

Annual Report 2005 Talanx AG

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Talanx AG at a glance

Figures in EUR thousand	2005	2004	2003	2002	2001
Income from participating interests	392,130	199,591	203,291	68,914	76,419
Net interest income	-28,154	-10,950	-17,664	-5,712	-792
Other operating income	76,262	34,353	29,910	1,720,570	393
Other operating expenses	28,354	36,361	17,895	4,863	2,329
Profit or loss on ordinary activities before tax	411,884	186,633	197,642	1,778,909	73,691
Extraordinary profit or loss	-3,000	-	-	-7,500	-
Tax expenditure	30,724	54,698	19,937	66,723	23,759
Profit or loss for the financial year	378,160	131,935	177,705	1,704,686	49,932
Allocation to other retained earnings	189,080	-	-	-	-
Disposable profit	189,080	131,935	177,705	1,704,686	49,932
Financial assets	2,979,164	2,958,967	3,382,022	2,989,312	922,664
Capital and reserves					
Subscribed capital	260,000	260,000	260,000	200,000	200,000
Capital reserve	629,529	629,529	629,529	509,196	509,196
Retained earnings	2,107,286	1,890,272	1,757,567	52,881	2,949
Disposable profit	189,080	131,935	177,705	1,704,686	49,932
Total	3,185,895	2,911,736	2,824,801	2,466,763	762,077
Borrowed funds with a term in excess of 1 year	967,151	695,547	698,742	251,623	254,388

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Report of the Supervisory Board

In our function as the Supervisory Board we again considered at length the economic situation and strategic development of Talanx AG and its major subsidiaries in the 2005 financial year. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for three ordinary meetings and one extraordinary meeting of the Supervisory Board. The committees formed by the Supervisory Board in accordance with § 107 Para. 3 German Stock Corporation Act (AktG), namely the Audit Committee and the Personnel Committee, met on three and two occasions respectively. The Mediation Committee prescribed under the Co-Determination Act had no reason to meet in 2005. The Chairman of the Supervisory Board informed the full Supervisory Board of the work of the Audit and Personnel Committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group in accordance with § 90 German Stock Corporation Act (AktG). Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group.

The Board of Management provided us with regular, timely and comprehensive information regarding the business and financial situation – including the risk situation –, major capital expenditure projects and fundamental issues of corporate policy as well as the strategic orientation of the company and the Group.

Key areas of discussion

The business development of the company and the individual Group segments, the planning for 2006 and the medium-term planning of the company and the Group formed the primary focus of the reporting and were discussed at length during our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we

were able to satisfy ourselves accordingly with the explanations provided.

A special area of our deliberations – not least as the subject of the extraordinary meeting held on 23 November 2005 – was the acquisition of the operational insurance companies of the Gerling Group. This is a move of exceptional strategic importance that will enable the Talanx Group to expand its involvement in primary insurance business and to boost and further extend its profitability and competitive position both nationally and internationally. In addition, we considered in detail the acquisition of a property/casualty insurer in Brazil and – within the framework of the Audit Committee – the consolidation and enlargement of the group of shareholders of neue leben Holding AG. The Audit Committee was also kept regularly updated on the restructuring of the Clarendon Group. Furthermore, the Audit Committee was presented with the results of an actuarial review of the net loss reserves for non-life insurance business within the Talanx Group as well as a profitability analysis of the corporate acquisitions and new establishments made over the past ten years. The full Supervisory Board also discussed the effects of the hurricanes and other natural disasters on results in the 2005 financial year and considered possible implications for the insurance business of the Talanx Group. We unanimously welcomed the extension of the cooperation between the CiV insurers and Citibank until 31 December 2005.

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association or Rules of Procedure were agreed with the Board of Management following examination and discussion.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up for the first time in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the book-keeping system were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover. The full Supervisory Board selected the auditor and the Audit Committee awarded the concrete audit

mandate. In addition to the usual audit tasks, the audit focused particularly on the allocation of costs from the company's various service agreements with its affiliates, the impairment and appropriateness of deferred tax assets, the adequacy of the net loss reserves recognized in the consolidated financial statements and the measurement of structured products and derivatives in the Group's asset portfolio. Collaboration with the auditors took place on a trusting and cooperative basis. The special challenges associated with the international aspects of the audit were met without reservation.

These audits gave no grounds for objection. The unqualified audit certificates that were issued state that the accounting, annual financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and results and that the management reports suitably reflect the annual and consolidated financial statements.

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were finalized at a meeting of the Audit Committee on 15 June 2006 and at a meeting of the Supervisory Board on 16 June 2006. The auditor took part in the discussions of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements and the corresponding management reports, we concurred with the opinion of the auditor and approved the annual and consolidated financial statements drawn up by the Board of Management. The annual financial statements are thus adopted. We approve of the management reports and in particular the statements made therein regarding the further development of the company. We agree with the Board of Management's proposal for the distribution of the disposable profit.

The report compiled by the Board of Management in accordance with § 312 German Stock Corporation Act (AktG) on the company's relations with affiliated companies has likewise been examined by KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover, and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined the report on relations with affiliated companies; we reached the same conclusion as the auditors and have no objections to the statement reproduced in this report.

Appointments to the Supervisory Board

Ms. Sonja Brüggemeier resigned her seat as an employee representative on the Supervisory Board with effect from 31 December 2005. Mr. Jürgen Stachan was appointed to the Supervisory Board as her successor by order of Hannover County Court on 2 January 2006. In the run-up to the completion of the acquisition of the operational insurance companies of the Gerling Group the General Meeting of Talanx AG resolved – at an extraordinary meeting held on 10 March 2006 – to enlarge the company's Supervisory Board from twelve to sixteen members. The two additional members to be elected by the General Meeting were then chosen at the same meeting: Dr. Hans-Dieter Petram and Mr. Bodo Uebber, whose terms of office both commenced on 20 April 2006. The two additional employee representatives, Mr. Rudolf Müller and Mr. Ralf Rieger, were appointed as members of the Supervisory Board by order of Hannover County Court on 16 May 2006.

Hannover, 16 June 2006

For the Supervisory Board

Dr. Hans-Joachim Fonk
(Chairman)

Boards and officers

Supervisory Board

Dr. Hans-Joachim Fonk

Attorney,
Tutzing
Chairman



Johannes Funck

Employee, HDI Privat
Versicherung AG,
Mülheim
Deputy Chairman



Prof. Dr.-Ing. Eckhard Rohkamm

Former CEO of ThyssenKrupp
Technologies AG,
Hamburg
Deputy Chairman



Sonja Brüggemeier

(until 31.12.2005)
Trade union secretary,
Hannover



Götz Hartmann

Executive employee, Talanx AG,
Gehrden



Gerald Herrmann

Trade union secretary,
Norderstedt



Dr. Thomas Lindner

Chairman of the Management Board
of Groz-Beckert KG,
Albstadt



Otto Müller

Employee, Hannover
Rückversicherung AG,
Hannover



Dr. rer. pol. Michael Rogowski

Chairman of the Supervisory Board
of Voith AG,
Heidenheim



Dr. Erhard Schipporeit

Member of the Executive Board
of E.ON AG,
Düsseldorf



Barbara Schulze

Employee, HDI Industrie
Versicherung AG,
Bochum



Jürgen Stachan

(since 2.1.2006)
Trade union secretary,
Sarstedt



Eggert Voscherau

Deputy Chairman of the Executive
Board of BASF Aktiengesellschaft,
Ludwigshafen



Board of Management

Wolf-Dieter Baumgartl

Chairman of the Board
of Management of
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.,
Hannover
Chairman



Werner Dettmer

Member of the Boards
of Management of
HDI Industrie Versicherung AG,
HDI Privat Versicherung AG,
HDI Service AG,
Hannover



Herbert K. Haas

Member of the Board
of Management
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.,
Hannover



Dr. Christian Hinsch

Member of the Board
of Management of
HDI Haftpflichtverband der
Deutschen Industrie V.a.G., Hannover
Vorsitzender der Vorstände
HDI Industrie Versicherung AG
HDI Privat Versicherung AG
HDI Service AG
HDI International Holding AG,
Hannover



Norbert Kox

Chairman of the Executive Boards of
CiV Lebensversicherung AG
CiV Versicherung AG
PB Lebensversicherung AG
PB Versicherung AG,
Hilden



Dr. Hans Löffler

Chairman of the Executive Boards of
Aspecta Global Group AG
Aspecta Lebensversicherung AG
Aspecta Versicherung AG
HDI Lebensversicherung AG,
Hamburg



Harry Ploemacher

Chairman of the Executive Board of
Ampega Investment AG,
Hannover



Wilhelm Zeller

Chairman of the Executive Boards of
Hannover Rückversicherung AG
E+S Rückversicherung AG,
Hannover



Management report

Business overview and general environment

In its function as the financial and management holding company of the Talanx Group, Talanx AG holds participating interests in companies inside and outside Germany that transact principally insurance and reinsurance business. In addition, Group companies are active in the financial services sector. Talanx is a diversified group that operates with multiple brands. Diversification is motivated by the goal of ensuring continuous value enhancement of the company through various business segments in a changing business climate and general environment. A local approach provides for greater market intimacy and affords competitive advantages. Thanks to its flexible multi-brand strategy Talanx AG also stands out as an ideal cooperation partner.

The primary task of Talanx AG is to lead and steer the Talanx Group. The Board of Management of Talanx AG defines the Group strategy and decides on business-policy objectives. As a financial and management holding company Talanx AG is also responsible for raising capital for the Group and is tasked with ensuring efficient Group controlling and risk management as well as with safeguarding the implementation and enhancement of value-oriented enterprise management.

The Group's strategic orientation is anchored by its drive towards growth only in strict compliance with profit targets. Talanx had long been on the lookout for an acquisition in the property/casualty primary insurance segment with a view to permanently cementing the Group's competitiveness in the European insurance industry. With this in mind an understanding was reached in November 2005 between the owners of Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft (GKB) and Talanx AG regarding the takeover of the operational insurance companies of the Gerling Group by Talanx AG. Further complementary acquisitions and/or cooperative ventures in this or other business segments continue to be a strategic option.

With a view to securing on a lasting basis the Group's capacity to act, Talanx AG has also progressively opened up to the capital market of late, most recently through a subsidiary's issuance of subordinated debt in a volume of EUR 350 million.

Macroeconomic environment and industry-specific conditions

The global economy showed further vigorous growth of 4.2 % in 2005, albeit at a somewhat slower pace than in the previous year (2004: 4.8 %). Growth in the Eurozone was significantly lower at 1.5 %; Germany again came in below the European average at 1.1 %. The cyclical trend in Germany was boosted by a further rise in exports. Despite modest private consumption, domestic economic activity in Germany picked up slightly in the second half of the year.

Against a backdrop of a continued difficult overall economic climate in Germany, the insurance industry nevertheless generated somewhat stronger growth than in the previous year: according to provisional calculations the German Insurance Association (GDV) expects its member companies to show premium growth of 3.8 % (previous year: 2.9 %). The increase was again driven by life and health insurers, with premium income in life insurance and private health insurance recording above-average growth. In property and casualty insurance, which was impacted by a number of factors including more intense price competition, the GDV expects the premium volume to contract by 0.2 %. The decrease can be attributed in particular to industrial property and motor insurance, while credit business and the general third party liability, homeowners' comprehensive and legal protection lines are all set to show premium gains.

Overview of the business development

Talanx AG generated another very good result in the 2005 financial year. Due to the omission of a dividend distribution by Hannover Re, however, the heavy burden of natural catastrophe losses will also leave its mark on the 2006 financial year. All in all, after allowing for special effects, the business performance was in line with our expectations.

Net income, financial position and assets

The profit on ordinary activities surged 120.7 % to EUR 411.9 million. The main factors here were the exceptionally high profit transfer from Aspecta Global Group AG, which was attributable to realization gains within the group, as well as a substantial profit transfer from HDI International Holding AG – bearing in mind that this too includes a special effect. The result further benefited from the favorable business development in all segments, although in the case of the Property/Casualty Reinsurance segment it should be remembered that the 2004 dividend distributed by Hannover Re was collected in the 2005 financial year.

Income from participating interests declined from EUR 29.3 million to EUR 19.0 million (–35.3 %). The decrease was principally due to the fact that newly concluded profit transfer agreements in 2004 caused a one-off overlap of dividend payments and profit transfers at the companies HDI Rechtsschutz AG and Ampega Asset Management GmbH, whereas in 2005 income was only collected under the profit transfer agreements. The Neue Leben holding company paid its first dividend to Talanx AG in an amount of EUR 3.0 million.

Income from profit transfers climbed to EUR 392.5 million (+114.5 %). Intra-group realization gains within the Aspecta Group were the primary factor here, leading to an exceptionally high profit transfer from Aspecta Global Group. HDI International AG also contributed to the increase, boosting its profit transfer to EUR 33.1 (3.8) million as a consequence of a once-only special dividend of EUR 20.0 million from the Italian company HDI Assicurazioni. As anticipated, the losses assumed from the PB insurers continued to decrease.

