Interim Report 2/2004

hannover re®

KEY FIGURES
of the Hannover Re Group

Figures in EUR million	2004					2003	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	2 464.3	2 331.0	(17.5%)	4 795.3	(19.8%)	2 825.4	5 977.5
Net premiums earned	1 601.2	1 859.9	(5.3%)	3 461.0	(4.9%)	1 963.0	3 638.9
Net underwriting result	(55.3)	(36.5)	(7.2%)	(91.8)	(31.1%)	(39.3)	(133.3)
Net investment income	298.5	268.5	(3.5%)	567.0	+16.6%	278.2	486.2
Operating profit (EBIT)	154.5	220.9	+25.4%	375.4	+31.6%	176.2	285.2
Net income (after tax)	96.9	114.6	+25.6%	211.5	+30.2%	91.2	162.4
Policyholders' surplus	4 393.5			4 235.1	+25.6%		3 365.5
Total stockholders' equity	2 658.2			2 484.3	+17.9%		2 107.9
Minority interests	494.0			509.3	+15.1%		440.9
Hybrid capital	1 241.3			1 241.5	+52.0%		816.7
Investments (including funds held by ceding companies)	23 791.7			23 964.9	+17.6%		20 386.2
Total assets	35 343.4			35 733.3	+4.3%		34 264.9
Earnings per share (diluted) in EUR	0.80	0.95		1.75		0.92	1.65
Bookvalue per share in EUR	22.04	20.60		20.60		21.48	21.48
Retention	79.5%	73.2%		76.5%		67.8%	69.8%
Combined ratio (property and casualty reinsurance)	95.4%	93.4%		94.3%		97.3%	98.6%
Return on investment	5.2%	4.5%		4.9%		5.5%	4.8%
Net return on premium*	9.7%	11.9%		10.9%		9.0%	7.8%
Return on equity (after tax)	15.3%	17.8%		17.3%		18.9%	16.9%

** Operating profit (EBIT) / net premiums earned*

Dear shareholders,
Ladies and Gentlemen,

your company's success story continues: having started the 2004 financial year on a successful note, the second quarter, too, was highly satisfactory.

With an operating profit (EBIT) of roughly EUR 375 million for the first six months, we surpassed the half-year result – as was already the case in the first quarter – by nearly one-third. Consolidated net income similarly grew by almost a third to more than EUR 200 million. Both these figures mark new highs. We are therefore absolutely on course to significantly boost our result for the whole year again and generate a new record profit. All business groups recorded higher operating profits (EBIT) and net income. Particularly noteworthy is the fact that despite our capital increase in June of the previous year we also improved the earnings per share, which climbed by around 10 cents to EUR 1.75.

The second quarter once again demonstrated that it is profit, not volume that counts. Although our gross premium contracted by around 20% – due to restructuring measures, the strong euro as well as the cycle management –, net premiums (adjusted for exchange-rate effects) nevertheless held steady year-on-year thanks to the increased retention.

In our most important business group, *property and casualty reinsurance*, the renewal date in Japan and Korea of 1 April offered numerous opportunities to write profitable business. Property and casualty insurance continues to benefit from attractive prices and conditions; the claims experience was also favourable. This advantageous climate is reflected in the combined ratio, which improved on the previous year's figure by more than 4 percentage points to reach 94.3% for the first half-year. Major loss expenditure was also gratifyingly low: we had booked only one by the end of June. The profit for the business group also showed a corresponding double-digit increase. In short then: The first half-year was highly successful for property and casualty reinsurance.

The other business groups also made significant contributions to our good semi-annual result and continued to develop largely as planned in the year under review. *Life and health reinsurance* virtually doubled its profit year-on-year, as did *financial reinsurance*, while program business was able to generate a slightly higher profit contribution.

The capital markets did not produce any unwelcome surprises in the second quarter: ordinary income improved slightly as asset portfolios grew; the latter more than offset the continuing low yields on fixed-income securities. There was no need to take extraordinary write-downs on our investments. Net investment income in the first half-year comfortably surpassed the EUR 0.5 billion threshold – a double-digit increase as well.

The improved liquidity of our share is borne out on a daily basis by trading volumes that are up to five times higher than they were a good year ago. This factor, combined with the near-doubling of the free float – which now stands at almost half the capital stock –, has made us a heavyweight on the MDax. While the general market environment showed considerable softening in the second quarter, our share held up comparatively well. Yet, in what was a rather depressed overall climate, its performance in absolute terms was far from satisfactory.

On behalf of my colleagues on the Executive Board and myself, I thank you most sincerely for the trust that you place in Hannover Re. It is and will remain our goal to lead your company securely into the future and consistently increase its value.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS
of Hannover Re

Supervisory Board (Aufsichtsrat)

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Dr. Paul Wieandt [2)] Hof/Saale	Deputy Chairman
Herbert K. Haas [1) 2)] Burgwedel	
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Dr. Klaus Sturany [1)] Essen	
Bodo Uebber Berlin	

Executive Board (Vorstand)

