

Interim Report

1 / 2005

hannover re[®]

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KEY FIGURES

of the Hannover Re Group

Figures in EUR million	2005		2004	
	31.3.	+/- previous year	31.3.	31.12.
Results				
Gross written premiums	2 617.3	+6.2%	2 464.3	
Net premiums earned	1 779.6	+11.2%	1 601.2	
Net underwriting result	(41.0)	(25.8%)	(55.3)	
Net investment income	247.2	(17.2%)	298.5	
Operating profit (EBIT)	179.5	+16.2%	154.5	
Net income (after tax)	107.7	+11.1%	96.9	
Balance sheet				
Policyholders' equity	4 311.7	+2.3%		4 213.0
Total stockholders' equity	2 658.0	+4.0%		2 556.7
Minority interests	531.2	(0.7%)		535.0
Hybrid capital	1 122.5	+0.1%		1 121.3
Investments (incl. funds held by ceding companies)	25 745.1	+4.1%		24 735.8
Total assets	37 092.1	+4.9%		35 372.0
Share				
Earnings per share (diluted) in EUR	0.89	+11.3%	0.80	
Book value per share in EUR	22.04	+4.0 %		21.20
Ratios				
Combined ratio (property and casualty reinsurance)	97.1%		95.4%	97.0%
Retention	84.3%		79.5%	77.6%
Return on investment	3.9%		5.2%	4.8%
Net return on premium*	10.1%		9.7%	7.6%
Return on equity (after tax)	16.5%		15.3%	12.5%

* Operating profit (EBIT)/net premiums earned

Wilhelm Zeller
Chairman of the
Executive Board



*Dear shareholders,
Ladies and gentlemen,*

I am highly satisfied with our start in the new financial year. Despite a considerable burden of major losses our result marks a first major step towards achieving our profit target for 2005. All four of our business groups delivered positive after-tax contributions to the quarterly result.

In our largest business group, *property and casualty reinsurance*, the advantageous market climate continues to prevail. In most segments we obtained stable rates and conditions during the treaty renewals. In some lines, for example, casualty business, it was even possible to push through further modest improvements. In view of the generally favourable market conditions we appreciably enlarged our premium volume in particularly attractive segments. At the same time, though, we continued to analyse our portfolio in light of long-term profitability considerations and relinquished business that failed to satisfy our profit requirements. On balance, however, premium income grew sharply in the first quarter. Major loss expenditure exceeded the multi-year average of five percent of net premiums due to random factors. For an individual quarter, however, this statistic is not particularly revealing. A highly satisfactory combined ratio of 97.1% was achieved despite the major losses. This figure bears witness to the sustained good quality of our property and casualty reinsurance portfolio.

Life and health reinsurance was notable for a return to the significant double-digit premium growth familiar from earlier years. This was attributable in large measure to increased new business, which derived especially from unit-linked life and annuity insurance in Germany as well as the traditional products of term life and critical illness in Great Britain. In the first quarter we also surpassed our profit target of a 5% net return on premium and are thus highly satisfied with the business development.

The subject of *financial reinsurance* has made widespread headlines in the media of late. We have stressed on numerous occasions that Hannover Re's strict underwriting guidelines are in complete compliance with the regulatory requirements and provisions of commercial law applicable to financial reinsurance contracts and are designed to combat any possible abuse. It goes without saying that we will cooperate to the fullest extent if contacted by the authorities; at the present time, however, we do not see any special risks for our company. On the operating side, demand for capital-replacing

high-volume surplus relief contracts declined as expected; the current debate is prompting further restraint on the market. Nevertheless, I am thoroughly satisfied with the result. We are thus entirely on course to achieve our target for the year.

In *program business* the new management team is in the process of further restructuring the portfolio in favour of profitable niche segments. Although no striking breakthroughs were to be expected in the first quarter, the first major steps towards improved profitability have been taken with the announced further reorganisation of the portfolio. I am confident that the result can be improved in the course of the year under review.

The performance of our *investments* was largely satisfactory: write-downs on securities, especially in our equity portfolio, were no longer an issue. Positive underwriting cash flows did not entirely make up for the continuing very low level of interest rates. In the financial year just-ended we had generated substantial price gains by shortening the duration of our bond portfolio. Net investment income in the first quarter of 2005, however, fell short of the comparable period of the previous year. I am confident that the performance for the year as a whole can still be improved. Provided there are no unexpectedly adverse movements on the capital market and as long as the burden of major losses remains within the bounds of the multi-year average, we therefore expect another very good result for the full 2005 financial year: net income should be in the order of EUR 430 million to EUR 470 million, or EUR 3.60 to EUR 3.90 per share.

The *Hannover Re share* delivered a convincing performance in the first quarter. Having shown a consistently favourable trend since October of last year, the share gained around six percent in the reporting period, thereby comfortably surpassing the MDax benchmark index. We also have no reason to fear direct comparison with our competitors: in the first quarter we again outperformed our internal benchmark, the weighted „AA Global Reinsurance Index“.

I would like to thank you – as always also on behalf of my colleagues on the Executive Board – for your trust in Hannover Re. We shall continue to pursue our overriding goal of leading your company profitably and hence boosting its value on a sustainable basis.