The other operating income totaled EUR 76.3 (34.4) million. Extraordinary income of EUR 60.0 million was realized from

the sale of HDI Service AG to HDI Privat AG and HDI Industrie AG. Additional income was generated by the sale of Hannover Re shares from current assets (EUR 6.5 million) and from the sale of HDI V.a.G. profit-sharing certificates to Group companies (EUR 8.8 million).

Interest expenditure included higher interest payments on the Talanx debenture, which was increased from EUR 450 million to EUR 550 million in 2005. In addition, interest expenditures were incurred for the loan that Talanx Finanz (Luxemburg) S.A. had extended to Talanx AG and financed through the issue of its own debenture in the amount of EUR 350 million.

The balance sheet of Talanx AG continues to be shaped by its function as a holding company. Total assets grew by 14.3 % to EUR 4.3 billion, especially due to the special effect associated with Aspecta Global Group. The Group's improved internal financing (+EUR 450.0 million) was also a factor here. These effects were opposed, most notably, by the scheduled redemption of the convertible bond issued in 2000 on shares of Hannover Re (EUR 175.0 million).

The major movements on the assets side were as follows: within the portfolio of financial assets the shares in affiliated companies grew by EUR 175.4 million year-on-year to EUR 2,901.1 million. The rise was attributable to three capital increases at HDI International Holding. The largest of these was implemented in connection with the acquisition of a Brazilian property and casualty insurance company. Loans to affiliated companies were reduced by EUR 149.6 million to EUR 33.7 million principally through the sale of profit-sharing certificates of HDI V.a.G. Financial assets thus increased only slightly on balance (+EUR 20.2 million).

The improved profitability of the subsidiaries and the associated profit transfers due caused the accounts receivable in current assets to rise by EUR 183.0 million to EUR 338.9 million.

The significantly increased level of cash in banks (+ EUR 290.4 million) is of a short-term nature; this item includes the funds from the aforementioned internal Group financing. The liabilities side of the balance sheet is notable for the higher disposable profit and an associated improvement of EUR 274.2 million in stockholders' equity. In addition, opposing effects derived from the increase in the Group's internal financing (+ EUR 450.0 million) and the repayment of the convertible bond (EUR 175.0 million).

The report on relations with affiliated companies that is to be drawn up by the Board of Management in accordance with

§ 312 Stock Corporation Act concludes that our company received an adequate consideration for all transactions with affiliated companies according to the circumstances of which it was aware at the time when the transactions were effected. No measures as defined by § 312 German Stock Corporation Act were taken or omitted.

The company did not incur any losses that required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act.

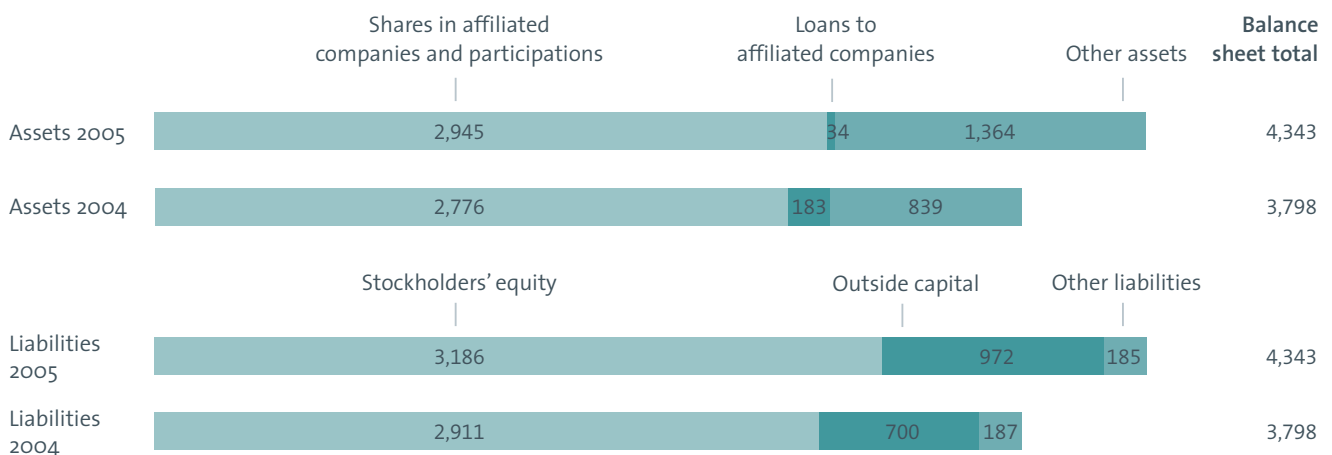
Proposal for the distribution of profits

The Board of Management and Supervisory Board intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

Allocation to other retained earnings: EUR 189,080,000.

Balance sheet structure

in EUR million



Development of the major participations

The following section describes the development and 2005 business experience of the most important companies grouped together under Talanx AG. This mode of presentation was chosen in view of the fact that the performance of Talanx AG is determined primarily by profit transfers from the individual companies and income from participating interests. Most domestic companies are linked with Talanx AG via control and profit transfer agreements; these companies are listed in the Notes under "Other information". The allocation of companies is based on the business segments in which the Talanx Group is active.

Property/Casualty Primary Insurance

The areas of concentration within this segment are worldwide industrial insurance as well as property and casualty business with private customers, principally in Europe and the USA. The companies represented in this segment focus on the cost-effective distribution channels of direct sales, independent agents and cooperation arrangements with banks and post office partners.

This business segment is dominated first and foremost by the activities of the following companies, the development of which is described below: the US Clarendon Insurance Group, the German-based HDI Industrierversicherung AG and HDI Privatversicherung AG as well as the insurance companies grouped together under HDI International AG. The companies Aspecta Versicherung AG (part of Aspecta Global Group), HDI Rechtsschutz AG, CiV Versicherung AG, PB Versicherung AG and Neue Leben Unfallversicherung AG are also included in this segment.

Clarendon Insurance Group

The largest company in this segment is Clarendon Insurance Group, Inc., which operates in the United States. The sole stockholder is Hannover Rückversicherung AG (Hannover Re). Clarendon is licensed to transact business in all US states, and is one of the few companies in the country to concentrate exclusively on specialty insurance.

The individual contracts are written by around 50 managing general agents (MGAs) that work together with Clarendon. A key focus is on hard-to-place risks, the underwriting criteria for which are not tailored to the mass market. It should, however, be noted that in the present attractive market climate some routine business was also renewed on an opportunistic basis, including for example workers' compensation covers.

Following a claims experience heavily impacted by natural disasters in the previous year, the year under review also suffered catastrophe losses that – while few in number – produced very heavy losses. Taken together, the three hurricanes “Katrina”, “Rita” and “Wilma” took a toll of EUR 40.3 million on the result for net account. Still, the proportional reinsurance protection taken out in the wake of the previous year’s hurricanes afforded considerable relief in this respect: at the time the net loss from the 2004 hurricanes had been as much as EUR 90.0 million. The company’s risk management thus proved its worth in the year under review.

Following the unsatisfactory business experience in the previous year Clarendon moved forward with its portfolio optimization in the year under review: gross premium income contracted by a further 20.6 % to EUR 1.4 billion (EUR 1.8 billion) on account of the progressively more rigorous focus on profitable business. Current business consequently did not entirely offset the additional costs incurred in connection with extensive capital spending on infrastructure as well as the hurricane-related losses. Overall, though, Clarendon closed the year under review with a virtually break-even result.

In February 2006 the next restructuring steps within the specialty insurance segment were completed: with the establishment of a new holding company, Praetorian Financial Group, Inc., the separation of the written business is now moving forward from the standpoint of company law too. While the two operating companies Insurance Corporation of Hannover (ICH) and Redland Insurance Company will transact Clarendon’s specialty business within Praetorian, Clarendon National Insurance Company will attend to the handling of routine business.

HDI Industrie Versicherung AG

HDI Industrie Versicherung AG, which transacts insurance business with commercial and industrial clients through eleven German branches as well as branches in Switzerland, France and the Czech Republic, ranks among the leading industrial insurers in Germany.

With a reduction of 3.6 % in premium income to EUR 1,465.7 million, HDI Industrie performed better than the market as a whole. Despite a difficult general economic climate and increasing competition – as well as the associated more aggressive pricing policy among rival players, especially in the property line – the company is systematically standing by its “profitability before volume” underwriting policy in this market climate.

Although there was an increase in the number of claims and in claim payments, the level of loss expenditure was low. Claims and claims expenses – for gross account – decreased overall. While the reinsurers’ share of the claims expenditure decreased due to the higher level of retained premiums, the increase in claims and claims expenses for net account was disproportionately low compared to the growth in net premium. The net loss ratio for the total portfolio consequently improved to 72.7 (78.6) %. Gross administrative expenses rose only modestly. However, the sharp drop in commissions from reinsurers due to the higher retention pushed net costs appreciably higher. The expense ratio therefore increased to 14.0 (9.3) %. The combined ratio nevertheless improved to 86.7 (87.9) %.

An excellent underwriting profit of EUR 77.2 (63.7) million was generated before the allocation to the equalization reserve. The further improvement in the claims experience necessitated an allocation of EUR 110.9 (72.5) million to the equalization reserve. The technical account consequently closed with a deficit of EUR 33.7 million (2004: loss of EUR 8.7 million).

Since the performance of non-underwriting business more than offset the underwriting deficit, a profit on ordinary activities of EUR 13.7 (38.3) million was generated.

In 2006 profitability is expected to stabilize on the current level due to continued adherence to the profit-oriented underwriting policy. Property insurance already witnessed early signs of premium erosion in 2005, and this is likely to continue in 2006. The company will systematically relinquish risks for which adequate rates can no longer be obtained.

HDI Privat Versicherung AG

Private customers are the focus of HDI Privat Versicherung AG. HDI Privat has traditionally positioned itself as a value-for-money provider, and its portfolio is largely dominated by motor insurance. Competition in this line continued to intensify in 2005, accompanied by price cuts in new motor business. HDI Privat was nevertheless able to further boost its gross written premium (+ 3.3 %) and the number of policies (+ 55,000). The cooperations entered into in recent years, coupled with the company's own activities HDI Autohaus Service and HDI Direkt Service, played a disproportionately significant role in this performance.

The claims experience also developed positively. Although the number of reported claims was higher, both the gross and net loss ratio improved considerably on the previous year, enabling the company to show a substantially better underwriting result of EUR 19.3 (4.2) million before the allocation to the equalization reserve. The favorable claims experience, however, caused the allocation to the equalization reserve to rise to EUR 43.2 (13.7) million, leaving an increased underwriting deficit of EUR 23.9 million after the allocation to the equalization reserve (2004: loss of EUR 9.5 million).

The non-underwriting result closed at EUR 62.8 (63.2) million. The investment performance was boosted again despite the low level of interest rates. This was assisted by the upbeat trend on equity markets, which facilitated increased realization of price gains. Since the underwriting deficit was more than offset by the non-underwriting profit, the company generated another good profit on ordinary activities of EUR 38.9 (53.7) million. An amount of EUR 38.5 (53.3) million was transferred to Talanx AG on the basis of the existing profit transfer agreement.

HDI Privat anticipates roughly unchanged gross premium income in 2006. Further expansion of company-brokered employee business is planned. Despite fiercer competition and the associated decline in profits, the potential inherent in this distribution channel has by no means been exhausted. The operating result is nevertheless likely to come in lower on account of more intense competition, especially in motor business, and reduced investment income.

HDI International Holding

The Hannover-based HDI International Holding AG, a wholly owned subsidiary of Talanx AG, is responsible for controlling the insurers located abroad that operate in the property/casualty primary insurance segment. The company's balance sheet structure is determined by its shares in affiliated companies. In 2005 HDI International Holding AG held interests in companies in Austria, Belgium, Brazil, Bulgaria, France, Italy, the Netherlands, Poland and Spain.

The book values of the participations increased by EUR 142.2 million and amounted to altogether EUR 516.1 (373.9) million as at 31.12.2005. The company generated income from participating interests and other income of EUR 40.0 (6.2) million, contrasting with personnel expenses and other operating expenses totaling EUR 6.2 (2.2) million.

The acquisition of Tryg Polska TU S.A. (now: HDI Asekuracja TU S.A.) is reflected in the above figures. Also included for the first time is the newly acquired Brazilian company HDI Automóveis e Bens. The additional gross premium volume deriving from these acquisitions in Brazil and Poland was in the order of EUR 164 million. Total gross written premiums climbed by 44.5 % to EUR 1.6 (1.1) billion.

The Italian subsidiary HDI Assicurazioni S.p.A. – with a business volume of EUR 635.3 million – is currently the largest participation measured by gross premium income and generated particularly gratifying growth in the life sector in 2005. Gross premiums in life business were more than doubled year-on-year to EUR 385.1 million (2004: EUR 149.5 million). The newly launched life products enjoyed particularly strong demand through the sales channels of the company's cooperation partners. Total gross premiums surged to EUR 635.3 (352.7) million; the profit on ordinary activities climbed to EUR 21.3 (8.1) million.

Under a control and profit transfer agreement HDI International Holding transferred an amount of EUR 33.1 million to Talanx AG.

The following table shows the aggregate key figures for the major operating participations.