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André Arrago Hannover	
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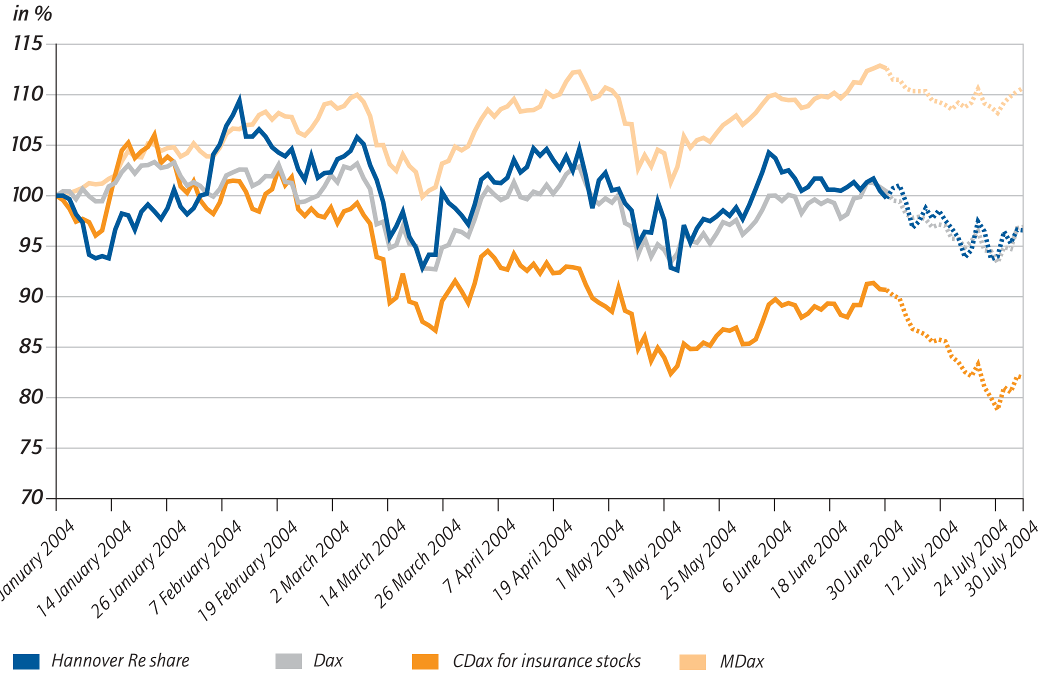
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover	
Dr. Michael Pickel Gehrden	
Ulrich Wallin Hannover	

1) Member of the Standing Committee
2) Member of the Balance Sheet Committee
3) Staff representative

THE HANNOVER RE SHARE

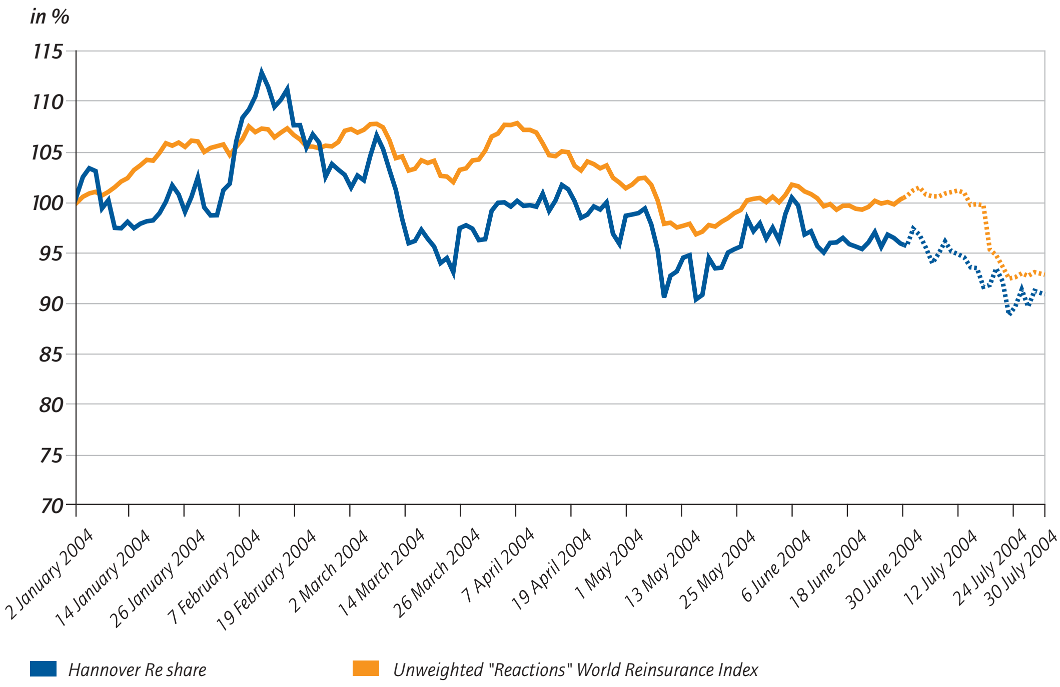
After a promising start into the 2004 stock market year, movements on equity markets in the second quarter were, on balance, negative. The modest upward trend on capital markets in the first quarter was interrupted briefly in March; the markets recovered in April, stabilised in early May only to fall back in the middle of the month to their lowest point of the year against a backdrop of bomb threats and renewed concerns about terrorism. Although the markets had regained some ground by the end of the second quarter, they had still failed to find a firm footing. Investors continued to prefer mid- and small caps: MDax +14.36%, TecDax +6.69%, SDax + 14.39%, MCSI Germany Small Cap +11.03% – all these indices left the Dax (+2.21%) and CDax insurance stocks (-7.91%) trailing in their wake.