Yours sincerely



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl ¹⁾²⁾ Hannover	Chairman
Dr. Paul Wieandt ²⁾ Hof/Saale	Deputy Chairman
Herbert K. Haas ¹⁾²⁾ Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller ³⁾ Hannover	
Ass. jur. Renate Schaper-Stewart ³⁾ Lehrte	
Dipl.-Ing. Hans-Günter Siegerist ³⁾ Nienstädt	
Dr. Klaus Sturany ¹⁾ Essen	
Bodo Uebber Stuttgart	

Executive Board (Vorstand)

Wilhelm Zeller Burgwedel	Chairman
André Arrago Hannover	
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover	
Dr. Michael Pickel Gehrden	
Ulrich Wallin Hannover	

¹⁾ Member of the Standing Committee

²⁾ Member of the Balance Sheet Committee

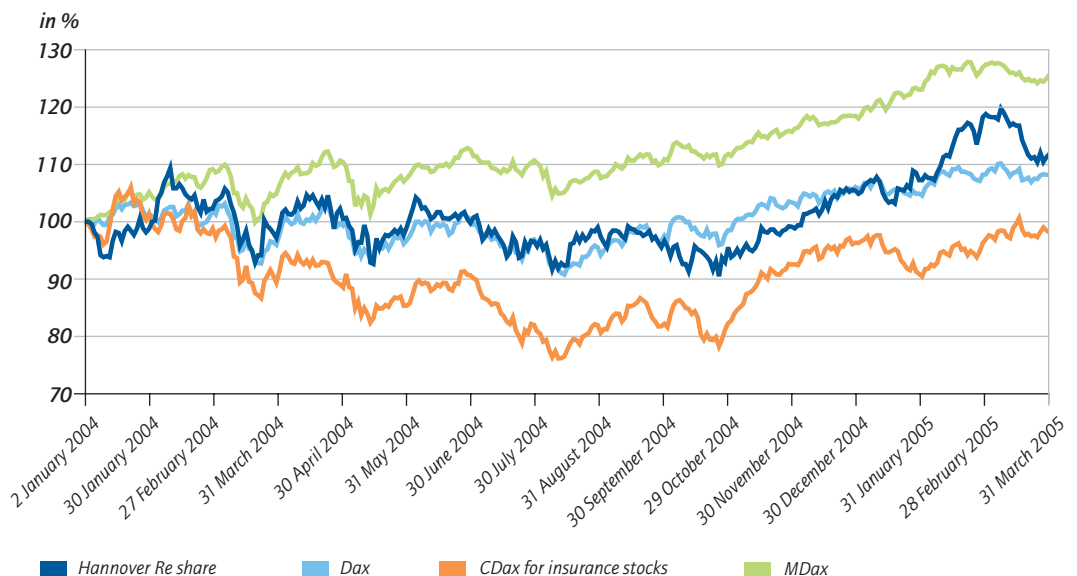
³⁾ Staff representative

THE HANNOVER RE SHARE

As forecast by a number of strategists at major investment banks, the upturn on the German stock market that had begun in the autumn of 2004 was sustained in the first quarter of the year under review. The German stock index (Dax) closed at 4,349 points on 31 March 2005, just a shade below its highest level for the year to date of 4,397. This was equivalent to a gain of 2.18% over 31 December 2004. Investors still had their sights focused firmly on mid-caps. As at the end of the quarter the MDax (+5.90%) again left other benchmark indices – Dax (+2.18%), CDax for Insurance Stocks (+1.53%) as well as Euro-Stoxx 50 (+3.54%) and Dow Jones (-2.75%) – trailing in its wake.

The Hannover Re share's consistently positive trend since the end of October 2004 was sustained. Between 31 December 2004 and 31 March 2005 the share climbed by EUR 1.76 to EUR 30.51. This increase of 6.12% surpassed the MDax benchmark. The favourable performance was doubtless in large measure due to the exceptionally gratifying 2004 year-end closing – achieved despite heavy natural catastrophe losses –, the proposed increase in the dividend and the continuing very bright outlook for the current year.

Performance of the Hannover Re share compared with standard benchmark indices

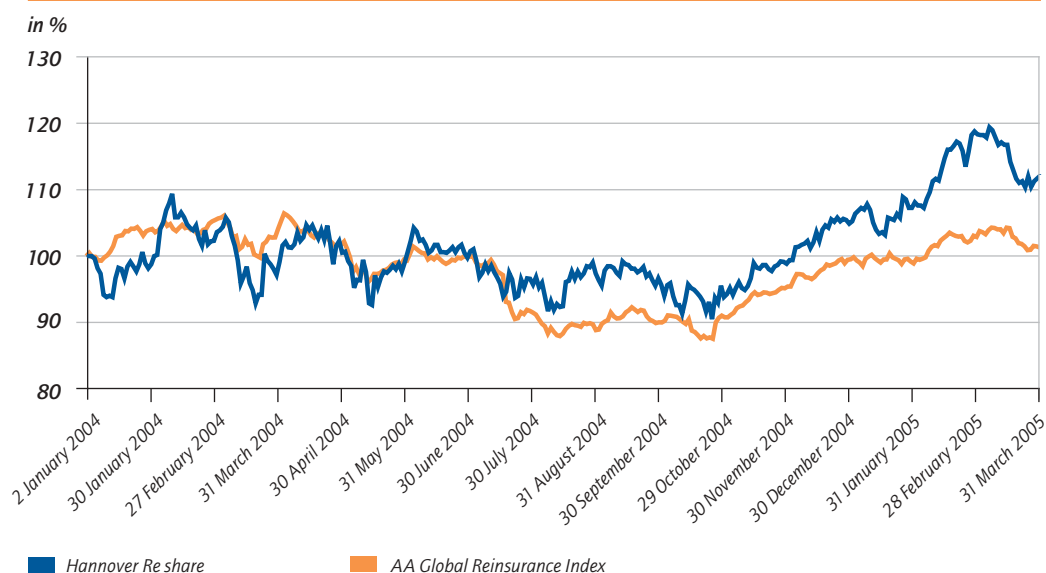


Compared with the weighted "AA Global Reinsurance Index" the Hannover Re share also held a clear lead. At the end of the first quarter 2005 the gap was an impressive 4.63 percentage points.

Analysts currently put the price target for the Hannover Re share at around EUR 36 on average. Given its present price of roughly EUR 30, the price/earnings (P/E) ratio based on the con-

sensus profit estimate for 2005 is a good 8. As at 31 March 19 of the analysts listed in Bloomberg (i.e. 63%) recommended the Hannover Re share as a "buy".