In 2006 all companies have good prospects of further consolidating or expanding their position in their respective markets and boosting both premium income and profitability. Their goal is to generate profit-oriented growth. Thanks to its strategy geared to long-term success, HDI International Holding is well prepared to meet the challenges of rapidly evolving markets.

		2005	2004
Gross premium income	EUR m	1,578.8	1,092.5
Underwriting result before changes in the equalization reserve (net)	EUR m	9.4	-12.1
Combined Ratio (net)	%	99.2	104.4
Profit on non-underwriting business	EUR m	73.9	49.8
Profit on ordinary activities	EUR m	78.1	36.1
Profit for the year	EUR m	53.6	22.9

Life Primary Insurance

The focus of this business segment is on products that contribute to comprehensive individual and occupational retirement provision. The distribution channels served consist of independent agents, direct sales as well as cooperations with banks and postal service partners. The Talanx Group now ranks among the ten largest German insurance groups in life business and it operates on the market under the Aspecta, CiV, HDI, Neue Leben and PB brands. The Group's activities in the area of occupational pension schemes are grouped together under the auspices of HDI Pensionsmanagement AG, a service, marketing and consulting company.

All life insurers active in Germany were faced with far-reaching changes in 2005: the Retirement Income Act (Alterseinkünftegesetz), which came into force at the turn of the year, revised the tax treatment of expenditures incurred for retirement provision. At the same time, citizens are expected to show greater self-reliance in their provision for old age.

Policy-makers are forcing this trend through the introduction of tax-advantaged products such as the "basic pension" (Basisrente). It is to be anticipated that lawmakers will step up such assistance and that acceptance of individual retirement provision among the population will continue to improve. Dynamic growth is also expected in the market for occupational retirement schemes – an area that is likely to evolve into a major pillar of premium income in life insurance for the Talanx Group over the coming years.

As anticipated, the new business booked by the German life insurance market as a whole in 2005 fell short of the previous year's figures, since 2004 had benefited strongly from the effect of customers bringing forward their purchases in light of the impending tax changes. Yet the market also suffered from the protracted adverse state of the labor market, restrained private consumption and the slight decline – after

adjustment for inflation – in disposable incomes available to private households. The number of new policies taken out on the German market in 2005 dropped by roughly 38 %.

Within the Talanx Group the decrease was much less marked (–31.6 %). All the Group's domestic life insurers booked growth rates in gross written premiums that surpassed the 6.8 % anticipated for the German life insurance market (including company pension schemes and separate pension funds). Overall, the increase recorded by the Group's German companies amounted to 17.5 %; the growth generated by the companies abroad was considerably higher at nearly 150 %.

The number of life insurance policies in the Talanx Group's total portfolio in force increased slightly from 4.0 million to 4.3 million (+6.5 %) due to the vigorous growth at the foreign companies.

Aspecta Global Group

The core function of the intermediate holding company Aspecta Global Group AG, Hamburg, is to steer the business activities of the following companies under uniform management: Aspecta Lebensversicherung AG, Aspecta Assurance International AG Liechtenstein, Aspecta Assurance International Luxembourg S.A., Aspecta Zycie TU S.A. (Poland), HDI Lebensversicherung AG, HDI Pensionskasse AG and Aspecta Versicherung AG. The latter company is active in the Property/Casualty Primary Insurance segment. In the life insurance sector Aspecta also markets products in Italy, Austria, Spain, France and Switzerland.

The new business booked by the companies operating in Germany – Aspecta Leben, HDI Leben and HDI Pensionskasse – contracted as expected in accordance with the market trend (–33.1 %). Total premiums paid under new business amounted

to EUR 3.4 billion. Gross written premiums climbed by 22.5 % to EUR 638.0 million owing to the extraordinary new business recorded in 2004.

The foreign Aspecta companies generated vigorous growth in new business taken up of 56.2 % – measured by total premiums paid – to more than EUR 1 billion. The successful expansion of the foreign companies is also borne out by their increased share of the total performance of Aspecta Global Group in relation to new business taken up (2005: 24.6 %, 2004: 12.2 %).

Aspecta Assurance International Luxembourg has entered into a cooperation – under the name Star Finance – with the fund management companies Activest Investmentgesellschaft mbH, Franklin Templeton Investments and Fidelity International. The only one of its kind on the German market, this alliance markets innovative product solutions such as a unit-linked investment annuity under which each month a certain number of trust units – instead of a sum of money – are guaranteed for life. Immediate annuity insurance also offers a solution for the reinvestment of expiring life insurance policies or other asset forms.

The companies belonging to Aspecta Global Group AG sold more than 300,000 policies in 2005. The portfolio in force contained more than 1.2 million policies, an increase of 10.9 %. Heavily influenced by intra-group realization gains, Aspecta Global Group AG posted a year-end profit of EUR 180.1 million.

Aspecta Lebensversicherung AG

Aspecta Lebensversicherung AG markets its policies exclusively through independent agents. In the year just-ended it further expanded these sales partnerships and positioned itself as “The Partner of the Independents”. Its stated objective

is to continue to boost confidence in the reliability of the company among independent agents with an eye to the impending EU Mediation Directive.

As early as January 2005 Aspecta was one of the first companies to launch an entirely new product range on the market that satisfied all the requirements of the Retirement Income Act and also facilitated customer counseling tailored to specific target groups. The company developed a new unit-linked “basic pension”, among other products, and it devised successful marketing approaches for their distribution.

Gross written premiums increased by 19.2 % to EUR 487.4 (408.8) million; this growth reflects the business written at year-end 2004, which proved to have an even more favorable effect than anticipated. Similarly, gratifying growth of + 6.9 % in the in-force portfolio was achieved. Following on from the 2004 boom year new business came in weaker as expected and in line with the market trend (– 33.7 % measured by total premiums paid). The effect of cost-cutting measures initiated in 2004 was reflected in a clear increase in productivity in 2005. The investment portfolio grew by 6.7 % to EUR 988.0 (926.3) million.

CiV Lebensversicherung AG

CiV Lebensversicherung AG, which markets its products through the distribution channels of Citibank, extended the cooperation agreement with Citibank ahead of schedule by a further 15 years until 2025, thereby cementing this successful partnership for the long term.

As a consequence of the reduction in the tax privileges enjoyed by endowment insurance as at year-end 2004, the marketing focus in 2005 shifted to private annuity policies – most notably state-assisted products such as the new “basic pension”. CiV Lebensversicherung has established itself as

one of the most successful providers in this area with its product "Citi Basis Rente".

With total premiums paid of EUR 3.7 billion CiV Leben sustained the high level of new business recorded in 2004 virtually unchanged. Thanks to the year-end business booked in 2004 and new business in 2005, gross written premiums in direct written business climbed 13.9 % to EUR 827.4 (726.4) million. Net premiums grew at the same pace as gross premiums. Income from investments was marginally in excess of the previous year at EUR 82.0 (81.3) million. While ordinary investment income contracted by 7.2 %, sharply higher extraordinary investment income of EUR 5.3 (-1.4) million was generated in 2005, primarily from the sale of equities.

Neue Leben Holding AG

Neue Leben Holding AG is the wholly owned parent of Neue Leben Lebensversicherung AG and Neue Leben Unfallversicherung AG. As at 31 December 2005 Neue Leben Holding AG held a participating interest of 49 % in Neue Leben Pensionsverwaltung AG, which in turn holds all the shares of Neue Leben Pensionskasse AG.

The majority stockholder of Neue Leben Holding AG is Talanx AG with a stake of 67.5 %; a 60 % interest is to be held permanently. Additional interests are held indirectly by seven Sparkasse savings institutions.

The companies belonging to the Neue Leben Group market their products primarily through Sparkasse savings institutions, although they also distribute through independent insurance agents operating nationwide. Long-term marketing cooperation arrangements exist with the shareholding savings institutions. In the interests of expanding the marketing base, the paramount objective is to position Neue Leben as a successful, value-for-money provider and to enter into new

sales agreements. With a view to extending the business relationship with those Sparkasse savings institutions that are not linked with the Neue Leben companies as stockholders, steps are being taken to enhance the affinity of these cooperation partners.

It is to be expected that the traditional strengths of Neue Leben – such as cost-effective administration and speed of response when it comes to adjusting the product range to new marketing, tax or regulatory conditions – combined with excellent ratings will serve to further bolster the market standing of the Neue Leben companies in the coming financial year.

In the course of the year under review the integration of the companies into the Talanx Group progressed according to plan. It has now been largely completed.

The profit for the financial year posted by Neue Leben Holding AG in 2005 consisted principally of income from participating interests received from Neue Leben Lebensversicherung in the amount of EUR 8.0 (5.3) million and from Neue Leben Unfallversicherung AG in the amount of EUR 3.3 (3.7) million. Neue Leben Unfallversicherung AG generated a substantial profit relative to its size (gross written premiums of EUR 18.8 million). Largely due to a conservative allocation to the equalization reserve in involuntary unemployment insurance, the result came in lower than in the previous year at EUR 356,000 (-9.7 %).

All in all, the income from participating interests booked by Neue Leben Holding AG in the amount of EUR 11.3 million was higher than in the previous year (EUR 9.0 million). Neue Leben Holding AG recorded a profit for the year of EUR 10.6 (7.5) million, of which EUR 5.3 million was allocated to retained earnings and EUR 5.3 million was distributed as a dividend among all shareholders.

Reinsurance

The Reinsurance segment is dominated by the Hannover Re Group, one of the largest reinsurance groups in the world. It transacts all lines of property/casualty, life/health and financial/finite-risk reinsurance as well as specialty insurance (through Praetorian Financial Group and Clarendon Insurance Group, cf. Property/Casualty Primary Insurance) and maintains business relations with more than 5,000 insurance companies in about 150 countries. Its worldwide network consists of more than 100 subsidiaries, affiliates, branches and representative offices in 18 countries.

In addition to the reinsurance companies belonging to the Hannover Re Group, this segment also includes Euro International Reinsurance S.A. in Luxembourg and the activities of the primary insurance companies in reinsurance business.

Hannover Rückversicherung AG

Hannover Rückversicherung AG (Hannover Re) writes active reinsurance solely in foreign markets, with the exception of some parts of the business of the Talanx Group companies. Its subsidiary E+S Rückversicherung AG concentrates on the German market. Reciprocal retrocessions ensure a regionally balanced portfolio and hence advantageous risk spreading between the two companies. The business assumed from E+S Rück accounted for 10.4 % of the gross written premium booked by Hannover Re in the year under review.

Following the heavy burden of natural catastrophe losses that was the hallmark of the 2004 financial year, the year under review unfortunately saw an even more active and costly hurricane season. Leaving aside the experience in catastrophe reinsurance, the business performance was gratifying. Based on its strong ratings Hannover Re was able to profit to the fullest extent from the advantageous market environment. Rates and conditions remained on a high level in the year under review, and even showed further improvement in some lines. This was especially true of the property and catastrophe lines that had been impacted by the severe hurricanes of 2004 as well as marine business. Only in certain property and liability segments did rates decline somewhat.

As always, Hannover Re's acceptances were guided by strict profitability criteria. Gross written premium was nevertheless boosted by 4.0 % in the year under review to EUR 6,340.4 million. This growth was, however, entirely attributable to exchange rate movements; at constant exchange rates gross premium would have contracted by 1.3 %.

Premium growth in property and casualty reinsurance was driven by marine, motor and personal accident business. On the other hand, gross premium in the liability segment, in which business was written highly selectively, came in significantly lower. Life reinsurance generated very marked growth.

In the year under review Hannover Re incurred a hitherto unprecedented burden of losses from natural catastrophe events. The three hurricanes “Katrina”, “Rita” and “Wilma” alone caused a net loss of EUR 688.7 million. Including further major claims, the net strain from natural catastrophes and major losses totaled EUR 885.4 million. This was equivalent to 26.4 % of net premium, as against the multi-year average of 6 %. Based on the solid quality and good diversification of the property and casualty reinsurance portfolio the company nevertheless achieved a very good combined ratio of 95.4 (92.1 %); this performance was assisted by effects in the liability and motor lines resulting from the positive run-off of previous underwriting years.

Leaving aside the heavy major loss burden in the year under review, developments in property and casualty reinsurance were satisfactory overall. The portfolio performed very well in all segments with the exception of catastrophe reinsurance, although there was no offsetting the extraordinarily high expenditure on losses from natural disasters. Life reinsurance again proved to be the engine of growth in 2005: gross premium was boosted by a substantial 20.5 % to EUR 1,642.2 million; net premium earned grew by 11.2 % to EUR 1,033.2 million.

The underwriting result for total business before changes in the equalization reserve declined to EUR 160.2 million (EUR 192.4 million). An amount of EUR 228.3 million was allocated to the equalization reserve and similar provisions.

The ordinary investment income of EUR 513.5 million was slightly less than in the previous year (EUR 531.6 million), due not least to the fact that the subsidiaries in Bermuda and Ireland paid out a sharply lower dividend in light of the hurricane-related strains. Extraordinary investment income was influenced by a number of special effects in the year under review. In order to put clear group structures in place various subsidiaries were brought together under two intermediate holding companies – one for non-life reinsurance and one for life reinsurance. As a parallel move the valuation of the participation in a US subsidiary was adjusted. On balance this gave rise to extraordinary income of just over EUR 370.0 million. The amount in question does not constitute operating profits, but reflects solely the realization of hidden reserves within the Group.

