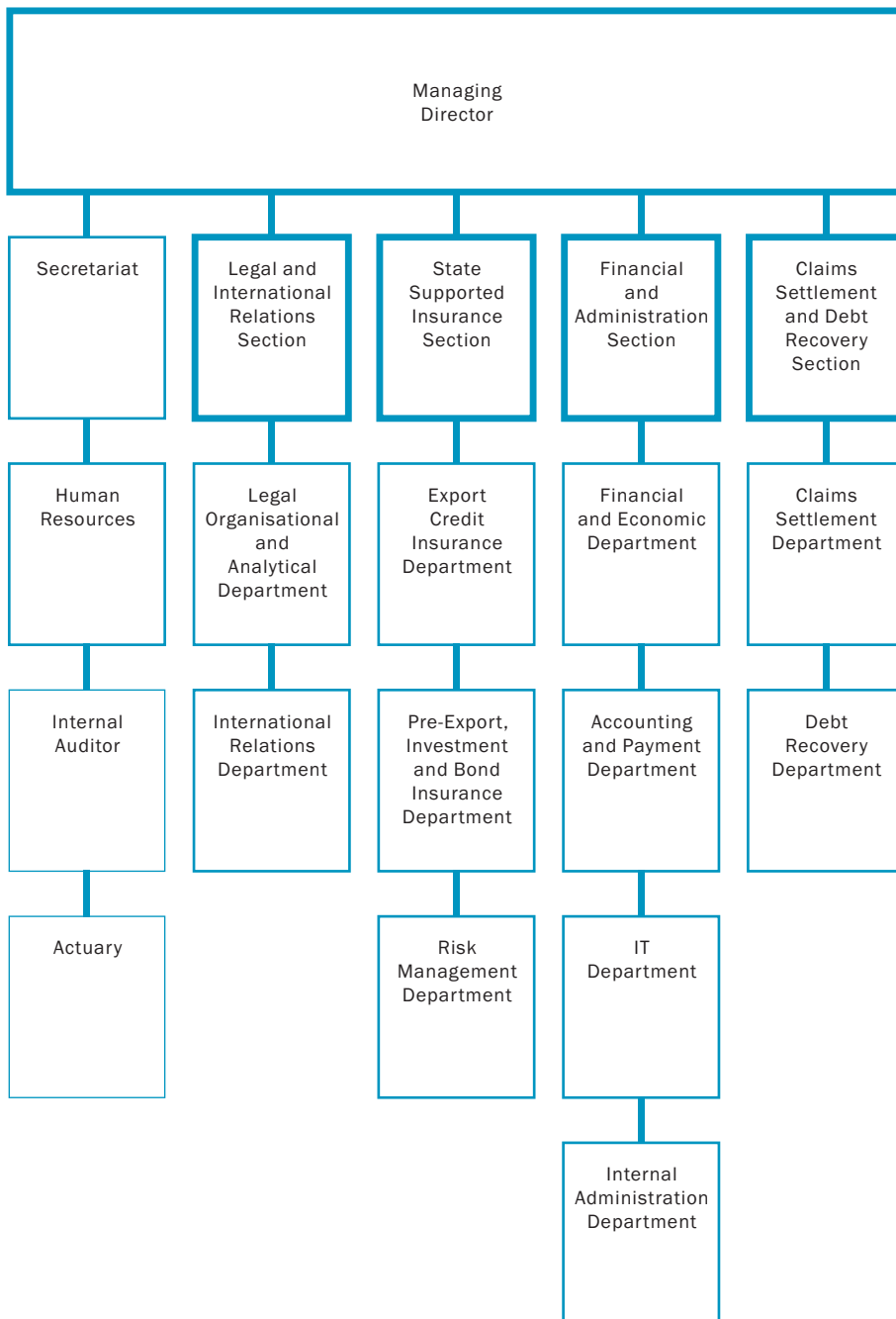


Martin Mančík
Auditor, Licence No. 1964

Translation note

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

ORGANISATIONAL STRUCTURE AS AT 31 DECEMBER 2007





IDENTIFICATION AND CONTACT DATA

ANNUAL REPORT 2007

Export Guarantee and Insurance Corporation, joint-stock company

DATE OF ESTABLISHMENT: June 1, 1992

SHARE CAPITAL: CZK 1,300 million

COMPANY REGISTRATION NUMBER: 45279314

TAX REGISTRATION NUMBER: CZ45279314

ENTRY INTO COMPANIES REGISTER: Companies register kept at the City Court in Prague, Section B, Insert 1619

SEAT: Vodičkova 34/701, 111 21 Prague 1

POSTAL ADDRESS: EGAP, P.O. Box 6, 111 21 Prague 1

PHONE: +(420) 222 841 111

FACSIMILE: +(420) 222 844 001

INTERNET: www.egap.cz

BANK CONNECTION: Account No. 41 908111/0100
with Komerční banka, Prague 1

The Annual Report in its full wording has been published on the website of the company EGAP: **www.egap.cz**

SUBSIDIARY Commercial Credit Insurance Company EGAP, joint-stock company

DATE OF ESTABLISHMENT: 24 June 2005

SHARE CAPITAL: CZK 200 million

SHAREHOLDER STRUCTURE: EGAP

34%

Ducroire—Delcredere SA. N.V and Sace BT SPA

66%

COMPANY REGISTRATION NUMBER: 27245322

TAX REGISTRATION NUMBER: CZ27245322

ENTRY INTO COMPANIES REGISTER: Companies register kept at the City Court in Prague, Section B, Insert 9958

SEAT: Vodičkova 34/701, 111 21 Prague 1

POSTAL ADDRESS: KÚP EGAP, P.O. Box 898, 111 21 Prague 1

PHONE: +(420) 222 841 111

FACSIMILE: +(420) 222 844 001

INTERNET: www.kupeg.cz

BANK CONNECTION: Account No. 35-2147420287/0100
with Komerční banka, Prague 1



Published by Export Guarantee and Insurance Corporation, 2008
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