The Hannover Re share in comparison with the AA Global Reinsurance Index



The AA Global Reinsurance Index combines all listed reinsurers worldwide. Our strategic objective is to achieve an increase in the share price which on a three-year moving average surpasses the performance of this benchmark.

Share information

Figures in EUR	31.3.2005	2004	2003	2002	2001	2000
Earnings per share (diluted)	0.89	2.56	3.24	2.75	0.11	4.13
Dividend per share	–	1.00 ¹⁾	0.95	0.85	–	0.77 ²⁾
Corporation-tax credit	–	–	–	–	–	0.36
Gross dividend	–	1.00 ¹⁾	0.95	0.85	–	1.21 ³⁾

¹⁾ Proposed to the Annual General Meeting

²⁾ On each fully paid-up no-par-value registered share for the year 2000

³⁾ Incl. bonus of EUR 0.08

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	Talanx AG: 51.2% Free float: 48.8%
Common stock as at 31 March 2005:	EUR 120,597,134.00
Number of shares as at 31 March 2005:	120,597,134 no-par-value registered shares
Market capitalisation as at 31 March 2005:	EUR 3,679.4 million

BUSINESS DEVELOPMENT

All in all, we are highly satisfied with the development of the first quarter of 2005, in spite of – or rather because of – the fact that this was an eventful quarter for several of our business groups. The business results achieved to date constitute a good basis for achieving our profit target for the year.

Gross written premiums in total business amounted to EUR 2.6 billion (EUR 2.5 billion) as at 31 March 2005, growth of 6.2% compared to the same period of the previous year. At constant exchange rates growth would have been even stronger at 10.1%. The level of retained premiums climbed by a further 4.8 percentage points to 84.3%, and net premiums thus climbed by as much as 11.2% to EUR 1.8 billion (EUR 1.6 billion). The operating profit (EBIT) was boosted by 16.2% to EUR 179.5 million (EUR 154.5 million).

This was due not least to the improvement in other income and expenses. Exchange rate strains in the portfolio of invested assets, which in the first quarter of 2004 had caused heavy currency losses, were significantly lower in the corresponding period of the year under review. Consolidated net income amounted to EUR 107.7 million (EUR 96.9 million), an increase of 11.1% compared to the same quarter of the previous year. This produced earnings of EUR 0.89 (EUR 0.80) per share.

Our financial strength continued to improve in the reporting period compared to the position as at year-end 2004. Stockholder's equity increased by 4.0% to EUR 2.7 billion (EUR 2.6 billion). The policyholders' surplus, consisting of stockholders' equity, minority interests and hybrid capital, grew by 2.3% to EUR 4.3 billion (EUR 4.2 billion).

Property and casualty reinsurance

It was evident from the renewals as at 1 January – when almost two-thirds of our treaties are renegotiated – and 1 April 2005 that the advantageous market conditions continue to prevail unchanged. This can be attributed not least to the very low level of interest rates worldwide,

which is forcing insurers and reinsurers alike to focus on a solid underwriting policy. In most segments we attained stable rates and conditions on an adequate level. In certain lines – for example casualty business – it was even possible to obtain slight improvements. Price erosion was,

Key figures for property and casualty reinsurance

Figures in EUR million	2005	+/- previous year	2004
	1.1.–31.3.		1.1.–31.3.
Gross written premiums	1 318.6	+11.8%	1 179.7
Net premiums earned	849.9	+26.9%	669.9
Underwriting result	24.6	(19.4%)	30.5
Net investment income	108.6	(11.1%)	122.2
Operating profit (EBIT)	108.2	+43.4%	75.4
Net income (after tax)	62.6	+56.8%	39.9
Earnings per share in EUR	0.52	+57.6%	0.33
Retention	88.5%		82.0%
Combined ratio	97.1%		95.4%

however, observed in those areas that had recorded the sharpest rate increases in recent years, such as aviation business.

The treaty renewals also demonstrated that ceding companies are attaching ever-greater importance to a reinsurer's rating. A very good rating is absolutely indispensable, particularly for writing casualty business. Hannover Re is one of the few reinsurers to satisfy this requirement. We made the most of the attractive market environment and consequently wrote an increased volume of profitable business. Substantial additional premiums from the previous year were also a notable factor. Yet we have in no way strayed from our "More from less" initiative. Quite the contrary, we consistently analyse our entire property and casualty reinsurance business with an eye to profitability considerations and continue to replace low-margin proportional business with more profitable non-proportional arrangements.

Gross written premiums totalled EUR 1.3 billion (EUR 1.2 billion) as at 31 March 2005. This corresponds to an increase of 11.8%. At constant euro exchange rates, especially against the US dollar, gross premiums would have climbed by as much as 14.9%. The rise in net premiums, which surged by 26.9% to EUR 849.9 million (EUR 669.9 million), was even more marked. The de-

cisive factor here was a substantially higher retention of 88.5% (82.0%).

The claims experience in the first quarter was not satisfactory. The winter storm "Erwin" as well as two fire claims and a credit loss produced a net burden for our account of EUR 93.3 million (EUR 28.3 million). This figure is equivalent to 11.0% of net premiums and is thus well in excess of the multi-year average of 5%. The fact that the combined ratio still only reached 97.1% testifies to the high quality of the business written. Allocations to the loss reserves continue to be made in accordance with our accustomed conservative practice. Once again, on balance there was no need to establish additional reserves for previous occurrence years.

Results in property and casualty reinsurance were highly gratifying: the operating profit (EBIT) increased by an outstanding 43.4% to EUR 108.2 million; this effect was due to the absence of strains incurred in the previous year in connection with exchange losses on the disposal of assets. Net income surged by 56.8% to EUR 62.6 million (EUR 39.9 million), producing earnings of EUR 0.52 (EUR 0.33) per share.