Performance of the Hannover Re share compared with standard benchmark indices



In the second quarter, as in the first three months of the year, the Hannover Re share comfortably outperformed other insurance stocks and beat the CDax insurance stocks by 6.86 percentage points. The MDax, however, on which Hannover Re is also listed, outstripped our share by 15.41 percentage points. Our actual benchmark, the unweighted "Reactions" World Reinsurance Index, moved almost parallel to the Hannover Re share (+0.25 percentage points). In common with large sections of the market, our share fell to its lowest point of the year (EUR 26.15) on 17 May, although it subsequently rebounded sharply. The Hannover Re share closed the quarter at EUR 27.43 – virtually unchanged from the beginning of the year.

The Hannover Re share in comparison with the unweighted "Reactions" World Reinsurance Index (in USD)



The unweighted "Reactions" World 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.

At its "International Investors' Day" held in early July in London, Hannover Re took the opportunity to give the invited capital market players some background information on the company's strategy and development and to outline the prospects for the years ahead. The conference topics, which you can catch up on at our website, met with widespread interest among investors and financial analysts. As a result, we have noted numerous favourable comments and assessments in the market with respect to our company.

On average, analysts put the current price target for the Hannover Re share at around EUR 35. Given its present price of roughly EUR 26, the price/earnings ratio based on the consensus profit estimate for 2005 is a good 7. On the basis of this very favourable assessment and our consistently above-average profitability, the vast majority of analysts confirm our positive profit outlook for the future. As at 30 June, three quarters of the analysts we surveyed (21 out of 28) recommended the Hannover Re share as a "buy".

Share information

in EUR	30.6.2004	2003	2002	2001	2000	1999
Earnings per share (diluted) 1)	1.75	3.24	2.75	0.11	4.13	2.29
Dividend per share	–	0.95	0.85	–	0.77 1)	0.68
Corporation-tax credit	–	–	–	–	0.36	0.29
Gross dividend	–	0.95	0.85	–	1.21 2)	0.97

1) On each fully paid-up no-par-value registered share for the year 2000
2) 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%
Capital measure of 12 June 2003:	Increase in common stock through • a capital increase for cash against issuance of 9,716,392 new shares and through • a capital increase against a contribution in kind through issuance of 13,716,814 new shares to Talanx AG for all shares in HDI Re (Ireland) Ltd. – now Hannover Re (Dublin) Ltd. – with commercial effect from 1 July 2003
Common stock as at 30 June 2004:	EUR 120,597,134.00
Number of shares as at 30 June 2004:	120,597,134 no-par-value registered shares
Market capitalisation as at 30 June 2004:	EUR 3,308.0 million

We can be highly satisfied with the business development in the second quarter and in the first half-year overall. This quarter followed on seamlessly to the good results of 2002 and 2003.

Gross premiums declined appreciably in the second quarter as they had in the previous quarter, primarily due to exchange-rate effects. Yet, it was once again very evident that the crucial factor in reinsurance business is not volume but profitability: despite the reduced premium income we improved both our operating profit (EBIT) and consolidated net income by around one-third in the first six months compared to the same period of the previous year. Due to the further increase in the retention, net premiums – adjusted for exchange-rate effects – remained virtually stable year-on-year.

Gross written premiums in the Group totalled EUR 4.8 billion in the first six months of the year, a decline of 19.8% compared to the previous year's figure (EUR 6.0 billion). At constant exchange rates, especially against the US dollar, the decrease would have been just 15.0%. Net premiums earned fell slightly by 4.9% to EUR 3.5 billion (EUR 3.6 billion). The operating profit (EBIT), however, climbed sharply by 31.6% to EUR 375.4 million (EUR 285.2 million). Consolidated net income showed similarly marked growth of 30.2% to reach EUR 211.5 million (EUR 162.4 million). Despite the capital increase implemented in June of the previous year, under which the capital stock was boosted by around 25%, earnings per share actually improved still further in the reporting period to EUR 1.75 (EUR 1.65) for the first half-year.

Compared to the position as at year-end our stockholders' equity increased by 3.3% to EUR 2.5 billion (EUR 2.4 billion), and relative to the first half of the previous year it grew by as much as 17.9% (EUR 2.1 billion) – despite the record dividend of EUR 114.6 million paid out in the second quarter. The placement of subordinated debt in the amount of EUR 750 million on 18 February enabled us in the first quarter to buy back almost entirely the outstanding subordinated debt of USD 400 million. We shall use a further part of the proceeds, roughly EUR 120 million, to repay our outstanding profit participation certificates in November of the year under review.

With the issue of this new bond we further reinforced our policyholders' surplus with an eye to our very good ratings from Standard & Poor's and A.M. Best, demonstrated our financial flexibility and once again enhanced the quality of our capital. By raising the outlook of our very good "AA-" rating from "negative" to "stable" in June, Standard & Poor's – one of the world's leading rating agencies – recognised the further improvement in Hannover Re's capital strength. Additional key factors in this favourable reassessment were our above-average profitability and the roughly one-third reduction of our reinsurance recoverables, a process that has progressed more quickly than anticipated.

Property and casualty reinsurance

Following the highly satisfactory main treaty renewals as at 1 January 2004, the second quarter again offered attractive opportunities to write profitable reinsurance business. In Japan and Korea, for example, we used the main renewal phase as at 1 April to enlarge our portfolio against a backdrop of significantly improved conditions in some areas.

As part of the multi-year orientation of our business policy founded on cycle management, we continued to optimise our portfolio in 2004: we are seeking to replace proportional business with non-proportional arrangements, which according to our analyses offer considerably greater profitability over the long term. Consequently, we cultivated our portfolio in Japan with a heavy focus on non-proportional business, while in Korea we wrote an exclusively non-proportional portfolio as at 1 April.