The net investment result increased to EUR 895.7 million compared to EUR 584.7 million in the previous year. Due in particular to the effects in extraordinary investment income, the company generated a profit for the financial year of EUR 374.6 (120.6) million. A near breakeven result of just over EUR 5 million would have been posted had it not been for the realization of hidden reserves within the group.

Against a backdrop of attractive market opportunities Hannover Re anticipates a very good 2006 financial year, slightly reduced premium volume and very good net income, provided the burden of major loss remains in line with the multi-year average and as long as there are no unusually adverse movements on capital markets.

E+S Rückversicherung AG

Thanks to the strong position that it has already secured in the German reinsurance market, E+S Rückversicherung AG (E+S Rück) was able to further optimize its portfolio. Under an internal retrocession arrangement the company also continues to assume foreign business from Hannover Re. In life and health reinsurance it has cemented its position in the German market as a major partner for life insurers and moved forward with the enhancement of products tailored to the insurance needs of senior citizens.

The development of premium income in recent years clearly reflects the strategy of stressing profitability before premium growth. The gross premium volume reached its lowest point in 2004 at EUR 2.1 billion, rising modestly in the year under review to reach EUR 2,213.7 million.

The share of the total portfolio attributable to property and casualty reinsurance remained virtually unchanged in the year under review at 63.9 %. The largest non-life line – motor reinsurance – developed satisfactorily despite the tense competitive situation on the primary market; the gross premium volume improved slightly on the previous year to EUR 379.0 million (EUR 375.5 million). Aviation, marine and personal accident reinsurance all enjoyed gratifying double-digit growth, while the development of the other property and casualty reinsurance lines was unremarkable.

The loss expenditure in the first six months of the year under review was below average, but major claims took off dramatically in the second half of the year: special mention should be made of the flooding in the Alps, several plane crashes and the hurricanes in the USA. Net incurred claims in property and casualty reinsurance climbed 13.9 % year-on-year to EUR 696.4 million. An amount of EUR 86.1 million was allocated to the equalization reserve.

Based on growth of 17.0 % in the volume of assets to EUR 7,231.4 million and significantly higher profits on disposals – EUR 103.3 million in the year under review as against EUR 32.1 million in the previous year – the investment income improved substantially. Although current expenditures were slightly higher than in the previous year, the net investment result was boosted by 21.3 % to EUR 277.9 million.

As a consequence of the burden of natural catastrophe losses incurred in the year under review the company was unable to build on the outstanding result of the previous year. The profit for the year was halved to EUR 22.0 million (EUR 44.0 million).

Bearing in mind the current advantageous market conditions prevailing in both property/casualty and life/health reinsurance, E+S Rück expects 2006 and indeed 2007 to develop favorably and should therefore be in a position to achieve its profit targets. The bringing forward of purchases to 2006 due to the impending increase in value-added tax scheduled for 2007 could have positive implications. Assuming that the loss experience in natural catastrophe business remains in line with the multi-year average and that capital markets remain fairly stable, the result should build on the successes of previous years.

Financial Services

The Financial Services segment performs asset management functions for both the Talanx Group and for third-party clients in institutional and retail business. The joint “Ampega” brand is represented by Ampega Asset Management GmbH, Ampega Investment AG, Ampega Financial Services GmbH and Ampega Immobilien Management GmbH. The Talanx Group’s own reinsurance broker Protection Reinsurance Intermediaries AG also belongs to the Financial Services segment.

Ampega analyzes and forecasts movements on global financial and capital markets, and on this basis it devises measures to generate added value for its clients. Its know-how is able to meet the challenges of changing markets and satisfy clients’ needs for individually tailored solutions. In so doing, Ampega always strives to ensure responsible, sustained risk management and the greatest possible transparency of decision-making and implementation.

In addition to private investors, Ampega’s client base consists primarily of the Group’s own as well as outside insurance enterprises, “Pensionskassen” (pension insurance companies set up by one or more companies to serve exclusively their own employees) and pension funds. The product portfolio encompasses special funds, retail funds and institutional asset management including specialized administration services (e.g. outsourcing services for insurers). Portfolio management activities are focused on absolute return products, fixed-income strategies and alternative investments.

Ampega Asset Management GmbH

The company is a licensed financial services institution pursuant to § 32 KWG (Banking Act) and is authorized to perform financial services involving investment brokerage and financial portfolio management functions both within and outside the Group. Its task is to handle asset management activities, including supplementary services, for the Talanx Group as well as for third-party clients.

Tactical asset allocation within the year was again of crucial importance in 2005, especially in the equities asset class. As in the previous year, the primary emphasis here was again on flexible commitments rather than “buy-and-hold” strategies. Given the low yield climate on bond markets and the drawbacks associated with equity investments, clients’ money totaling around EUR 120 million was invested in the single hedge funds launched in August 2005 by the company’s affiliate Ampega Investment AG.

With an operating profit of EUR 26.2 million the result improved by 41.6 %. Fee and commission income increased to EUR 43.2 million as the volume of assets under management showed substantial growth of 43.2 % to reach EUR 33.8 billion.

In addition to the expansion of discretionary business, increased fees and commissions are anticipated in 2006 from the growing asset portfolios of the Group companies.

Ampega Investment AG

The company is a financial institution as defined by § 1 KWG (Banking Act) in conjunction with § 6 InvG (Investment Act). It manages separate fund assets that are in conformity with the EU Investment Directive, mixed separate fund assets, separate fund assets with additional risks as well as special separate fund assets and it performs financial portfolio management tasks.

The company is active in both institutional and retail business. In institutional business Ampega Investment AG has established itself in the German market as a competitive asset manager and markets its core competencies in the Asset Management and Operations/Administration sectors. A central product offered in this respect is the outsourcing of asset management for small and mid-sized insurance enterprises. Ampega Investment AG now serves four insurers with a total volume of EUR 1.4 billion and is in concrete talks with further potential clients. In this niche segment the company is seeking to assume a leading role in the German market.

In August 2005 the company received its license under German law to manage single hedge funds and subsequently launched the "Ampega Managed Futures" and "Ampega Global Macro" single hedge funds. Ampega Investment AG thus became only the second German provider of these products, and it has an opportunity to secure a premier position in what is still a new market segment in Germany.

Retail business profited from growing interest in retail funds in the year under review. Encouraged by the favorable mood on stock markets, asset managers showed considerable interest in initiating their own funds. The new investment opportunities for retail funds also make the "white label" segment, i.e. the launching of funds for external partners, an attractive proposition. Ampega Investment AG made the most of this trend to create another seven white label funds. Altogether, it launched eleven retail funds including the single hedge funds.

Ampega Investment AG was able to generate its first profit for the year of EUR 0.4 million in 2005, compared with a loss of EUR 2.3 million in the previous year. This was made possible by the higher fees and commission income of EUR 8.8 million combined with vigorous growth in the assets under management, which more than doubled from EUR 2.4 to 4.9 billion. The special funds/portfolios managed for the Talanx Group grew to EUR 2.8 billion. Institutional business for third-party clients was acquired in an amount of EUR 500 million, while the volume in retail business grew by EUR 240 million. For 2006 Ampega Investment AG plans a significant operating profit on the basis of further increases in fees and commission income. Continuing growth in the single hedge funds that have been set up, together with reinforcement of the company's market position in the retail sector and the acquisition of further outsourcing mandates constitute the pillars for the envisaged substantial volume growth with third-party clients.

Transactions of special significance that occurred subsequent to the end of the financial year

In November 2005 the owners of Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft (GKB) and Talanx AG reached an understanding regarding acquisition of the operational insurance companies of the Gerling Group by Talanx AG. As at the date when this annual report was drawn up (21 April 2006) not all conditions precedent of this contract had been fulfilled.

Talanx AG is to acquire all the shares of Gerling Beteiligungs-GmbH (GBG) from GKB. GBG is the holding company for the operational companies of the Gerling Group, consisting of Gerling-Konzern Allgemeine Versicherungs-Aktiengesellschaft (GKA) – the group's property/casualty insurer – and GKL, the group's life insurer.

The integration of the Gerling companies into the Talanx Group will be accompanied by extensive restructuring activities. In the assessment of the Board of Management of Talanx AG, this amalgamation marks another major step in the long-term evolution of the Talanx Group. By drawing on their combined expertise the companies will be able to further enhance the quality of their services in the interests of their customers.

In March 2006 Brazilian insurance regulators approved the sale of HSBC's property/casualty insurer to HDI International Holding AG. The merger of HDI Automóveis e Bens (formerly: HSBC Automóveis e Bens Seguros SA) into HDI Seguros SA consequently took place according to plan on 1 April 2006.

Risk management

As the holding company of an insurance and financial services group whose enterprises are active predominantly in the insurance industry, Talanx AG not only carries its own entrepreneurial risks but also shares in the risks of its subsidiaries. The management of Talanx AG is decisively shaped by the insurance environment, thus giving rise to a correspondingly developed level of risk awareness. Consequently, Talanx AG too uses its own specially tailored tools to monitor and manage risks.

The control mechanisms and decision-making processes of Talanx AG are embedded in the Group standards, which encompass most notably the preparation and auditing of the annual accounts, the internal controlling system and the controlling tools.

In accordance with our philosophy of ensuring the greatest possible decentralization, the subsidiaries each maintain their own risk management systems; for they are best able to assess their risks and implement timely risk controlling measures. Group Controlling determines the risk situation of the Talanx Group as a whole on the basis of the local risks. Reporting on both current business developments and on risk management ensures that the Board of Management of Talanx AG is kept constantly updated on risks and can intervene effectively as necessary.

The potential implications of risks are not only documented but also incorporated into the annual planning of the Group companies, thereby additionally making it possible to allow for the risks of future development. The plans drawn up by all Group companies and for the Group as a whole are discussed and approved by the Board of Management of Talanx AG.

Risks of future development

The overall risk situation can be broken down into the following five risk categories: underwriting risks, default risks in insurance business, investment risks, operational risks and other risks.

Major underwriting risks

Underwriting risks in property and casualty insurance derive primarily from the premium/loss risk and the reserving risk.

In this context, the premium/loss risk stems from the fact that previously defined insurance premiums are used to pay subsequent indemnification, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This is attributable to two factors: the risk of random fluctuation and the risk of error.

The risk of random fluctuation refers to the fact that both the occurrence and amount of a claim are caused by random factors. This element of chance cannot be excluded even with complete data on claims. The risk of error describes the risk of reaching erroneous conclusions about a claim due to the use of incorrect stochastic methods. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk refers to the fact that the current situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if only incomplete data is available regarding claims from previous insurance periods. The forecasting risk refers to the fact that stochastic claim regularities determined on the basis of past data may no longer be valid.

The Talanx Group reduces all the components of the premium/loss risk first and foremost through claims analyses, modeling, selective underwriting and regular review of the claims experience as well as through the use of appropriate reinsurance protection.

The second underwriting risk in property and casualty insurance, namely the reserving risk, refers to the fact that the underwriting reserves may not suffice to pay in full the claims that have not yet been settled or reported. The level of the reserves is therefore regularly reviewed, not only internally but also by external actuaries. In addition to the losses reported to us by our clients, the Talanx Group establishes extra reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBNR (incurred but not reported) reserve for claims that have probably already occurred but have not yet been reported to us.

The underwriting risk in life insurance essentially lies in the fact that key payment flows may diverge from the expected amounts. A distinction is made here between the premium/benefit risk, the reserving risk and the interest guarantee risk. The premium/benefit risk arises out of the commitment to pay a defined insurance benefit dependent on future developments on the basis of a previously fixed premium. The reserving risk refers to the adequacy of underwriting reserves. Both risk types are crucially influenced by biometric risks and the lapse risk.

Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of the contract in order to calculate premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures, e.g. for boosting the policy benefits for life and health contracts. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

Life insurance policies also entail lapse risks. In the event of cancellation it is possible, for example, that sufficient liquid assets may not be available to cover insurance benefits. This can give rise to the unplanned realization of losses on the disposal of assets. For this reason, the Group's life insurers regularly match the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation, e.g. if the accounts receivable from intermediaries cannot be collected. Talanx therefore pays close attention to the credit status of its insurance agents. Cancellation may also create a cost risk if new business collapses and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as multiple agents limit this risk.

The interest guarantee risk arises if a guaranteed interest rate is agreed upon inception of a life insurance policy. The insurance premiums must be invested on appropriate terms in order to generate this return. Yet the market interest rate level fluctuates over time; future premiums are thus subject to the risk of poorer interest rate conditions. What is more, the duration of the investments is generally shorter than the duration of the insurance contracts, hence creating a reinvestment risk. The Group reduces the interest guarantee risk primarily by constantly monitoring its assets. The surplus distributions paid in addition to the guaranteed interest rate can be adjusted according to the state of the market. The large proportion of new business attributable to unit-linked life insurance policies minimizes the interest guarantee risk because with this type of insurance the investment risks and opportunities are borne by policyholders.