Life and health reinsurance

Premium growth in life and health reinsurance was even more striking than in property and casualty reinsurance. The primary factors here were vigorous new business as well as additional premiums from the previous year, particularly under unit-linked life and annuity policies in Germany as well as traditional term life and critical illness products in the United Kingdom. In Europe we continued to expand in the bancassurance sector. On the North American market our focus remained on the steadily growing market for senior citizen's products and on high-value financing transactions.

Gross written premiums totalled EUR 538.7 million (EUR 444.0 million) as at 31 March of the year under review, an increase of 21.3%. At constant exchange rates growth would have been as much as 25.2%. Also due to a further rise in the level of retained premiums, net premiums earned climbed by 26.5% to EUR 505.8 million (EUR 399.9 million).

Key figures for life and health reinsurance

Figures in EUR million	2005	+/- previous year	2004
	1.1.–31.3.		1.1.–31.3.
Gross written premiums	538.7	+21.3%	444.0
Net premiums earned	505.8	+26.5%	399.9
Net investments income	58.5	(8.3%)	63.8
Operating profit (EBIT)	27.2	+12.8%	24.1
Net income (after tax)	16.7	+2.1%	16.4
Earnings per share in EUR	0.14	–	0.14
Retention	94.5%		90.4%
Net return on premium*	5.4%		6.0%

* Operating profit (EBIT)/net premiums earned

Although premium income and profitability in life and health reinsurance are traditionally strongest in the third and fourth quarters, results for the first quarter were already gratifying: the operating profit (EBIT) climbed by 12.8% to EUR 27.2 million (EUR 24.1 million). Despite higher

tax expenditure life and health reinsurance therefore generated improved net income of EUR 16.7 million, compared to EUR 16.4 million in the same quarter of the previous year; this was equivalent to earnings of EUR 0.14 (EUR 0.14) per share.

Financial reinsurance

The predominantly negative reporting on financial reinsurance, triggered by investigations conducted by a number of US agencies, has led to a certain degree of restraint among some of our clients. An even more significant factor is that the sustained hard market is causing de-

mand for capital-replacing surplus relief contracts to diminish over time. It is gratifying to note that many of these negative effects were not felt outside the USA; particularly in Europe and Asia, therefore, we were able to consistently expand our business.

Key figures for financial reinsurance

Figures in EUR million	2005	+/- previous year	2004
	1.1.–31.3.		1.1.–31.3.
Gross written premiums	352.6	(0.3%)	353.7
Net premiums earned	196.3	(21.2%)	249.0
Net investment income	69.5	(28.8%)	97.6
Operating profit (EBIT)	28.0	(14.1%)	32.6
Net income (after tax)	17.7	(31.9%)	26.0
Earnings per share in EUR	0.15	(28.6%)	0.21
Retention	86.6%		98.2%
Net return on premium*	14.3%		13.1%

* Operating profit (EBIT)/net premiums earned

Overall, our financial reinsurance business group developed according to plan. Gross written premiums as at 31 March 2005 were virtually unchanged from the first quarter of the previous year at EUR 352.6 million (EUR 353.7 million). In the original currencies the growth would have amounted to 4.2%. Net premiums, on the other hand, contracted by 21.2% to EUR 196.3 million (EUR 249.0 million). The decline was attributable to a reduced retention of 86.6% (98.2%).

Program business

Clarendon Insurance Group, New York, writes by far the bulk of our program business. The new management team is well on course towards restructuring the portfolio in favour of more profitable business segments and programs. The result showed the expected return to profitability, thereby signalling the initial success of

The operating profit (EBIT) fell by 14.1% to EUR 28.0 million (EUR 32.6 million). Owing to increased tax expenditure the net income after tax decreased by an even more appreciable 31.9% to EUR 17.7 million, following EUR 26.0 million in the same quarter of the previous year. This was equivalent to earnings of EUR 0.15 (EUR 0.21) per share.

these efforts. The combined ratio improved to 96.2%, compared to 97.4% in the first quarter of 2004. It had been as high as 114.4% for the full 2004 financial year.

Key figures for program business

Figures in EUR million	2005	+/- previous year	2004
	1.1.–31.3.		1.1.–31.3.
Gross written premiums	407.5	(16.3%)	487.0
Net premiums earned	227.7	(19.4%)	282.4
Underwriting result	8.6	+15.4%	7.4
Net investment income	10.5	(28.8%)	14.8
Operating profit (EBIT)	16.1	(27.7%)	22.3
Net income (after tax)	10.6	(27.0%)	14.6
Earnings per share in EUR	0.09	(25.0%)	0.12
Retention	55.4 %		50.1%
Combined ratio	96.2 %		97.4%

Gross written premiums contracted by 16.3% in the first quarter to EUR 407.5 million (EUR 487.0 million). Given the heavy US bias of our portfolio of program business, the weakness of the US dollar against the euro was especially apparent here. At constant exchange rates the decline would have been a mere -11.2%. Net premiums contracted by 19.4% to EUR 227.7 million (EUR 282.4 million).

The operating profit (EBIT) closed 27.7% lower on 31 March at EUR 16.1 million (EUR 22.3 million). Net income after tax was also reduced by 27.0% to EUR 10.6 million as against EUR 14.6 million in the corresponding quarter of the previous year. Program business thus contributed positive – albeit modest – earnings per share of EUR 0.09 (EUR 0.12) to the Group's overall performance.

Net investment income

In the first quarter European equity markets were able to divorce themselves from the bellwether US market with a positive performance. Yields on 10-year government bonds in Europe and the United States also moved in opposite directions. Whereas the European sector saw declining yields, interest rates rose in the USA. Despite the continued defensive posture of our bond portfolio and an equity allocation of just 7%, our results for the first three months of the year under review developed according to plan. Minimal write-downs of EUR 0.4 million were incurred on securities, compared with EUR 14.2 million as at 31 March of the previous year. In the area of fixed-income securities our primary emphasis continued to be on high quality and liquidity.