Gross premium in the first half-year also contracted due to the reorganisation of our business relationship with our HDI affiliates. What is more, our "More from less" initiative prompted us to systematically scale back acceptances in those areas which we suspect offer below-average profitability over the long term. Against this backdrop, and especially due to the weakness of the US dollar year-on-year, our gross written premiums fell by 20.5% to EUR 2.1 billion (EUR 2.7 billion). At constant exchange rates the decline would have been 17.2%. Net premiums, on the other hand, contracted by a mere 9.6% as the level of retained premiums rose sharply to 77.4% (69.1%).

In the 2004 financial year we have to date been spared major natural catastrophe losses; numerous claims did not affect our account owing to the non-proportional structure of the portfolio. The only major loss for Hannover Re was the collapse of a structure at Paris Charles de Gaulle Airport, with the maximum net loss for our share estimated at EUR 15 million. Overall, the first half-year saw a below-average net loss burden of EUR 51.9 million from major claims, an amount equivalent to 3.5% of net premiums. The multi-year average is in the order of 5 percentage points.

The combined ratio developed very favourably overall: it improved by 4.3 percentage points compared to the same period of the previous year to reach 94.3% (98.6%). We thus undercut even the very good figure (96.0%) for the full 2003 financial year and the 95.4% recorded in the first quarter. In the first half-year, as in the past, there was no need to establish significant additional reserves for previous years. This is especially true of US liability business, and most notably the years 1997 to 2001 – which are known to be proving rather problematic for a number of our competitors.

The operating profit (EBIT) of EUR 228.4 million generated in property and casualty reinsurance was 25.1% higher than in the corresponding period of the previous year (EUR 182.6 million). Net income was boosted by 14.4% to EUR 115.9 million (EUR 101.3 million). Earnings per share fell slightly to EUR 0.96 (EUR 1.03).

Key figures for property and casualty reinsurance

Figures in EUR million	2004					2003	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	1 179.7	935.7	(20.7%)	2 115.4	(20.5%)	1 180.5	2 659.2
Net premiums earned	669.9	821.5	(12.1%)	1 491.4	(9.6%)	934.6	1 650.5
Underwriting result	30.5	54.2	+115.7%	84.7	+265.3%	25.1	23.2
Operating profit (EBIT)	75.4	153.0	+17.6%	228.4	+25.1%	130.1	182.6
Net income (after tax)	39.9	76.0	+13.9%	115.9	+14.4%	66.7	101.3
Earnings per share in EUR	0.33	0.63	(7.4%)	0.96	(7.3%)	0.68	1.03
Retention	82.0%	71.7%		77.4%		66.2%	69.1%
Combined ratio	95.4%	93.4%		94.3%		97.3%	98.6%

Life and health reinsurance

Conditions in life and health reinsurance remained satisfactory on most markets; in the area of new business financing we observed stronger demand in various European markets.

The premium decline in life and health reinsurance that we reported on in the first quarter was, however, again evident after the first six months. The primary reason was still the discontinuation of a major business relationship in the United Kingdom that had contributed premium volume in excess of EUR 200 million in the previous year. The year-on-year depreciation of the US dollar also adversely impacted premium income. Gross premiums written in the first half-year thus contracted by 13.8% to EUR 939.4 million (EUR 1.1 billion). At constant exchange rates the decline in gross premiums would have been just 10.5%. Net premiums earned, however, fell only marginally by 0.9% to EUR 857.9 million (EUR 865.9 million) due to the substantially higher retention of 91.8% (79.1%). We anticipate a revival in the second half of 2004, especially in UK annuity insurance business, and this should cause premiums to rise appreciably from the fourth quarter of the year under review onwards.

The operating profit (EBIT) grew by 64.8% to EUR 39.2 million thanks to a slightly improved underwriting result, thereby surpassing after six months the planned performance – which envisages an annual increase of 25%. The net return on premium showed a correspondingly gratifying increase, rising sharply compared to the same period of the previous year to reach 4.6% (2.7%). Net income for the quarter, which climbed by 97.4% to EUR 23.7 million, was almost double the corresponding figure for the previous year (EUR 12.0 million). Life and health reinsurance thus generated earnings of EUR 0.20 (EUR 0.12) a share for the first half-year.

Key figures for life and health reinsurance

Figures in EUR million	2004					2003	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	444.0	495.5	(4.6%)	939.4	(13.8%)	519.4	1 090.2
Net premiums earned	399.9	458.0	+20.9%	857.9	(0.9%)	378.8	865.9
Operating profit (EBIT)	24.1	15.0	+89.8%	39.2	+64.8%	7.9	23.8
Net income (after tax)	16.4	7.4	+209.3%	23.7	+97.4%	2.4	12.0
Earnings per share in EUR	0.14	0.06	+200.0%	0.20	+66.7%	0.02	0.12
Retention	90.4%	93.2%		91.8%		73.0%	79.1%
Net return on premium*	6.0%	3.3%		4.6%		2.1%	2.7%

** Operating profit (EBIT)/net premiums earned*

Financial reinsurance

In the second quarter financial reinsurance built on the pleasing progress of the first three months. Gross premiums in this business group – which had grown vigorously in previous years – were also lower than anticipated, contracting by 26.9% in the first half-year to EUR 674.8 million (EUR 923.3 million). Here, too, the decline would have been less marked – just 21.3% – at constant exchange rates. The level of retained premiums remained virtually unchanged at 95.3% (96.4%), while net premiums earned decreased by 14.4% to EUR 552.0 million (EUR 644.7 million). The first-time consolidation of Hannover Re (Dublin) Ltd. favourably impacted premium income to the tune of EUR 137.4 million (gross) and EUR 61.2 million (net).