The reserves in life and health reinsurance are based upon the information provided by ceding companies. Actuarial analyses ensure that the computational bases (interest rate, biometrics, costs) used to determine the policy benefits for life and health contracts are appropriate and that the safety margins contained therein are adequate. Furthermore, local supervisory authorities monitor the reserves calculated by ceding companies to ensure that they satisfy all local requirements with respect to actuarial methods and assumptions. The lapse and credit risks are also of crucial importance on account of the prefinancing of cedants' new business acquisition costs. The interest rate risk, on the other hand, is of only minimal risk relevance in many instances due to contractual exclusions.

Default risks under insurance business

Bad debts may arise on receivables due under insurance business. This applies, in particular, to receivables due from reinsurers, retrocessionaires, policyholders and insurance agents.

The Group counteracts the default risk at reinsurers and retrocessionaires by carefully selecting them with the aid of expertly staffed Security Committees, constantly monitoring their credit status and – where necessary – taking appropriate measures to secure receivables. Depending upon the type and expected run-off period of the reinsured business, the selection of reinsurers is guided by the minimum ratings of the rating agencies Standard & Poor's and A.M. Best.

Allowance is made for the default risk at policyholders and insurance agents by establishing appropriate specific and general bad debt provisions. Agents are also subject to credit checks.

Major investment risks

Investment risks should be considered in the context of the investment policy. Within the Talanx Group the investment policy at the individual companies is regulated by the supervisory framework applicable to each particular company and by internal investment guidelines. The consistent principle underlying investment activities is the goal of generating a risk-appropriate contribution to the business result.

In our own interests and those of policyholders the investment policy adopted by Talanx – building upon the basic legal parameters – is guided by the following maxims:

- optimizing the return on investments while at the same time preserving a high level of security
- ensuring liquidity requirements are satisfied at all times (solvency)
- risk diversification (mix and spread)

Risks in the investment sector consist most notably of market, credit and liquidity risks. The market risk arises from the potential loss due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. The credit risk refers to the possible failure or change in quality of a debtor. The liquidity risk is the risk of being unable to meet payment obligations – especially those arising out of insurance contracts – at all times.

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between portfolio management, settlement and risk controlling. Risk controlling – which is organizationally and functionally separate from portfolio management – bears responsibility for monitoring all risk limits, evaluating financial products and verifying that all transactions are effected in line with market conditions. In this respect our management and control mechanisms are geared particularly closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective local supervisory authorities.

Detailed investment guidelines are in force for the individual companies, compliance with which – in addition to compliance with statutory and regulatory requirements – is constantly monitored. These investment guidelines are used to define the framework of the investment strategy. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Controlling and the Chief Financial Officer of each company. Any significant modification of the investment guidelines and/or investment policy must be approved by the Board of Management of each company and brought to the attention of the Supervisory Board.

Risk Controlling monitors the risk in the bond portfolio by determining the interest rate risk with the aid of scenario analyses. It also controls adherence to the specified limits in relation to the duration of the bond portfolio. The change in the fair value of interest-rate-sensitive products is monitored daily on the basis of the convexity limits of the bond products. In the area of listed equities Risk Controlling calculates the equity risk with the aid of scenario analyses and stress tests, which are performed at least once a month in accordance with regulatory and other standards.

As far as the currency exposure is concerned, we monitor adherence to the principle of matching currency cover. The risk is limited by investing capital wherever possible in those currencies where obligations are to be fulfilled under insurance contracts.

The credit risks to be monitored consist of counterparty risks and issuer's risks. Risks of counterparty default are controlled using defined counterparty lists and by monitoring the limits specified for each rating class. Adherence to stipulated issuer limits (group limits and/or company limits) is monitored by Risk Controlling.

In order to monitor liquidity risks each type of security is assigned a liquidity code that indicates how quickly a security can be sold. These codes are regularly reviewed by Portfolio Management. The plausibility of changes is checked by Risk Controlling and, where appropriate, the codes are modified.

The data is subsequently included in the standardized portfolio reporting provided to the Chief Financial Officers. In the context of the liquidity that is held available, compliance with the defined minimum and maximum limits is verified. Overstepping of any risk limits is immediately reported to the Chief Financial Officers and Portfolio Management.

The Talanx Group enters into derivative transactions to hedge against price risks or interest rate risks affecting existing assets, prepare the subsequent purchase of securities or generate additional earnings on existing securities. The use of derivative products is regulated by internal guidelines in order to ensure the most efficient and risk-free possible use of forward purchases, derivative financial instruments and structured products and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits.

The parameters of the investment guidelines and the legal parameters for derivative financial instruments and structured products are updated and constantly monitored in the system of limits. Derivative positions and transactions are specified in detail in the reporting.

Major operational risks

Operational risks encompass the risk of losses occurring because of

- inadequacy or failure of legal procedures
- human error or system failure
- external events

Multifaceted and cause-oriented risk management minimizes such risks, which may be associated with business activities of all types, human resources or technical systems.

The failure of data processing systems and data security rank among the most significant operational risks. Ensuring the availability of applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. The global sharing of information – increasingly via e-mail – also creates a vulnerability to computer viruses. Systematic investment in the security and availability of information technology preserve and enhance the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a lack of the skilled experts and managers necessitated by an increasingly complex business with a strong client orientation. The Group therefore attaches great importance to further and advanced training activities. With the aid of individual development plans and appropriate skills enhancement opportunities members of staff are thus able to respond to the latest market requirements. What is more, state-of-the-art management tools and appropriate incentive schemes – both monetary and non-monetary – foster strong employee motivation. The human resources sector also gives rise to potential fraud risks. Talanx counters such risks with internal guidelines governing areas of competence and processing workflows as well as with specialist checks and audits.

Legal risks may arise in connection with contractual agreements and the general legal environment, especially in the areas of commercial and tax law. Insurers and reinsurers are also dependent on the political and economic framework conditions on their respective markets. These external risks are subject to intense monitoring by the Talanx Board of Management on behalf of the entire Group and as part of an ongoing exchange of information with local management.

Other major risks

Other risks consist primarily of participation risks of Talanx AG, especially those associated with the performance of subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business.

The Group uses controlling, auditing and risk management tools to counter risks arising out of the development of results at subsidiaries. A standardized reporting system provides decision-makers with the latest information about the Group and the business development at all major subsidiaries. They are thus able to intervene at any time in order to control risks. The Group reduces risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance primarily by means of regional diversification as well as by investing systematically in growth markets and in product and portfolio segments that stabilize results.

Furthermore, the Talanx Group pays close attention to risks deriving from the financing of acquisitions and their anticipated profitability. It counters the financing risk by compiling regularly updated cash flow statements and forecasts and defining priorities for the application of funds. The risk of asset erosion on acquisitions and their inadequate profitability is kept as low as possible through intensive due diligence tests conducted in cooperation with independent professional consultants and auditors.

Summary assessment of the risk situation

In summary, we cannot discern any risks that could jeopardize the continued existence of Talanx AG or its assets, financial position or net income in a significant or lasting manner.

Human resources and social report

The functions performed by Talanx AG encompass – in each case in relation to the Group as a whole – the areas of accounting, taxation, corporate planning, legal affairs and public relations, internal auditing as well as the coordination of IT and human resources. In total, an average of 49 staff were employed during the financial year just-ended.

The low number of employees is conducive to an efficient, concentrated working style at Talanx AG. Short chains of communication and close cooperation lead to a productive working climate characterized by a marked sense of cohesion. Against this backdrop the employees played a vital part in the accomplishment of the company's strategic objectives and its positive business performance in the financial year just-ended. The Board of Management thanks all members of staff most sincerely for their good work and considerable dedication in the 2005 financial year.

Non-financial performance indicators

As a holding company without products under its own name, the public relations activities of Talanx AG are aimed not so much at a broad audience as they are at the financial community – analysts, banks and fund managers – and business journalists. The company enhances awareness among these target groups by way of targeted advertising and sponsoring, for example through its sponsoring of the TV program “Börse im Ersten”, image advertising and support for the “Stock Day” event.

On every trading day since January 2005 a two-part TV commercial has been broadcast before and after the market wrap “Börse im Ersten” spotlighting Talanx's role as sponsor. This has significantly boosted awareness of the company. By June 2005 16 % of the program's viewers were already familiar with Talanx as an insurance group (compared to a mere 3 % before the sponsoring began).

Talanx places advertisements in selected media that are read particularly widely by persons who have a professional interest in the financial sector. Awareness of Talanx among investors and analysts grew from 5 to 25 % of those surveyed in the period from May 2004 to January 2005, while among journalists the figure rose from 1 to 9 %.

In the same vein, Talanx has successfully raised its awareness level in the financial world through its sponsoring of “Stock Day”, a capital market conference for listed enterprises in the financial services sector. The second “Stock Day – sponsored by Talanx” enjoyed substantially higher attendance figures.

Forecast

Economic environment

Future macroeconomic situation

Despite favorable economic indicators such as the likely continued low level of interest rates, certain other factors give cause for concern. Irrespective of short-term price volatility, consumers will probably have to face up to permanently higher oil prices. Nevertheless, growth in the global economy in 2006 – driven by the USA and China – should be maintained on the level of 2005.

In Germany the indications point to a consolidation of the economic upswing. Notable factors here include the generally healthy state of company order books as well as the increasing willingness of German industry to embark on capital spending. The 2006 Football World Cup as well as the planned hike in value-added tax – with the promise that purchases will be brought forward to year-end 2006 – are likely to generate additional, albeit non-recurring, impetus for growth.

Yet other indicators suggest, if anything, a rather restraining effect. They include the recent modest rise in real wages and salaries – which has been almost totally eroded by rising prices – and, most strikingly, the cautious overall consumption trend among consumers. The state of the labor market has not eased despite companies' increased willingness to commit to capital spending because the rise in productivity observed in many sectors has not been accompanied by the creation of new jobs.

The growth forecasts for the German economy in 2006 range from 1 % to at most 2 %. In view of the rather muted state of the domestic economy, the macroeconomic climate is unlikely to have any appreciable stimulatory effect on premium growth in the insurance industry.

Future state of the industry

Following a phase dominated by the entry into force of the Retirement Income Act, the life insurance industry in Germany is expected to see a return to largely “normal” market and sales conditions. New business in the current and coming financial year is likely to be hampered by the fact that while awareness of the need to finance retirement provision with private funds is growing among the broader population, the willingness to systematically cover this need is not keeping pace.

In the main lines of property and casualty insurance a trend is emerging towards markedly more modest new business and extensions of coverage. Taken in conjunction with more intense price competition, the prospects for growth in premium income are only slight. Indeed, in certain segments such as motor insurance and industrial business, the premium volume is more likely to contract.

On an international scale the outcome of the reinsurers' annual treaty renewals at the turn of the year suggests a largely favorable market climate. In property and casualty reinsurance a general trend can be discerned towards increased retentions and the taking out of higher towers of coverage. Motivated by the devastating losses caused by the hurricanes of 2005, reinsurers have revised their pricing and loss expectancy models in natural catastrophe business and adjusted their underwriting policies. Vastly improved precautions have thus been taken to provide for the eventuality that comparable events should occur again in the future.

The framework conditions in life and health insurance and reinsurance indicate that retirement provision will be the decisive growth segment in the coming years. This is all the more likely because such products increasingly include not only a lump-sum or annuity payment but also further benefit components such as long-term care, assistance and craftsmen's services. Another key to successful product development is the realistic assumption of future interest rate movements.

On the international markets a variety of coverage concepts are emerging, in part influenced by the different regulatory environments. We can expect to see a growing diversity of innovative products geared to old-age provision and retirement benefits that will reflect the demographic trends and the structuring of social welfare systems in individual countries. Across national borders, however, it is evident that providers of life insurance solutions – as they seek to meet the growing demand for private provision – are increasingly finding themselves in direct competition with other financial services providers such as banks and investment funds.

Orientation of the company over the next two financial years

A core objective of the Talanx strategy will remain unchanged in the coming years: maintaining a broadly diversified, largely balanced structure when it comes to both the Group as a whole and the portfolio of participating interests. The underlying aim here is to be able to draw on a variety of business segments that safeguard the continuous enhancement of the Group's value in the face of evolving business requirements and a changing economic climate.

Talanx systematically pursues such diversification in a number of ways: in its marketing approach, through the regional split of the portfolio and by way of risk spreading. In this context the company places special emphasis on profit-oriented growth: the individual segments and areas must be grounded on the basic structures necessary for a stable earnings performance. Bearing in mind that reinsurance is the dominant business segment within the Talanx Group, the proportion of primary insurance is to be further boosted. The acquisition of the operational companies of the Gerling Group marks a major step towards execution of this strategy, since it will lead to a substantial increase in the overall portfolio share and profitability of the insurance business – in both the property/casualty and life segments. Life insurance has been identified as a further growth area, in particular occupational retirement provision and cooperation with bank partners.

One of the most successful and rapidly growing insurance groups in recent years, Talanx currently has no reason to change course. On the contrary, the primary focus over the next two financial years will be to further enhance the Group's effectiveness through successful integration of the Gerling companies. Another core element of the long-term strategy will be to cultivate the existing cooperative ventures and attract additional partners for such arrangements.