As at the end of the first three months of the year under review we increased the modified duration of the bond portfolio – principally in the US sector – to 3.6 years (31 December 2004: 3.2 years). The profits of EUR 20.9 million (EUR 77.2 million) realised on the disposal of investments contrasted with realised losses of EUR 6.7 million (EUR 6.5 million). The profit contribution from extraordinary income was correspondingly

lower than in the same period of the previous year. The enlarged asset volume did not entirely offset the reduced average yields on the portfolio, and the ordinary income of EUR 239.8 million was therefore lower than in the previous year (EUR 257.2 million). Net investment income declined to EUR 247.2 million (EUR 298.5 million) due to lower amounts realised, although it remains within the bounds of our planning for 2005.

Outlook for the full 2005 financial year

We expect business to develop favourably as the year progresses.

The market prospects in property and casualty reinsurance remain good; it is our expectation that premium growth will be sustained. Provided major losses stay within the bounds of the multi-year average over the course of the year, the result in property and casualty reinsurance should surpass that of the previous year.

In life and health reinsurance we expect double-digit premium growth in the original currency, most notably in Germany, the United Kingdom and the Asian markets. All in all, we anticipate significantly increased profitability.

The premium volume in financial reinsurance will likely contract by a double-digit margin. Net income should, however, remain highly gratifying.

Premium income in program business will be lower than in the previous year. We nevertheless anticipate a positive result above the cost of capital and at least on a par with the level of 2003.

The expected positive underwriting cash flow will likely lead to further expansion of the asset volume. Given modestly rising interest rates, investment income should again come in somewhat higher than in the previous year.

Bearing in mind the anticipated development of our business groups and the general economic environment, we are confident that we can substantially increase our profit in the year under review. We expect to generate net income of EUR 430 to 470 million for 2005. This would mean earnings of around EUR 3.60 to 3.90 per share. As always, this forecast is subject to the premise that the burden of major losses for the rest of the year remains within the multi-year average and that there are no unexpectedly adverse movements on capital markets.

CONSOLIDATED BALANCE SHEET

as at 31 March 2005

Figures in EUR thousand	2005	2004
Assets	31.3.	31.12.
Fixed-income securities – held to maturity	476 447	470 254
Fixed-income securities – available for sale	12 852 312	12 341 748
Equity securities – available for sale	1 141 495	1 105 014
Equity securities – trading	–	2 482
Real estate	207 852	205 755
Other invested assets	644 557	615 216
Short-term investments	678 855	549 187
Total investments without cash	16 001 518	15 289 656
Cash	502 484	480 810
Total investments and cash	16 504 002	15 770 466
Prepaid reinsurance premiums	466 466	489 085
Reinsurance recoverables on benefit reserve	85 557	95 004
Reinsurance recoverables on unpaid claims	4 406 007	4 162 630
Reinsurance recoverables on other reserves	11 043	9 903
Deferred acquisition costs	2 162 760	2 024 630
Accounts receivable	3 594 127	3 122 762
Funds held by ceding companies	9 241 066	8 965 291
Goodwill	203 535	196 673
Other assets	233 554	342 889
Accrued interest and rent	183 973	192 618
	37 092 090	35 371 951

Figures in EUR thousand	2005	2004
Liabilities	31.3.	31.12.
Loss and loss adjustment expense reserve	18 937 880	18 246 946
Policy benefits for life and health contracts	5 368 666	5 253 328
Unearned premium reserve	2 280 337	1 825 886
Provisions for contingent commission	200 278	172 201
Reinsurance payable	2 055 636	1 707 775
Funds held under reinsurance treaties	972 140	955 636
Contract deposits	1 509 710	1 503 020
Minorities	531 245	535 004
Other liabilities	439 146	464 529
Taxes	165 419	142 209
Provisions for deferred taxes	851 102	887 398
Notes payable	1 122 492	1 121 335
Total liabilities	34 434 051	32 815 267
Stockholders' equity		
Common stock	120 597	120 597
Nominal value 120 597 Authorised capital 60 299		
Additional paid-in capital	724 562	724 562
Cumulative comprehensive income		
Unrealised appreciation/depreciation of investments, net of deferred taxes	130 035	170 496
Cumulative foreign currency conversion adjustment, net of deferred taxes	(377 831)	(413 259)
Other changes in cumulative comprehensive income	(4 611)	(2 890)
Total comprehensive income	(252 407)	(245 653)
Retained earnings		
Beginning of period	1 957 178	1 762 252
Net income	107 656	309 140
Dividend paid	–	(114 567)
Other changes	453	353
	2 065 287	1 957 178
Total stockholders' equity	2 658 039	2 556 684
	37 092 090	35 371 951

CONSOLIDATED STATEMENT OF INCOME

for the period 1 January to 31 March 2005

	2005	2004
Figures in EUR thousand	1.1.–31.3.	1.1.–31.3.
Gross written premiums	2 617 349	2 464 333
Ceded written premiums	410 759	505 044
Change in gross unearned premiums	(385 960)	(335 115)
Change in ceded unearned premiums	(40 988)	(22 996)
Net premiums earned	1 779 642	1 601 178
Ordinary investment income	239 772	257 169
Realised gains on investments	20 888	77 249
Realised losses on investments	6 663	6 506
Unrealised gains and losses on investments	7 388	460
Other investment expenses/depreciations	14 227	29 921
Net investment income	247 158	298 451
Other technical income	3 748	3 562
Total revenues	2 030 548	1 903 191
Claims and claims expenses	1 233 916	1 184 153
Change in policy benefits for life and health contracts	54 825	32 054
Commission and brokerage	454 294	357 309
Other acquisition costs	7 484	2 466
Other technical expenses	16 061	21 664
Administrative expenses	57 857	62 397
Total technical expenses	1 824 437	1 660 043
Other income and expenses	(26 600)	(88 694)
Operating profit/loss (EBIT)	179 511	154 454
Interest on hybrid capital	16 227	16 630
Net income before taxes	163 284	137 824
Taxes	40 686	30 034
Minority interest	(14 942)	(10 910)
Net income	107 656	96 880