Due in particular to improved investment income, the operating profit (EBIT) was boosted again to EUR 65.3 million – a figure 73.1% better than in the previous year (EUR 37.8 million). The return on premium doubled to 11.8% (5.9%). Net income also climbed by an impressive 84.2% to EUR 45.9 million (EUR 24.9 million), including a contribution of EUR 11.3 million from Hannover Reinsurance Dublin. Earnings per share as at 30 June thus amounted to EUR 0.38 (EUR 0.25).

Key figures for financial reinsurance

Figures in EUR million	2004					2003	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	353.7	321.2	(31.0%)	674.8	(26.9%)	465.7	923.3
Net premiums earned	249.0	303.0	(25.8%)	552.0	(14.4%)	408.2	644.7
Operating profit (EBIT)	32.6	32.7	+62.9%	65.3	+73.1%	20.1	37.8
Net income (after tax)	26.0	19.9	+64.5%	45.9	+84.2%	12.1	24.9
Earnings per share in EUR	0.21	0.17	+33.3%	0.38	+52.0%	0.12	0.25
Retention	98.2%	92.0%		95.3%		98.7%	96.4%
Net return on premium*	13.1%	10.8%		11.8%		4.9%	5.9%

** Operating profit (EBIT) / net premiums earned*

Program business

In program business we continue to focus closely on the quality of the business written. More than 90% of the portfolio is written in the USA, and the adverse exchange-rate effect associated with the depreciation of the US dollar was thus particularly pronounced in this area. Gross premiums written in the first six months consequently fell by 18.3% to EUR 1.1 billion (EUR 1.3 billion). At constant exchange rates the decrease would have been just 9.9%. As planned, however, we again significantly increased the level of retained premiums, which stood at 49.1% (44.7%) as at the end of the first half-year. In contrast to the contraction in gross premium volume, net premiums thus climbed sharply by 17.2% to EUR 559.8 million (EUR 477.7 million).

The combined ratio deteriorated slightly year-on-year to 96.6% (94.0%), although this increase was attributable to the higher level of retained premiums. By way of compensation, however, the latter goes hand-in-hand with larger asset volumes. Investment income thus grew by more than one-third as earnings on investments continued to rise. On balance, this produced a slightly higher operating profit (EBIT) of EUR 42.5 million – a figure 3.2% higher than in the corresponding period of the previous year (EUR 41.2 million). Net income for the first half-year totalled EUR 25.9 million, an increase of 7.7% on the previous year (EUR 24.1 million). Program business thus contributed earnings of EUR 0.21 (EUR 0.25) a share to the Group's interim result.

Key figures for program business

Figures in EUR million	2004					2003	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	487.0	578.7	(12.3%)	1 065.6	(18.3%)	659.8	1 304.9
Net premiums earned	282.4	277.4	+15.0%	559.8	+17.2%	241.3	477.7
Underwriting result	7.4	11.8	+17.7%	19.2	(32.9%)	10.0	28.6
Operating profit (EBIT)	22.3	20.2	+10.6%	42.5	+3.2%	18.3	41.2
Net income (after tax)	14.6	11.4	+14.3%	25.9	+7.7%	10.0	24.1
Earnings per share in EUR	0.12	0.09	(10.0%)	0.21	(16.0%)	0.10	0.25
Retention	50.1%	48.2%		49.1%		44.7%	44.7%
Combined ratio	97.4%	95.8%		96.6%		95.9%	94.0%

Net investment income

After a modestly optimistic first quarter on equity markets, the mood in the months of April to June was rather muted. The Dax and EuroStoxx moved sideways as the year progressed. Bond markets were considerably more volatile, and the vigorous rise in US yields in April had already fallen away in some areas by the end of June. The rally in yields on fixed-income securities adversely impacted bond values and hence unrealised gains. Our decision taken in March of this year to appreciably reduce the duration of the bond portfolio was consequently proven to be correct. The decline in fair values within the portfolio was thus around EUR 100 million lower than it would have been with an unchanged bond portfolio.

Ordinary income was slightly higher than in the previous year at EUR 533.1 million (EUR 526.1 million). Income from the influx of funds associated with the strong underwriting cash flow more than compensated for lower deposit interest (compared to the previous year) and the more defensive posture of the bond portfolio. The adjusted duration as at 30 June was just 3.3 years as against 3.7 years at the end of the previous year. Thanks to lower write-downs, higher realised gains and the strong inflow of cash into the investment portfolio, net investment income showed a correspondingly sharp increase of 16.6% to reach EUR 567.0 million (EUR 486.2 million).

We were compelled to take write-downs on our securities portfolio of a mere EUR 19.9 million in the first half-year, including EUR 12.3 million on equities – an entirely "normal" figure for an asset portfolio of our size as already was the case in the first quarter. In the previous year write-downs on securities for the first six months had been as much as EUR 78.3 million. Our equity allocation as at 30 June rose slightly to 7.5%, thereby maintaining the first-quarter trend (31 March: 7.2%).