Sales markets

The market strategy is guided first and foremost by the maxim of asserting ourselves in existing markets and further cementing our local position. This is especially true of countries such as Poland or Brazil, where our involvement has been expanded in recent years through the acquisition of new insurance companies.

As in the past, Talanx will proceed selectively when it comes to tapping into new markets. The principle of profitability is of paramount importance here, and this should be reflected in sustainable value creation once allowance has been made for an appropriate start-up and development phase. Selectivity means that we do not allow ourselves to be drawn into a general race for shares of specific growth markets – especially those where the potential risk is high or uncertain –, but rather we adopt a clear position on the basis of a comprehensive analysis of the opportunities and risks and in light of the potential benefits.

New methods, products and services

The future adoption of new methods and technologies is guided by the fundamental principle of responsible allocation of resources. In the future we shall continue to attach overriding importance to the parallel role played by innovation and continuity in a balanced, competitive business concept for the benefit of our clients and other stakeholders.

Positioned as a multi-brand provider, Talanx offers a broad range of products and services – subject to a constant process of adjustment and optimization – that are geared primarily to the goals and needs of our clients.

By carefully monitoring external and internal influencing factors and through constant direct contacts with clients and distribution partners, the company tracks the risk situation and needs of its clients. These insights and an increasingly short response time assist us in our striving to satisfy customer requirements, which are progressively shifting more heavily towards the provision of a comprehensive, tailored range of products and services rather than a large number of selective individual solutions. The product portfolios of the brands represented under the umbrella of the Talanx Group, which range from standardized or bespoke coverage solutions on the insurance side to creative concepts for retirement provision and innovative investment offerings, are continuously reviewed and updated with an eye to customer needs. These efforts are consistently driven by the overriding goal of further enhancing the quality standard of our products and services.

Anticipated profitability and financial position of the company

Earnings performance

The pre-tax profit for the 2006 financial year is expected to come in lower than in the previous year, partly due to the omission of a dividend distribution by Hannover Rückversicherung AG for the 2005 financial year – which was impacted by an exceptionally heavy burden of natural catastrophe losses. Furthermore, the 2005 result included special effects such as the proceeds from the intra-group sale of HDI Service AG and the substantial profit transfers from Aspecta Global Group and HDI International Holding. After elimination of these special factors the anticipated performance is better than that posted in 2005. For the 2007 financial year the profitability of Talanx AG is forecast to improve substantially on 2006, in large measure due to further increases in income from participating interests and profit transfers as well as the expected resumption of dividend payments by Hannover Re.

Financial position

The cash forecast for Talanx AG in 2006 and 2007 is characterized by a harmonized flow of incoming and outgoing payments and an increasing cash inflow from the income from participating interests.

Opportunities

Notable opportunities will open up for Talanx in the coming years in the context of favorable developments in the general business environment, but especially in the medium term as it taps into the potential associated with integration of the Gerling companies into the Talanx Group.

Opportunities associated with the development of the general business environment

As the general business environment evolves the key factor will be progress towards a harmonized Europe-wide – or better worldwide – regulatory system, a development that can be summed up by the phrase “Solvency II”. This also encompasses issues such as risk management, risk-adequate capital management and transparency. Opportunities lie in the prompt reaching of a consensus concerning a methodologically sophisticated and at the same time viable set of standards. At the same time, however, there is a risk that companies will find themselves carrying a greater burden.

Opportunities created by the company

For the Talanx Group, the acquisition of the Gerling companies transacting primary insurance business presents an attractive opportunity to reinforce and further extend its profitability and competitiveness in both the national and international arenas. Based on 2005 figures, the combined gross premium income amounts to EUR 19.6 billion (Talanx IFRS actual figure for 2004: EUR 13.6 billion). The strategic benefit of the acquisition derives principally from the more broadly diversified structure of the combined group with an appreciable reduction in the proportion of the portfolio attributable to reinsurance in favor of primary insurance activities. There is a risk inasmuch as it may not be possible to realize the synergies expected from the amalgamation of the companies to the extent anticipated or as quickly as hoped.

Further opportunities are associated with the continued systematic focus on a profitable underwriting policy that draws on the insights afforded by model-based risk scenarios and incorporates the cost of capital into pricing calculations. Diversification into countries with a low degree of saturation will open up scope for organic growth.

Balance sheet as at 31 December 2005

Assets

Figures in EUR thousand	31.12.2005	31.12.2004
A. Fixed assets		
I. Intangible assets		
1. Franchises, trademarks, patents, licenses and similar rights	676	2,497
2. Advances paid on intangible assets	—	—
	676	2,497
II. Property, plant and equipment		
1. Other equipment, fixtures, fittings and equipment	317	218
2. Advance payments and plant and machinery in process of construction	—	205
	317	423
III. Financial assets		
1. Shares in affiliated companies	2,901,063	2,725,708
2. Loans to affiliated companies	33,700	183,318
3. Participating interests	44,401	49,941
4. Other loans	—	—
	2,979,164	2,958,967
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	338,853	155,890
– thereof with a remaining term of more than one year: EUR 2,335,000 (previous year: EUR 2,361,000)		
2. Other assets	13,816	6,802
	352,669	162,692
II. Marketable securities		
Shares in affiliated companies	35,190	35,244
III. Cash in banks	838,498	548,120
C. Prepayments and accrued income	2,111	3
D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 of the Commercial Code (HGB)	134,084	90,350
Total assets	4,342,709	3,798,296

Liabilities

Figures in EUR thousand	31.12.2005	31.12.2004
A. Capital and reserves		
I. Subscribed capital	260,000	260,000
II. Capital reserve	629,529	629,529
III. Retained earnings	2,107,286	1,890,272
IV. Disposable profit	189,080	131,935
	3,185,895	2,911,736
B. Provisions		
1. Provisions for pensions and similar obligations	3,837	3,684
2. Provisions for taxation	68,753	84,236
3. Other provisions	6,173	2,648
	78,763	90,568
C. Liabilities		
1. Debenture loans	9,000	175,000
– thereof convertible: EUR — (previous year: EUR —)		
– thereof with a remaining term of up to one year: EUR — (previous year: EUR 175,000,000)		
2. Liabilities to banks	71,705	74,900
– thereof with a remaining term of up to one year: EUR 4,554,000 (previous year: EUR 4,352,000)		
3. Accounts due to affiliated companies	989,926	536,278
– thereof with a remaining term of up to one year: EUR 39,926,000 (previous year: EUR 36,278,000)		
4. Other liabilities	538	9,814
– thereof for taxes: EUR 57,000 (previous year: EUR 9,544,000)		
– thereof for social security: EUR 66,000 (previous year: EUR 54,000)		
– thereof with a remaining term of up to one year: EUR 302,000 (previous year: EUR 9,814,000)		
	1,071,169	795,992
D. Deferred charges	6,882	—
Total liabilities	4,342,709	3,798,296

Profit and loss account for the 2005 financial year

Figures in EUR thousand	2005	2004
1. Income from participating interests	18,965	29,326
– thereof from affiliated companies: EUR 18,761,000 (previous year: EUR 28,998,000)		
2. Other operating income	76,262	34,353
– thereof from affiliated companies: EUR 69,458,000 (previous year: EUR 772,000)		
3. Personnel expenses		
a) Wages and salaries	5,356	4,184
b) Social security, pensions and other benefit costs	905	573
– thereof for pensions: EUR 413,000 (previous year: EUR 177,000)		
4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment	979	722
5. Other operating expenses	21,114	30,882
6. Income from other long-term securities and loans	2,530	10,126
– thereof from affiliated companies: EUR 2,530,000 (previous year: EUR 9,572,000)		
7. Other interest and similar income	25,391	15,845
– thereof from affiliated companies: EUR 63,000 (previous year: EUR 127,000)		
8. Interest and similar expenses	56,075	36,921
– thereof to affiliated companies: EUR 45,193,000 (previous year: EUR 26,108,000)		
9. Income from profit transfer agreements	392,490	182,959
10. Expenses from loss transfers	19,325	12,694
11. Profit or loss on ordinary activities before tax	411,884	186,633
12. Extraordinary expenses	3,000	—
13. Taxes on profit and income	30,722	54,688
14. Other taxes	2	10
15. Profit for the financial year	378,160	131,935
16. Allocation to other retained earnings	189,080	—
17. Disposable profit	189,080	131,935

Notes

General information

The annual accounts for the 2005 financial year were compiled in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG)..

Information on accounting and valuation

Intangible assets were valued at acquisition cost less scheduled depreciation.

Property, plant and equipment were carried at purchase cost; the carrying value of fixtures, fittings and equipment was reduced by the depreciation permitted under tax law. Depreciation was taken using the straight-line method; the useful life varied from 3 to 13 years. Low-value items were written off entirely in the year of acquisition.

Shares in affiliated companies were valued at purchase cost.

Loans to affiliated companies were carried at acquisition cost.

Participating interests were shown at acquisition cost less capital repayments.

Other loans were shown at acquisition cost.

Receivables, other assets, bank deposits as well as cash in banks were recognized at nominal value.

Other securities were valued at acquisition cost or at the lower fair value.

The provisions take into account all identifiable risks and uncertain liabilities known at the time of compilation of the balance sheet with the amounts required according to prudent commercial judgment.

Liabilities were shown at the amounts repayable.

The profit and loss account was drawn up using the cost-summary method. The breakdown of individual items in the profit and loss account differs from the legally required method of itemization in order to ensure that the items shown in the profit and loss account reflect the special features of a holding company.

Information on the balance sheet – assets

Change in asset items

A.I. Intangible assets

1. Franchises, trademarks, patents, licenses and similar rights
2. Advances p n intangible assets
3. Total A.I.

A.II. Property, plant and equipment

1. Other equipment, fixtures, fittings and equipment
2. Advance payments and plant and machinery in process of construction
3. Total A.II.

A.III. Financial assets

1. Shares in affiliated companies
2. Loans to affiliated companies
3. Participating interests
4. Other loans
5. Total A.III.

Sum total

Acquisition cost 1.1.2005	Position as at 1.1.2005	Additions	Transfers	Disposals	Write- ups	Cumulative deprecia- tion	Depreciation in financial year	Position as at 31.12.2005
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
4,119	2,497	72	-	1,033	-	1,622	860	676
-	-	-	-	-	-	-	-	-
4,119	2,497	72	-	1,033	-	1,622	860	676
313	218	231	-	13	-	95	119	317
205	205	0	-	205	-	-	-	-
518	423	231	-	218	-	95	119	317
2,725,708	2,725,708	203,645	-	28,290	-	-	-	2,901,063
183,318	183,318	4,000	-	153,618	-	-	-	33,700
49,941	49,941	0	-	5,541	-	-	-	44,400
0	0	0	-	-	-	-	-	-
2,958,967	2,958,967	207,645	-	187,449	-	-	-	2,979,163
2,963,604	2,961,887	207,948	-	188,700	-	1,717	979	2,980,156

Notes on the balance sheet – assets

A.III. Financial assets

The company's major shareholdings are shown below. Changes in directly held shares were discussed in the management report. The complete list of shareholdings has been deposited with Hannover District Court under HR B 52546.

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
HDI Verwaltungs-Service AG, Hannover	100.00	EUR 658,855	EUR 23,051 ^{*)}
– holds 20.14 % of the shares in: Hannover Rückversicherung AG, Hannover		EUR 1,336,816	EUR 120,567
Zweite HDI Beteiligungsgesellschaft mbH, Hannover	100.00	EUR 658,836	EUR 23,030 ^{*)}
– holds 19.70 % of the shares in: Hannover Rückversicherung AG, Hannover		EUR 1,336,816	EUR 120,567
– holds 100.00 % of the shares in: Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover		EUR 589,539	EUR 24,539
– holds 55.78 % of the shares in: E+S Rückversicherung AG, Hannover		EUR 464,281	EUR 44,000
– holds 45.00 % of the shares in: GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover		EUR 60,013	EUR 1,214
– holds 13.00 % of the shares in: Hannover America Private Equity Partners II GmbH & Co. KG, Hannover		EUR 37,211	EUR -84
– holds 35.21 % of the shares in: Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover		EUR 30,064	EUR 33
– holds 40.98 % of the shares in: Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover		EUR 7,924	EUR -25
– holds 50.00 % of the shares in: Hannover Life Re of Australasia Ltd., Sydney		AUD 189,760	AUD 22,600
– holds 13.49 % of the shares in: Hannover Re Real Estate Holdings, Inc., Orlando		USD 128,487	USD 3,700
– holds 20.01 % of the shares in: WeHaCo Unternehmensbeteiligungs AG, Hannover ¹⁾		EUR 73,689	EUR 34,933
– holds 100.00 % of the shares in: Hannover Re (Bermuda) Ltd., Hamilton		EUR 932,766	EUR 73,520
– holds 100.00 % of the shares in: Hannover Reinsurance (Ireland) Ltd., Dublin		EUR 550,099	EUR 58,647
– holds 100.00 % of the shares in: E+S Reinsurance (Ireland) Ltd., Dublin		EUR 158,912	EUR 11,550
– holds 33.33 % of the shares in: Hannover Re Advanced Solutions Ltd., Dublin		EUR 31	EUR -765
– holds 33.33 % of the shares in: Hannover Re Advanced Solutions Ltd., Dublin		EUR 31	EUR -765