	2005	2004
Figures in EUR thousand	1.1.–31.3.	1.1.–31.3.
Other comprehensive income		
Net unrealised appreciation/depreciation of investments	(40 461)	66 970
Cumulative foreign currency conversion adjustments	35 428	94 810
Other comprehensive income	(1 721)	(5 282)
Total	100 902	253 378
Earnings per share		
Earnings per share in EUR	0.89	0.80

CASH FLOW STATEMENT

as at 31 March 2005

	2005	2004
Figures in EUR thousand	1.1.–31.3.	1.1.–31.3.
I. Cash flow from operating activities		
Consolidated net income (after tax)	107 656	96 880
Appreciation/depreciation	8 271	21 124
Net realised gains and losses on investments	(14 225)	(70 743)
Amortisation of investments	892	1 754
Minority interest	14 942	10 910
Changes in funds held	(13 432)	(389 391)
Net changes in contract deposits	(6 209)	56 155
Changes in prepaid reinsurance premiums (net)	424 483	366 334
Changes in tax assets/provisions for taxes	16 431	3 311
Changes in benefit reserves (net)	1 889	41 283
Changes in claims reserves (net)	(44 984)	141 545
Changes in deferred acquisition costs	(103 993)	(90 216)
Changes in other technical provisions	22 106	19 526
Changes in clearing balances	(67 227)	334 235
Changes in other assets and liabilities (net)	67 293	15 440
Cash flow from operating activities	413 893	558 147
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	10 610	25 439
Purchases	(18 751)	–
Fixed-income securities – available for sale		
Maturities, sales	1 716 955	2 550 207
Purchases	(1 975 873)	(3 134 711)
Equity securities – available for sale		
Sales	12 584	22 734
Purchases	(14 883)	(205 014)
Other invested assets		
Sales	15 691	45 457
Purchases	(23 026)	(16 538)
Affiliated companies and participating interests		
Sales	410	733
Acquisition	(22)	(5 333)
Real estate		
Acquisition	(51)	(3)
Short-term investments		
Changes	(113 305)	(175 832)
Other changes (net)	(14 094)	(9 197)
Cash flow from investing activities	(403 755)	(902 058)

	2005	2004
Figures in EUR thousand	1.1.–31.3.	1.1.–31.3.
III. Cash flow from financing activities		
Changes in notes payable	–	447 416
Other changes	221	(17 247)
Cash flow from financing activities	221	430 169
IV. Exchange rate differences on cash	11 315	14 958
Change in cash and cash equivalents (I.+II.+III.+IV.)	21 674	101 216
Cash and cash equivalent at the beginning of the period	480 810	386 134
Change in cash and cash equivalent according to cash flow statement	21 674	101 216
Cash and cash equivalents at the end of the period	502 484	487 350
Income taxes	(18 095)	(10 122)
Interest paid	(97 273)	(52 564)

SEGMENTAL REPORT

as at 31 March 2005

In the following table we have allocated the underwriting assets and liabilities as at 31 March 2005 and 31 December 2004 to our business segments after eliminating intergroup transaction across segments.

Segmentation of underwriting assets and liabilities

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2005	2004	2005	2004
	31.3.	31.12.	31.3.	31.12.
Assets				
Prepaid reinsurance premiums	63 010	77 944	1 251	1 429
Deferred acquisition costs (net)	257 962	199 195	1 782 972	1 719 298
Reinsurance recoverables on benefit reserves	–	–	85 557	95 004
Reinsurance recoverables on incurred claims and others	1 432 145	1 492 976	168 987	89 731
Funds held by ceding companies	164 972	161 804	6 148 619	5 706 555
Total underwriting assets	1 918 089	1 931 919	8 187 386	7 612 017
Liabilities				
Loss and loss adjustment expense reserve	9 396 743	8 820 198	1 160 908	1 053 719
Policy benefits for life and health contracts	–	–	5 368 666	5 253 328
Unearned premium reserve	1 255 282	917 664	29 791	26 046
Other technical provisions	114 689	106 654	39 946	33 294
Funds held under reinsurance treaties	506 101	557 880	222 826	153 396
Total underwriting liabilities	11 272 815	10 402 396	6 822 137	6 519 783

Financial reinsurance		Program business		Total	
2005	2004	2005	2004	2005	2004
31.3.	31.12.	31.3.	31.12.	31.3.	31.12.
14 329	1 797	387 876	407 915	466 466	489 085
26 861	14 828	94 965	91 309	2 162 760	2 024 630
–	–	–	–	85 557	95 004
530 576	508 314	2 285 342	2 081 512	4 417 050	4 172 533
2 913 583	3 084 639	13 892	12 293	9 241 066	8 965 291
3 485 349	3 609 578	2 782 075	2 593 029	16 372 899	15 746 543
4 638 676	4 834 860	3 741 553	3 538 169	18 937 880	18 246 946
–	–	–	–	5 368 666	5 253 328
183 305	58 305	811 959	823 871	2 280 337	1 825 886
30 221	24 491	15 422	7 762	200 278	172 201
–	–	243 213	244 360	972 140	955 636
4 852 202	4 917 656	4 812 147	4 614 162	27 759 301	26 453 997

SEGMENTAL REPORT

as at 31 March 2005

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2005	2004	2005	2004
	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.
Gross written premiums	1 318 596	1 179 741	538 667	443 973
Net premiums earned	849 866	669 898	505 776	399 872
Claims and claims expenses	630 163	486 681	314 099	261 913
Change in policy benefits for life and health contracts	–	–	(54 825)	(32 054)
Commission and brokerage and other technical income/expenses	169 940	124 640	154 777	127 852
Investment income	108 629	122 212	58 505	63 803
Administrative expenses	25 164	28 052	13 707	12 060
Other income and expenses	(25 050)	(77 319)	351	(5 656)
Operating profit/loss (EBIT)	108 178	75 418	27 224	24 140
Interest on hybrid capital	11 175	10 019	1 601	1 501
Net income before taxes	97 003	65 399	25 623	22 639
Taxes	23 090	17 147	7 645	4 489
Minority interest	(11 326)	(8 327)	(1 272)	(1 787)
Net income	62 587	39 925	16 706	16 363