Total profits of EUR 102.1 million (EUR 87.5 million) were realised on the disposal of investments in the first half-year. This contrasted with realised losses of EUR 18.9 million, as against EUR 16.8 million in the previous year. The bulk of the realised losses derived from the sale of fixed-income securities as part of the move to shorten the portfolio duration at the end of the first quarter. Exchange-rate losses were also realised on these disposals, however, the amount of which slightly exceeded the aforementioned gains.

Outlook

After the first six months it remains clear that our optimism at the outset of the year under review was not misplaced. Consequently, we expect our business to continue to develop favourably in the second half-year and beyond.

Early insights from the renewal negotiations as at 1 July in the USA, the London market and in Australia and New Zealand – in the other markets this renewal date is of no special importance – indicate that the favourable market conditions in *property and casualty reinsurance* are holding up by and large. The profitability of the business is still fruitful, and we expect it to remain good not only for the remainder of the year under review but also for the renewals at the beginning of 2005. In view of the ongoing effect of the strategic reorganisation of relations with our HDI affiliates, our "More from less" initiative, our proactive approach to cycle management and the protracted weakness of the US dollar, it remains our expectation that gross premium growth for the full year will be heavily curtailed. Due to the rising level of retained premiums, however, net premiums will decline only slightly. The profit contribution made by property and casualty reinsurance should be even better than in the previous year – provided the major loss burden is not significantly in excess of the multi-year average.

Following substantial increases in premium income in past years, we expect to generate a largely unchanged premium volume – adjusted for exchange-rate effects – in *life and health reinsurance* in the year under review. Appreciable double-digit growth in the profit contribution is anticipated.

After the vigorous growth recorded in recent years, we are still looking to a calmer premium trend in *financial reinsurance* in the year under review. The profit contribution generated by this business group should nevertheless continue to be highly satisfactory.

Profitability in program *business* is expected to improve on the previous year. Gross premium income – adjusted for exchange-rate effects – should be roughly on a par with the previous year or even slightly higher, while net premiums are set to rise sharply due to the increased retention.

The volume of *investments* will continue to grow as the underwriting cash flow remains very good. Given somewhat lower average yields and shorter durations as well as extraordinary income on a par with the first six months, we expect net investment income at least on the level of the previous year.

All in all, the course of the year to date has confirmed our expectations. Although consolidated gross premium income this year is likely to be 10% lower than in the previous year, our higher retention should ensure that net premiums remain roughly on a par with the 2003 financial year. On the profit side, we see no need to revise our forecast of February 2004: as things currently stand, we anticipate consolidated net income of between EUR 390 million and EUR 430 million (earnings of EUR 3.20 to EUR 3.60 per share).

CONSOLIDATED QUARTERLY ACCOUNTS
of Hannover Re

CONSOLIDATED BALANCE SHEET
as at 30 June 2004

Figures in EUR thousand	2004	2003	
Assets	30.6.	Commercial treatment 31.12.	US GAAP "as-if-pooling" method* 31.12.
Fixed-income securities – held to maturity	484 434	498 695	498 695
Fixed-income securities – available for sale	12 314 353	11 119 567	11 119 567
Equity securities – available for sale	1 184 190	925 595	925 595
Equity securities – trading	–	2 402	2 402
Real estate	229 767	230 591	230 591
Other invested assets	631 229	633 885	633 885
Short-term investments	513 071	569 592	569 592
Total investments without cash	15 357 044	13 980 327	13 980 327
Cash	443 228	386 134	386 134
Total investments and cash	15 800 272	14 366 461	14 366 461
Prepaid reinsurance premiums	564 859	566 920	566 920
Reinsurance recoverables on benefit reserve	90 703	206 717	206 717
Reinsurance recoverables on unpaid claims	4 335 044	4 396 564	4 396 564
Reinsurance recoverables on other reserves	32 444	41 528	41 528
Deferred acquisition costs	1 855 300	1 690 806	1 690 806
Accounts receivable	4 036 447	3 402 908	3 402 908
Funds held by ceding companies	8 164 622	7 664 683	7 664 683
Goodwill	208 807	203 619	203 619
Other assets	447 637	248 585	248 585
Accrued interest and rent	197 128	185 953	185 953
	35 733 263	32 974 744	32 974 744

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004	2003	
Liabilities		Commercial treatment	US GAAP "as-if-pooling" method*
	30.6.	31.12.	31.12.
Loss and loss adjustment expense reserve	19 371 358	18 703 170	18 703 170
Policy benefits for life and health contracts	4 214 237	4 001 148	4 001 148
Unearned premium reserve	2 379 671	2 126 894	2 126 894
Provisions for contingent commission	157 455	130 265	130 265
Other technical provisions	3 683	9 089	9 089
Reinsurance payable	2 329 660	1 396 215	1 396 215
Funds held under reinsurance treaties	1 025 102	1 080 491	1 080 491
Contract deposits	613 886	474 526	474 526
Minorities	509 286	491 836	491 836
Other liabilities	373 820	365 095	365 095
Taxes	238 610	137 583	137 583
Provisions for deferred taxes	790 716	869 857	869 857
Notes payable	1 123 853	666 328	666 328
Surplus debenture	117 597	117 597	117 597
Total liabilities	33 248 934	30 570 094	30 570 094
Stockholders' equity			
Common stock	120 597	120 597	120 597
Nominal value 120 597 Auhorised capital 60 299			
Additional paid-in capital	724 562	764 199	724 562
Cumulative comprehensive income			
Unrealised appreciation/depreciation of investments, net of deferred taxes	72 040	157 569	160 862
Cumulative foreign currency conversion adjustment, net of deferred taxes	(275 642)	(352 502)	(340 938)
Other changes in cumulative comprehensive income	(16 704)	(22 685)	(22 685)
Total comprehensive income	(220 306)	(217 618)	(202 761)
Retained earnings			
Beginning of period	1 762 252	1 379 291	1 340 529
Net income	211 470	354 779	418 321
Dividend paid	(114 567)	(82 591)	(82 591)
Other changes	321	85 993	85 993
	1 859 476	1 737 472	1 762 252
Total stockholders' equity	2 484 329	2 404 650	2 404 650
	35 733 263	32 974 744	32 974 744