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
Hannover Reinsurance (Ireland) Ltd., Dublin (continued)			
– holds 100.00 % of the shares in: Hannover Reinsurance (Dublin) Ltd., Dublin		EUR 277.212	EUR 35.369
– holds 33.34 % of the shares in: Hannover Re Advanced Solutions Ltd., Dublin		EUR 31	EUR -765
Hannover Rückversicherung AG (continued)			
– holds 100.00 % of the shares in: Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover			Established in 2005
– holds 100.00 % of the shares in: Hannover Life Reassurance (Ireland) Ltd., Dublin		EUR 110.872	EUR 10.731
– holds 100.00 % of the shares in: Hannover Life Reassurance Company of America, Orlando		USD 85.884	USD -5.242
– holds 45.00 % of the shares in: GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover		EUR 60.013	EUR 1.214
– holds 87.00% of the shares in: Hannover America Private Equity Partners II GmbH & Co. KG, Hannover		EUR 37.211	EUR -84
– holds 35.21 % of the shares in: Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover		EUR 30.064	EUR 33
– holds 40.98 % of the shares in: Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover		EUR 7.924	EUR -25
– holds 100.00 % of the shares in: Hannover Finance (UK) Ltd., Virginia Water		GBP 111.093	GBP -9
– holds 100.00 % of the shares in: Hannover Services (UK) Ltd., Virginia Water		GBP 686	GBP 50
– holds 100.00 % of the shares in: Hannover Life Reassurance (UK) Ltd., Virginia Water		GBP 36.930	GBP -886
– holds 100.00 % of the shares in: International Insurance Company of Hannover Ltd., Virginia Water		GBP 73.475	GBP 2.293
– holds 100.00 % of the shares in: Hannover Finance (Luxembourg) S.A., Luxembourg		EUR 7.931	EUR -1.767
– holds 100.00 % of the shares in: Hannover Finance Inc., Wilmington		USD 276.646	USD -122.941
– holds 50.00 % of the shares in: Hannover Life Re of Australasia Ltd., Sydney		AUD 189.760	AUD 22.600
– holds 100.00 % of the shares in: Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg		ZAR 404.405	ZAR 101.812
– holds 86.51% of the shares in: Hannover Re Real Estate Holdings, Inc., Orlando		USD 128.487	USD 3.700
– holds 20.00 % of the shares in: WeHaCo Unternehmensbeteiligungs AG, Hannover ¹⁾		EUR 73.689	EUR 34.933

¹⁾ Subject to a profit transfer agreement¹⁾ Associated company

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
ASPECTA Global Group AG, Hamburg	100.00	EUR 112,193	EUR 118 *)
– holds 100.00 % of the shares in: ASPECTA Life Holding GmbH, Hamburg			Acquired in 2005
– holds 100.00 % of the shares in: ASPECTA Lebensversicherung AG, Hamburg		EUR 42,243	EUR 11,425
– holds 100.00 % of the shares in: ASPECTA Assurance International Luxembourg S.A., Luxembourg		EUR 10,015	EUR 12
– holds 100.00 % of the shares in: ASPECTA Assurance International AG, Vaduz		CHF 5,071	CHF -1,898
– holds 100.00 % of the shares in: ASPECTA Versicherung AG, Hamburg		EUR 5,936	EUR -405
– holds 100.00 % of the shares in: HDI Lebensversicherung AG, Hamburg		EUR 17,256	EUR -1,915
– holds 100.00 % of the shares in: HDI Pension Strategy & Management GmbH, Hamburg		EUR 1,531	EUR -3
– holds 100.00 % of the shares in: HDI Pensionskasse AG, Hamburg		EUR 9,821	EUR 60
– holds 100.00 % of the shares in: Aspecta Życie Towarzystwo Ubezpieczeń Spółka Akcyjna, Warsaw		PLN 10,149	PLN -9,683
Ampega Asset Management GmbH, Hannover	100.00	EUR 5,400	EUR 18,518 *)
Ampega Immobilien Management GmbH, Hannover	100.00	EUR 3,392	EUR 414 *)
– holds 99.99 % of the shares in: Société Civile Immobilière HANNOVER International France, Paris (Rest ASPECTA Versicherung AG)		EUR 3,457	EUR -36
Ampega Investment AG, Hannover	70.00	EUR 11,295	EUR -2,336
– holds 100.00 % of the shares in: Ampega Financial Services GmbH, Hannover		EUR 26	EUR -685

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
CiV Lebensversicherung AG, Hilden	100.00	EUR 31,835	EUR 18,862 ^{*)}
– holds 100.00 % of the shares in: CiV Grundstücksgesellschaft mbH & Co. KG, Hilden		EUR 25,039	EUR –5,196
– holds 100.00 % of the shares in: CiV Immobilien GmbH, Hilden		EUR 25	EUR –
– holds 10.00 % of the shares in: E+S Rückversicherung AG, Hannover		EUR 464,281	EUR 44,000
– holds 7.04 % of the shares in: Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover		EUR 30,064	EUR 33
– holds 8.2 % of the shares in: Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover		EUR 7,924	EUR 44,000
CiV Versicherung AG, Hilden	100.00	EUR 6,342	EUR 14,210 ^{*)}
– holds 1.41 % of the shares in: Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover		EUR 30,064	EUR 33
– holds 1.64 % of the shares in: Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover		EUR 7,924	EUR –25
– holds 100.00 % of the shares in: PCC Communication Center GmbH, Hilden		EUR 630	EUR 172
Euro International Reinsurance S.A., Luxembourg	100.00	EUR 10,226	EUR –
Hannover Beteiligungsgesellschaft mbH, Hannover	100.00	EUR 27	EUR –1
Hannover Rückversicherung AG, Hannover	11.06	EUR 1,336,816	EUR 120,567
HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hannover	100.00	EUR 1,268	EUR –668
HDI Industrie Versicherung AG, Hannover	100.00	EUR 169,990	EUR 17,227 ^{*)}
– holds 8.2 % of the shares in: Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover		EUR 7,924	EUR –25
– holds 26.00 % of the shares in: HDI Service AG, Hannover		EUR 501	EUR 1,293 ^{*)}
– holds 100.00 % of the shares in: HDI Informationssysteme Gesellschaft für Anwendungsentwicklung mbH, Hannover		EUR 288	EUR 74
– holds 100.00 % of the shares in: HDI SicherheitsTechnik GmbH, Hannover		EUR 511	EUR 1,536

^{*)} Subject to a profit transfer agreement

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
HDI International Holding AG, Hannover	100.00	EUR 326,865	EUR 3,828 *)
– holds 100.00 % of the shares in: HDI Asekuracja Towarzystwo Ubezpieczeń S.A., Radom			Acquired in 2005
– holds 100.00 % of the shares in: HDI Assicurazioni S.p.A., Rome		EUR 153,187	EUR 6,345
– holds 99.97 % of the shares in: HDI Hannover Versicherung AG, Vienna		EUR 14,567	EUR 647
– holds 100.00 % of the shares in: HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid		EUR 35,432	EUR 4,124
– holds 100.00 % of the shares in: HDI Samopomoc TU S.A., Warsaw		PLN 74,746	PLN 4,389
– holds 99.99 % of the shares in: HDI Seguros S.A., São Paulo		BRL 75,025	BRL 6,821
– holds 100.00 % of the shares in: HSBC Seguros de Automóveis e Bens S.A., Curitiba			Acquired in 2005
– holds 100.00 % of the shares in: HDI Verzekeringen N.V., Rotterdam		EUR 36,918	EUR 9,563
– holds 100.00 % of the shares in: HANNOVER International (Belgique) S.A., Brussels		EUR 2,245	EUR 105
– holds 100.00 % of the shares in: H.J.Roelofs Assuradeuren B.V., Rotterdam		EUR 585	EUR 11
– holds 90.00 % of the shares in: HDI ZAD, Sofia		EUR 2,193	EUR -1,316
HDI Pensionsmanagement AG, Hamburg	100.00	EUR 5,848	EUR -9,852 *)
HDI Privat Versicherung AG, Hannover	100.00	EUR 161,000	EUR 53,343 *)
– holds 21.13 % of the shares in: Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover		EUR 30,064	EUR 33
– holds 100.00 % of the shares in: HDI Autohaus Service GmbH, Hannover		EUR 24	EUR 8
– holds 100.00 % of the shares in: HDI Direkt Service GmbH, Hannover		EUR 51	EUR 82
– holds 74.00 % of the shares in: HDI Service AG, Hannover		EUR 501	EUR 1,293 *)
– holds 100.00 % of the shares in: HDI Informationssysteme Gesellschaft für Anwendungsentwicklung mbH, Hannover		EUR 288	EUR 74

A.III.1 Shares in affiliated companies	Participation in %	Capital and reserves 31.12.2004 in thousands	Result for the last financial year in thousands
HDI Rechtsschutz Versicherung AG, Hannover	100.00	EUR 6,744	EUR 2,466 ^{*)}
HNG Hannover National Grundstücksverwaltung GmbH & Co KG, Hannover	100.00	EUR 53,591	EUR 2,112
Magyar Posta Biztosító Részvénytársaság, Budapest	66.93	HUF 1,397,187	HUF -611,880
Magyar Posta Életbiztosító Részvénytársaság, Budapest	66.93	HUF 1,255,837	HUF -395,286
neue leben Holding AG, Hamburg	60.00	EUR 48,095	EUR 7,486
– holds 100.00 % of the shares in: neue leben Lebensversicherung AG, Hamburg		EUR 44,831	EUR 5,300
– holds 100.00 % of the shares in: neue leben Unfallversicherung AG, Hamburg		EUR 2,581	EUR 3,657
– holds 49.00 % of the shares in: neue leben Pensionsverwaltung AG, Hamburg		EUR 8,364	EUR -1,050
Partner Office AG, Hamburg	100.00		Acquired in 2005
PB Lebensversicherung AG, Hilden	50.00	EUR 15,896	EUR -2,507 ^{*)}
PB Versicherung AG, Hilden	50.00	EUR 14,490	EUR -3,177 ^{*)}
Protection Reinsurance Intermediaries AG, Hannover	100.00	EUR 387	EUR 8,180 ^{*)}
Talanx Finanz (Luxemburg) S.A., Luxembourg	100.00	EUR 5,298	EUR 131

^{*)} Subject to a profit transfer agreement

A.I.1. Franchises, trademarks, patents, licenses and similar rights

A franchise acquired from Magyar Posta in 2002 is carried here in an amount of EUR 141,000, allowing for straight-line cumulative depreciation of EUR 2,109,000. An amount of EUR 535,000 was recognized for software.

A.III.1. Shares in affiliated companies

An amount of EUR 203.6 million was attributable to capital increases at the domestic and foreign companies and EUR 0.1 million to the acquisition of shares.

A.III.2. Loans to affiliated companies

This item consists of profit-sharing accounts receivable from HDI Industrie Versicherung AG in an amount of EUR 30,000,000 as well as a loan of EUR 3,700,000 extended to another affiliated company.

A.III.3. Participating interests

The amount includes the participation held in IGEPA Industrie- und Gewerbepark GmbH & Co. KG of EUR 44,387,000 – allowing for scheduled capital repayments – and the participations in Treuhandgesellschaft d. dt. Wertpapierbesitzes GmbH in an amount of EUR 14,000.

B.I.1. Receivables from affiliated companies

	31.12.2005	31.12.2004
	in EUR thousand	
	338,853	155,890

This item mainly comprises receivables from profit transfer agreements and receivables from regular business transactions.

B.I.2. Other assets

	31.12.2005	31.12.2004
	in EUR thousand	
Other receivables	13,816	6,802

Talanx has concluded a purchase agreement with Finanziaria Tre Ci regarding acquisition of Gruppo GPA S.p.A. The transfer of the shares under real law has not yet been completed. The payments rendered to Finanziaria Tre Ci in an amount of EUR 10,329,000 are recognized here. Acquisition costs of EUR 3,155,000 connected with the acquisition of the operational companies of the Gerling Group are capitalized under this balance sheet item.

B.II. Other marketable securities

	31.12.2005	31.12.2004
	in EUR thousand	
	35,190	35,244

This item is comprised of a trading portfolio of shares in Hannover Rückversicherung AG and neue leben Holding AG.

C. Prepayments and accrued income

	31.12.2005	31.12.2004
	in EUR thousand	
	2,111	3

A debt discount of EUR 2,049,000 is shown here arising from the taking out of a loan with Talanx Finanz (Luxemburg) S.A. The discount is written back pro rata temporis. Deferred administration costs are also carried here.

D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 Commercial Code (HGB)

	31.12.2005	31.12.2004
	in EUR thousand	
	134,084	90,350

The deferred item for probable tax relief in subsequent financial years was established for the first time in the 2003 financial year. It was increased by a further EUR 43.7 million in the 2005 financial year.

Notes on the balance sheet – liabilities

A.I. Subscribed capital

	31.12.2005	31.12.2004
	in EUR thousand	
Position at the beginning of the financial year	260,000	260,000
Capital increase	0	0
Position at the end of the financial year	260,000	260,000

The share capital consists of 260,000 no-par-value registered shares. HDI Haftpflichtverband der Deutschen Industrie, Versicherungsverein auf Gegenseitigkeit, Hannover, holds 100 % of the capital stock of our company.