Financial reinsurance		Program business		Total	
2005	2004	2005	2004	2005	2004
1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.	1.1.–31.3.
352 636	353 656	407 450	486 963	2 617 349	2 464 333
196 349	249 029	227 651	282 379	1 779 642	1 601 178
138 673	242 422	150 981	193 137	1 233 916	1 184 153
–	–	–	–	(54 825)	(32 054)
99 052	65 154	50 322	60 231	474 091	377 877
69 492	97 634	10 532	14 802	247 158	298 451
1 221	714	17 765	21 571	57 857	62 397
1 117	(5 748)	(3 018)	29	(26 600)	(88 694)
28 012	32 625	16 097	22 271	179 511	154 454
956	1 439	2 495	3 671	16 227	16 630
27 056	31 186	13 602	18 600	163 284	137 824
6 978	4 357	2 973	4 041	40 686	30 034
(2 344)	(796)	–	–	(14 942)	(10 910)
17 734	26 033	10 629	14 559	107 656	96 880

NOTES

1. General accounting principles

Hannover Rückversicherung AG (Hannover Re) belongs to Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i ff. of the German Commercial Code (HGB). The annual financial statements of Hannover Re and its subsidiaries are included in these consolidated annual accounts. Under § 291 Para. 3 No. 1 of the German Commercial Code (HGB), amended version, the consolidated annual accounts of the parent company no longer release Hannover Re from its obligation to compile a consolidated financial statement.

The consolidated financial statement of Hannover Re has been drawn up fully in accordance with United States Generally Accepted Accounting Principles (US GAAP).

All Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board (FASB) on or before 31 March 2005 with binding effect for the 2005 financial year have been observed in the consolidated financial statement.

The quarterly results of reinsurance companies, including our results, are for various reasons not a reliable indicator for the results of the financial year as a whole. Losses from natural catastrophes and other catastrophe losses have a disproportionate impact on the result of the reporting period in which they occur. Furthermore, late reported claims for major loss complexes can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

2. Accounting principles including reporting and valuation methods

The quarterly accounts included in the consolidated financial statement were drawn up as at 31 March 2005. The reader is also referred to the corresponding information contained in the consolidated financial statement drawn up as at 31 December 2004.

3. Consolidated companies and consolidation principles

Consolidated companies

DSP Deutsche-Senior-Partner AG, Bonn, which was established in the 2004 financial year, has been included in the consolidated financial statement for the first time in the first quarter of the 2005 financial year using the equity basis of accounting.

Capital consolidation

The capital consolidation complies with the standards of SFAS 141. Under the "purchase accounting" method the purchase costs of the parent company have been netted with the proportionate stockholders' equity of the subsidiary at the time when it was first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets

that in accordance with SFAS 141 are to be accounted for separately from goodwill, the difference between the revalued stockholders' equity of the subsidiary and the purchase price is recognised as goodwill. Immaterial and negative goodwill were booked to earnings in the year of their occurrence. Where minority interests in the stockholders' equity exist, such interests are reported separately.

The minority interest in the result is deducted from the net income in the statement of income and totalled EUR 14,942 thousand (previous year: EUR 10,910 thousand) as at 31 March 2005.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other.

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

4. Notes on the individual items of the balance sheet and statement of income

4.1 Investments including income and expenses

Investments were valued in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". The allocation and valuation of investments are guided by the investment intent.

Fixed-income securities classified as held to maturity are valued at purchase costs plus/minus amortised costs. The amortised costs derive from the difference between the nominal value and purchase cost and they are spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are valued at fair value. The difference between the fair value and amortised cost is booked to other comprehensive income.

Trading securities are valued at fair value. The difference between the fair value and amortised cost is recognised within the statement of income.

Securities whose fair value falls permanently below purchase cost are written down to current value and recognised within the statement of income.

The other investments primarily consist of shares in private-equity limited partnerships.

Contractual maturities of the fixed-income securities in the held-to-maturity portfolio and the available-for-sale portfolio as at the balance sheet dates of 31 March 2005 and 31 December 2004

Figures in EUR thousand	2005		2004	
	Cost or amortised cost 31.3.	Estimated fair value 31.3.	Cost or amortised cost 31.12.	Estimated fair value 31.12.
Held-to-maturity				
Due in one year	66 837	67 880	36 611	37 406
Due after one through five years	95 928	100 031	109 952	114 862
Due after five through ten years	292 036	314 198	302 151	321 342
Due after ten years	21 646	23 963	21 540	23 811
Total	476 447	506 072	470 254	497 421
Available-for-sale				
Due in one year	1 710 715	1 713 762	2 000 710	2 004 196
Due after one through five years	7 354 913	7 324 290	7 348 338	7 377 058
Due after five through ten years	2 487 323	2 515 375	1 728 974	1 773 312
Due after ten years	1 251 827	1 298 885	1 131 504	1 187 182
Total	12 804 778	12 852 312	12 209 526	12 341 748

The actual maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Amortised costs and unrealised gains and losses on the portfolio of investments classified as held to maturity

31.3.2005

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Investments held to maturity				
Fixed-income securities				
Other foreign government debt securities	19 087	–	–	19 087
Debt securities issued by semi-governmental entities	115 226	12 384	–	127 610
Corporate securities	279 195	14 588	36	293 747
Asset-backed securities	62 939	2 689	–	65 628
Total	476 447	29 661	36	506 072

31.12.2004

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Investments held to maturity				
Fixed-income securities				
Other foreign government debt securities	20 255	–	–	20 255
Debt securities issued by semi-governmental entities	115 226	12 217	–	127 443
Corporate securities	261 736	11 626	–	273 362
Asset-backed securities	73 037	3 324	–	76 361
Total	470 254	27 167	–	497 421