CONSOLIDATED STATEMENT OF INCOME
for the period 1 January to 30 June 2004

Figures in EUR thousand	2004		2003			
			Commercial treatment		US GAAP "as-if-pooling" method*	
	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.
Gross written premiums	2 330 990	4 795 323	2 825 411	5 977 526	2 974 578	6 222 727
Ceded written premiums	624 359	1 129 403	909 751	1 804 452	933 960	1 841 250
Change in gross unearned premiums	147 754	(187 361)	36 634	(545 499)	(18 643)	(666 717)
Change in ceded unearned premiums	5 466	(17 530)	10 621	11 283	24 248	24 910
Net premiums earned	1 859 851	3 461 029	1 962 915	3 638 858	2 046 223	3 739 670
Ordinary investment income	275 964	533 133	265 907	526 115	284 043	570 499
Realised gains on investments	24 862	102 111	41 882	87 460	41 882	87 460
Realised losses on investments	12 387	18 893	12 395	16 768	12 622	17 085
Unrealised gains and losses on investments	719	1 179	(228)	(3 928)	(228)	(3 928)
Other investment expenses/depreciations	20 652	50 573	16 962	106 654	17 024	106 719
Net investment income	268 506	566 957	278 204	486 225	296 051	530 227
Other technical income	1 740	5 302	14 712	18 165	14 712	18 165
Total revenues	2 130 097	4 033 288	2 255 831	4 143 248	2 356 986	4 288 062
Claims and claims expenses	1 339 756	2 523 909	1 580 203	2 874 886	1 610 068	2 930 927
Change in policy benefits for life and health contracts	61 967	94 021	79 192	207 060	79 192	207 060
Commission and brokerage	413 038	770 347	262 251	523 394	278 725	538 763
Other acquisition costs	868	3 334	1 664	5 626	1 888	6 127
Other technical expenses	22 320	43 984	29 597	53 039	29 597	53 039
Administrative expenses	60 129	122 526	64 032	126 326	64 120	126 500
Total technical expenses	1 898 078	3 558 121	2 016 939	3 790 331	2 063 590	3 862 416
Other income and expenses	(11 103)	(99 797)	(62 602)	(67 676)	(64 213)	(69 371)
Operating profit/loss (EBIT)	220 916	375 370	176 290	285 241	229 183	356 275
Interest on hybrid capital	14 792	31 422	13 583	26 926	13 583	26 926
Net income before taxes	206 124	343 948	162 707	258 315	215 600	329 349
Taxes	60 460	90 494	51 085	68 599	56 691	76 091
Minority interest	(31 074)	(41 984)	(20 411)	(27 342)	(20 414)	(27 342)
Net income	114 590	211 470	91 211	162 374	138 495	225 916

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004		2003			
			Commercial treatment		US GAAP "as-if-pooling" method*	
	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.
Other comprehensive income						
Net unrealised appreciation/ depreciation of investments	(155 792)	(88 822)	153 791	139 500	158 433	141 990
Cumulative foreign currency conversion adjustments	(29 514)	65 296	(22 759)	(164 419)	(21 414)	(160 863)
Other comprehensive income	11 263	5 981	(7 404)	5 012	(7 404)	5 012
Total	(59 453)	193 925	214 839	142 467	268 110	212 055

Earnings per share						
Earnings per share in EUR	0.95	1.75	0.92	1.65	1.23	2.02

CASH FLOW STATEMENT
as at 30 June 2004

Figures in EUR thousand	2004	2003	
		Commercial treatment	US GAAP "as-if-pooling" method*
	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.
I. Cash flow from operating activities			
Consolidated net income (after tax)	211 470	162 374	225 916
Appreciation/depreciation	29 454	95 542	95 542
Net realised gains and losses on investments	(83 218)	(70 692)	(70 375)
Amortisation of investments	4 466	402	734
Minority interest	41 984	27 342	27 342
Changes in funds held	(345 416)	(72 485)	(182 446)
Changes in prepaid reinsurance premiums (net)	217 205	510 932	629 031
Changes in tax assets/provisions for taxes	56 469	39 299	46 792
Changes in benefit reserves (net)	234 598	219 567	219 567
Changes in claims reserves (net)	427 356	753 481	757 791
Changes in deferred acquisition costs	(147 160)	(385 020)	(437 970)
Changes in other technical provisions	28 012	(1 959)	(1 969)
Changes in clearing balances	334 374	(425 488)	(488 270)
Changes in other assets and liabilities (net)	(194 305)	(393 256)	(389 779)
Cash flow from operating activities	815 289	460 039	431 906
II. Cash flow from investing activities			
Fixed-income securities – held to maturity			
Maturities	20 831	–	–
Purchases	(4 634)	–	–
Fixed-income securities – available for sale			
Maturities, sales	3 567 053	2 679 985	2 851 309
Purchases	(4 676 866)	(3 136 342)	(3 171 583)
Equity securities – available for sale			
Sales	191 841	117 084	117 084
Purchases	(415 291)	(80 013)	(80 013)
Other invested assets			
Sales	68 357	18 239	18 239
Purchases	(26 483)	(15 992)	(15 992)
Affiliated companies and participating interests			
Sales	1 099	2 106	2 106
Acquisition	(8 697)	(6 212)	(6 212)
Real estate			
Acquisition	(538)	(545)	(545)
Short-term investments			
Changes	69 075	(446 358)	(543 621)
Other changes (net)	(14 471)	(9 407)	(9 657)
Cash flow from investing activities	(1 228 724)	(877 455)	(838 885)