A.II. Capital reserve

	31.12.2005	31.12.2004
	in EUR thousand	
Position at the beginning of the financial year	629,529	629,529
Capital increase	0	0
Position at the end of the financial year	629,529	629,529

A.III. Retained earnings

	31.12.2005	31.12.2004
	in EUR thousand	
Position at the beginning of the financial year	1,890,272	1,757,567
Allocation to other retained earnings	217,014	132,705
Position at the end of the financial year	2,107,286	1,890,272

B.3. Other provisions

	31.12.2005	31.12.2004
	in EUR thousand	
Emoluments	650	515
Remuneration paid to the Supervisory Board	687	643
Bonuses	700	649
Consulting expenses	3,402	320
Cost of the annual accounts	595	411
Other items	139	110
	6,173	2,648

The provision for consulting expenses consists principally of expenditures of EUR 2,900,000 connected with the acquisition of the Gerling companies.

C.1. Debenture loans

The disclosure refers to a share in the bearer debenture issued in 2003 which is held by a company that no longer belongs to the consolidated group.

In the 2000 financial year our company issued a convertible bond in a total nominal amount of EUR 175,000,000, which is divided into bearer bonds with equal rights in a nominal amount of EUR 50,000 each. The rate of interest was 3.375 %. The convertible bond entitled each bond creditor in the period from 30 January 2001 to 10 December 2005 to convert their bond at a conversion price of EUR 39.30 per share to registered, no-par-value common stock of Hannover Rückversicherung AG. The convertible bond was repaid on schedule.

C.2. Liabilities to banks

	31.12.2005	31.12.2004
	in EUR thousand	
	71,705	74,900

This item shows loans payable for the financing of shares acquired as well as obligations assumed as part of the merger with HOS and mortgage installments not charged off at year-end. The total amount does not include any liabilities with a remaining term of more than five years.

C.3. Accounts due to affiliated companies

	31.12.2005	31.12.2004
	in EUR thousand	
	989,926	536,278

This item principally comprises liabilities from loss transfers, short-term time money provided by affiliated companies and accounts due under regular business transactions with our subsidiaries.

As part of the increase in the Group's long-term financing, the company placed bearer debenture in a total amount of EUR 450.0 million with various Group companies in the 2003 financial year. The bond was increased by an amount of EUR 100.0 million on 10 January 2005. The coupon is 5.43 % with a term until 8 July 2013. As at the balance sheet date a total amount of EUR 541.0 million was held by affiliated companies. The remaining EUR 9.0 million was held by a company that no longer belongs to the consolidated group.

On 10 February 2005 Talanx Finanz (Luxemburg) S.A. issued subordinated debt in an amount of EUR 350.0 million with a term of twenty years. Repayment is guaranteed by Talanx AG. The proceeds of the issue were made available to Talanx AG in the form of a loan. The loan, which was paid out in a ratio of 99.358 %, has a coupon of 4.5625 % and a term until 29 June 2015.

Notes on the profit and loss account

1. Income from participating interests

	2005	2004
	in EUR thousand	
Dividend payments made by affiliated companies:		
Ampega Asset Management GmbH, Hannover	0	6,864
Ampega Immobilien Management GmbH, Hannover	41	0
HDI Rechtsschutz Versicherung AG, Hannover	0	2,300
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover	2,000	6,800
Hannover Rückversicherung AG, Hannover	13,720	13,034
neue leben Holding AG, Hamburg	3,000	0
	18,761	28,998
Dividend paid by IGEPa	204	292
Dividend paid by Downall	0	36
	18,965	29,326

2. Other operating income

	2005	2004
	in EUR thousand	
	76,262	34,353

This item consists primarily of income from the disposal of shares in HDI Service AG amounting to EUR 59,950,000 and in Hannover Rückversicherung AG amounting to EUR 6,489,000. A profit on disposal amounting to EUR 8,826,000 also arose as a consequence of the sale of HDI profit-sharing accounts receivable to subsidiaries.

3. Personnel expenses

	2005	2004
	in EUR thousand	
	6,261	4,757

This item shows remuneration paid to the Board of Management and salaries in the amount of EUR 5,356,000, pension payments to a former member of the Board of Management totaling EUR 37,000, the allocation to the pension provision of EUR 179,000, indemnity claims of EUR 110,000 as well as social security, pension and other benefit costs of EUR 578,000.

4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment

	2005	2004
	in EUR thousand	
	979	722

The amount consists of depreciation on a franchise acquired in 2002 in the amount of EUR 563,000 as well as write-offs on plant and equipment totaling EUR 119,000 and on software amounting to EUR 297,000.

5. Other operating expenses

	2005	2004
	in EUR thousand	
Remuneration paid to the Supervisory Board	720	682
HDI service charge	792	621
Auditing and consulting expenses	8,335	17,979
Losses on options	0	2,828
Other intra-group services	746	1,000
Advertising expenses	6,078	4,264
Other expenditure	4,443	3,508
	21,114	30,882

The advertising expenses derive mainly from the image campaign.

6. Income from other long-term securities and loans

	2005	2004
	in EUR thousand	
	2,530	10,126

This item includes an amount of EUR 2,093,000 attributable to interest charged on profit-sharing accounts receivable issued by the parent company HDI V.a.G. and by HDI Industrie Versicherung AG. It also includes interest income on loans extended to affiliated companies.

7. Other interest and similar income

	2005	2004
	in EUR thousand	
	25,391	15,845

This item primarily consists of interest income on overnight and time money as well as cash in banks.

8. Interest and similar expenses

	2005	2004
	in EUR thousand	
	56,075	36,921

This item principally comprises interest paid on loans as well as interest expenditures incurred in connection with the convertible bond issued in the 2000 financial year, the debt placed with various Group companies in 2003 and the loan extended by Talanx Finanz (Luxemburg) S.A. The expenditures also include commitment interest for the line of credit in the amount of EUR 1.5 billion (5-year multicurrency facility) extended to our company in the year under review.

9. Income from profit transfer agreements

	2005	2004
	in EUR thousand	
	392,490	182,959

The income reported here derives from the companies listed under “Major Agreements” with which profit transfer agreements have been concluded, with the exception of the loss transfers specified under Item 10.

10. Expenses from loss transfers

	2005	2004
	in EUR thousand	
	19,325	12,694

The losses assumed by our company under profit transfer agreements are recognized here.

11. Extraordinary expenses

	2005	2004
	in EUR thousand	
	3,000	0

We provided Aspecta Versicherung AG with assistance of EUR 3,000,000 for payments of tax arrears arising out of an audit for the period 1996 to 2001.

12. Taxes on profit and income

	2005	2004
	in EUR thousand	
	30,722	54,688

This item consists primarily of income tax for the financial year. It is charged solely against the profit on ordinary activities. The reduction in the tax burden resulting from the establishment of a deferred item for the probable tax relief in subsequent financial years is netted here in an amount of EUR 43.7 million.

Further information

Stockholder

All shares of the company are held by HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, as the sole stockholder.

Major agreements

Controlling and profit transfer agreements were concluded between Talanx and

- ASPECTA Global Group AG on 14 June 2001
- HDI Privat Versicherung AG on 31 August 2001, renewed on 24 June 2005 (effective 1 January 2006)
- HDI Industrie Versicherung AG on 26 June 2003
- CiV Lebensversicherung AG on 22 October 2001, renewed on 20 June 2005 (effective 1 January 2006)
- CiV Versicherung AG on 22 October 2001, renewed on 20 June 2005 (effective 1 January 2006)
- HDI Verwaltungs-Service AG on 28 October 2002
- Zweite HDI Beteiligungsgesellschaft mbH on 28 October 2002
- Ampega Immobilien Management GmbH on 31 July 2002
- Protection Reinsurance Intermediaries AG on 27 June 2003
- HDI Service AG on 27 November 2003 (effective 1 January 2004)
- HDI Pensionsmanagement AG on 12 February 2004
- HDI International Holding AG on 25 February 2004
- Ampega Asset Management GmbH on 26 February 2004
- HDI Rechtsschutz Versicherung AG on 1 September 2004

In addition, Talanx has concluded controlling and profit transfer agreements effective 26 November 1998 with PB Versicherung AG and PB Lebensversicherung AG through a civil-law corporation in which Talanx AG and Deutsche Postbank AG hold equal shares.

A cooperation agreement has existed with Magyar Posta Rt. since 17 April 2002 in order to be able to offer insurance products to the customers of Magyar Posta through Hungarian joint ventures (subsidiaries of Talanx AG).

Employees

	2005	2004
Average workforce during the year		
Full-time	48	38
Part-time	1	1
Total	49	39

Remuneration paid to executive bodies of the company

The total remuneration paid to members of the Board of Management amounted to EUR 1,398,000; this included an amount of EUR 114,000 relating to the previous year. The remuneration paid to members of the Supervisory Board totaled EUR 720,000. The remuneration paid to former members of the Board of Management and their surviving dependants totaled EUR 37,000. An amount of EUR 449,000 was set aside for pension commitments to former members of the Board of Management and their surviving dependants.

Other financial obligations

Talanx AG has given the holders of the subordinated debt issued by our subsidiary Talanx Finanz (Luxemburg) S.A. in February 2005 in the amount of EUR 350 million a subordinated guarantee regarding payment of the amounts due in connection with the debt, such as interest and repayments. The debt has a term of 20 years. The funds totaling EUR 350 million raised through issuance of the debt were made available to Talanx AG by Talanx Finanz (Luxemburg) S.A. in the form of a loan. The loan is recognized in the balance sheet under the item "Accounts due to affiliated companies".

Our company has also put up guarantees for the uncalled portions of capital increases at our subsidiaries CiV Lebensversicherung AG (EUR 59.0 million) and CiV Versicherung AG (EUR 8.9 million).

In addition, call commitments exist on the stocks of: CiV Lebensversicherung AG (EUR 71.3 million), CiV Versicherung AG (EUR 13.5 million), PB Lebensversicherung AG (EUR 6.1 million), HDI Pensionsmanagement AG (EUR 6.0 million), PB Versicherung AG (EUR 1.5 million) and Protection Reinsurance Intermediaries AG (EUR 0.7 million).

Our company has made an establishment fund of EUR 3.3 million available to HDI Pensionskasse AG through ASPECTA Global Group AG. For the first seven years – commencing with the 2002 financial year in which the license to conduct business operations was granted – we have undertaken to reimburse amounts required to offset an incurred loss for the year not covered by withdrawals from the establishment fund.

In order to ensure that HDI Pensionskasse AG can offer a normal profit distribution in the context of the changing market for occupational retirement provision, our company has also given a commitment that if the declared surplus distribution (including direct credit) gives rise to a deficit it will reimburse HDI Pensionskasse AG for this deficit in the 2002 to 2006 financial years.

Other financial commitments totaling around EUR 900 million arise out of the purchase agreement – especially once this agreement acquires legal force - regarding the acquisition of the operational companies of the Gerling Group.

Consolidated financial statements

The company is an affiliated company of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit. As the parent company, HDI compiles consolidated financial statements in accordance with Section 341i Commercial Code (HGB), in which our company is also included. These consolidated financial statements are deposited with Hannover District Court under HR B 3458. The company also compiles consolidated financial statements (in accordance with IFRS) on a voluntary basis.

Hannover, 21 April 2006

Talanx Aktiengesellschaft

Board of Management

Baumgartl	Dettmer	Haas	Dr. Hinsch
Kox	Dr. Löffler	Ploemacher	Zeller

Certification by the Independent Auditors

We have audited the original German financial statements – consisting of the balance sheet, profit and loss account and notes –, including the accounting and the management report of Talanx Aktiengesellschaft, Hannover, for the financial year from 1 January to 31 December 2005. The accounting and the preparation of these annual financial statements and the management report in accordance with the provisions of German commercial law and the additional requirements of the Articles of Association are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on these annual financial statements, including the accounting, and on the management report on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and in compliance with the generally accepted auditing standards set out by the Institut der Wirtschaftsprüfer (IDW = German Institute of Certified Public Accountants). These standards require that we plan and perform the audit in such a way as to identify with reasonable assurance inaccuracies and misstatements which significantly impact the view of the assets, financial position and net income given by the annual financial statements in compliance with generally accepted accounting principles and by the management report. The determination of auditing procedures makes allowance for knowledge of the business activity and of the economic and legal environment of the company as well as the expectations of possible errors. Within the scope of the audit, the efficiency of the accounting-related internal controlling system as well as the evidence supporting the figures in the accounting, annual financial statements and management report are evaluated largely on the basis of random tests. The audit also includes assessing the accounting principles used and the significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a sound basis for our opinion.

Our audit gave rise to no objections.

In our assessment based on the insights gained from the audit, the annual financial statements comply with statutory requirements and the additional provisions of the Articles of Association and give a true and fair view of the assets, liabilities, financial position and net income of Talanx Aktiengesellschaft in accordance with generally accepted accounting principles. The management report is in keeping with the annual financial statements, correctly represents the company's overall state of affairs and accurately reflects the opportunities and risks associated with its future development.

Hannover, 28 April 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib
Auditor

Dr. Dahl
Auditor

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