Amortised cost and unrealised gains and losses on the portfolios of investments classified as available for sale and trading

31.3.2005				
Figures in EUR thousand	Cost or amortised cost	Unrealised gains losses		Estimated fair value
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 498 672	9 657	3 974	1 504 355
US Treasury Notes	1 913 926	4 126	35 138	1 882 914
Other foreign government debt securities	202 017	3 170	816	204 371
Debt securities issued by semi-governmental entities	3 127 861	26 515	44 771	3 109 605
Corporate securities	3 978 917	73 679	40 324	4 012 272
Asset-backed securities	1 492 840	27 607	6 282	1 514 165
From investment funds	590 545	36 229	2 144	624 630
	12 804 778	180 983	133 449	12 852 312
Dividend-bearing securities				
Equities	277 703	23 325	12 228	288 800
From investment funds	756 957	95 832	94	852 695
	1 034 660	119 157	12 322	1 141 495
Short-term investments	678 855	–	–	678 855
Total	14 518 293	300 140	145 771	14 672 662

31.12.2004

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 571 258	11 080	2 086	1 580 252
US Treasury Notes	1 847 047	1 809	17 836	1 831 020
Other foreign government debt securities	212 817	4 006	276	216 547
Debt securities issued by semi-governmental entities	2 935 118	32 957	24 873	2 943 202
Corporate securities	3 692 435	86 952	19 902	3 759 485
Asset-backed securities	1 397 896	28 711	3 832	1 422 775
From investment funds	552 955	36 321	809	588 467
	12 209 526	201 836	69 614	12 341 748
Dividend-bearing securities				
Equities	265 180	16 395	3 084	278 491
From investment funds	754 482	72 145	104	826 523
	1 019 662	88 540	3 188	1 105 014
Short-term investments	549 187	–	–	549 187
Total	13 778 375	290 376	72 802	13 995 949
Trading				
Dividend-bearing securities				
Derivatives	2 633	–	151	2 482
Total	2 633	–	151	2 482

Investment income

Figures in EUR thousand	2005	2004
	31.3.	31.3.
Real estate	5 073	5 544
Dividends	1 187	2 219
Ordinary investment income on fixed-income securities	131 647	135 993
Other income	101 865	113 413
Ordinary investment income	239 772	257 169
Realised gains on investments	20 888	77 249
Realised losses from investments	6 663	6 506
Unrealised gains and losses	7 388	460
Real estate depreciation	1 609	2 686
Write-offs on dividend-bearing securities	159	7 403
Write-offs on fixed-income securities	109	2 373
Write-downs on participations	96	4 457
Other investment expenses	12 254	13 002
Total investment income	247 158	298 451

The other income includes interest on deposits in the amount of EUR 99.3 million (EUR 112.8 million).

4.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 2,041 (31 December 2004: 2,009). Of this number, 829 were employed in Germany in the year under review and 1,212 were employed at the consolidated Group companies abroad.

4.3 Stockholders' equity and minority interests

The stockholders' equity is shown as a separate component of the financial statement in accordance with SFAS 130 "Reporting of Comprehensive Income". The change in the stockholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

Minority interests are established in accordance with the shares held by companies outside the Group in the stockholders' equity of the subsidiaries.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares. In addition, conditional capital of up to EUR 48,500 thousand is available. It can be used to grant shares to holders of convertible and warrant bonds and has a time limit of 13 November 2007.

Consolidated statement of changes in stockholders' equity

31.3.2005						
Figures in EUR thousand	Balance as at 1 January	Change in the current period less deferred taxes	Change in retained earnings	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	120 597	–	–	120 597		
Additional paid-in capital	724 562	–	–	724 562		
Cumulative comprehensive income	(245 653)	(6 754)	–	(252 407)		
Retained earnings	1 957 178	–	–	1 957 178		
Net income	–	–	107 656	107 656		
Other changes	–	–	453	453		
Total	2 556 684	(6 754)	108 109	2 658 039	531 245	3 189 284

31.3.2004						
Figures in EUR thousand	Balance as at 1 January	Change in the current period less deferred taxes	Change in retained earnings	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	120 597	–	–	120 597		
Additional paid-in capital	724 562	–	–	724 562		
Cumulative comprehensive income	(202 761)	156 498	–	(46 263)		
Retained earnings	1 762 252	–	–	1 762 252		
Net income	–	–	96 880	96 880		
Other changes	–	–	127	127		
Total	2 404 650	156 498	97 007	2 658 155	494 046	3 152 201

4.4. Treasury stock

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 2 June 2004, the company was authorised until 30 November 2005 to acquire treasury stock of up to 10% of the capital stock existing on the date of the resolution. The company did not hold treasury stock within the quarter or as at 31 March 2005.

5. Other notes

5.1 Contingent liabilities

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 Hannover Re bought back USD 370.0 million of the subordinated debt, leaving an amount of USD 30.0 million still secured by the guarantee.

In February 2004 we placed subordinated debt in the amount of EUR 750.0 million on the European capital markets through our subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured the debt by a subordinated guarantee.

Hannover Re has also secured by subordinated guarantee further subordinated debt in the amount of EUR 350.0 million issued by Hannover Finance (Luxembourg) S.A.

The guarantees given by Hannover Re for the subordinated debts attach if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for our technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 1,923.6 million (31 December 2004: EUR 1,664.2 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,616.0 million (31 December 2004: EUR 2,663.7 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 84.6 million (31 December 2004: EUR 88.8 million) for E+S Rückversicherung AG and EUR 223.3 million (31 December 2004: EUR 232.4 million) for Hannover Re. These involve primarily private equity funds and venture capital firms in the form of private limited companies.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. As at the balance sheet date the estimated amount of the reinsurance commitments remained unchanged at EUR 29.2 million.

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