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004	2003	
		Commercial treatment	US GAAP "as-if-pooling" method*
	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.
III. Cash flow from financing activities			
Inflows from capital increases	–	219 590	291 590
Net changes in contract deposits	139 870	311 928	311 928
Dividend paid	(114 567)	(82 589)	(82 589)
Changes in notes payable	447 416	30 179	30 179
Other changes	(16 957)	(8 982)	(8 982)
Cash flow from financing activities	455 762	470 126	470 126
IV. Exchange rate differences on cash	14 767	26 351	26 338
Change in cash and cash equivalents (I+II+III+IV)	57 094	79 061	89 485
Cash and cash equivalent at the beginning of the period	386 134	671 866	672 844
Change in cash and cash equivalent according to cash flow statement	57 094	79 061	89 485
Cash and cash equivalents at the end of the period	443 228	750 927	762 329
Income taxes	(35 247)	(16 383)	(16 383)
Interest paid	(66 309)	(66 743)	(66 743)

SEGMENTAL REPORT
as at 30 June 2004

In the following table we have allocated the underwriting assets and liabilities as at 30 June 2004 and 31 December 2003 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	
	2004	2003	2004	2003
	30.6.	31.12.	30.6.	31.12.
Assets				
Prepaid reinsurance premiums	99 618	99 122	–	2 555
Deferred acquisition costs (net)	238 268	197 078	1 447 052	1 344 206
Reinsurance recoverables on benefit reserves	–	–	90 703	206 717
Reinsurance recoverables on incurred claims and others	1 640 222	1 817 976	96 329	96 379
Funds held by ceding companies	173 901	176 330	3 918 009	3 257 988
Total underwriting assets	2 152 009	2 290 506	5 552 093	4 907 845
Liabilities				
Loss and loss adjustment expense reserve	8 934 458	8 396 999	989 374	929 396
Policy benefits for life and health contracts	–	–	4 214 237	4 001 148
Unearned premium reserve	1 110 741	939 942	24 894	21 868
Other technical provisions	96 941	93 987	34 498	24 002
Funds held under reinsurance treaties	465 847	559 333	220 949	216 185
Total underwriting liabilities	10 607 987	9 990 261	5 483 952	5 192 599

Financial reinsurance		Program business		Total	
2004	2003	2004	2003	2004	2003
30.6.	31.12.	30.6.	31.12.	30.6.	31.12.
17 867	2 042	447 374	463 201	564 859	566 920
51 838	44 780	118 142	104 742	1 855 300	1 690 806
–	–	–	–	90 703	206 717
457 109	506 510	2 173 828	2 017 227	4 367 488	4 438 092
4 058 797	4 216 479	13 915	13 886	8 164 622	7 664 683
4 585 611	4 769 811	2 753 259	2 599 056	15 042 972	14 567 218
5 923 702	6 192 954	3 523 824	3 183 821	19 371 358	18 703 170
–	–	–	–	4 214 237	4 001 148
277 623	165 518	966 413	999 566	2 379 671	2 126 894
28 847	18 851	852	2 514	161 138	139 354
24 679	20 734	313 627	284 239	1 025 102	1 080 491
6 254 851	6 398 057	4 804 716	4 470 140	27 151 506	26 051 057

SEGMENTAL REPORT
as at 30 June 2004

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance			Life/health reinsurance		
	2004	2003		2004	2003	
		Commercial treatment	US GAAP "as-if-pooling method"*		Commercial treatment	US GAAP "as-if-pooling method"*
	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.
Gross written premiums	2 115 414	2 659 212	2 659 212	939 435	1 090 192	1 090 192
Net premiums earned	1 491 374	1 650 548	1 650 548	857 855	865 900	865 900
Claims and claims expenses	1 084 673	1 308 699	1 308 699	508 105	544 236	544 236
Change in policy benefits for life and health contracts	–	–	–	(94 021)	(207 060)	(207 060)
Commission and brokerage and other technical income/expenses	269 275	264 228	264 228	294 205	153 495	153 495
Investment income	226 635	199 606	199 606	112 908	109 844	109 844
Administrative expenses	52 723	54 436	54 436	27 569	28 558	28 558
Other income and expenses	(82 941)	(40 225)	(40 225)	(7 709)	(18 631)	(18 631)
Operating profit/loss (EBIT)	228 397	182 566	182 566	39 154	23 764	23 764
Interest on hybrid capital	19 045	18 795	18 795	2 913	2 603	2 603
Net income before taxes	209 352	163 771	163 771	36 241	21 161	21 161
Taxes	59 018	45 151	45 151	11 370	2 835	2 835
Minority interest	(34 439)	(17 271)	(17 271)	(1 152)	(6 311)	(6 311)
Net income	115 895	101 349	101 349	23 719	12 015	12 015

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Financial reinsurance			Program business			Total		
2004	2003		2004	2003		2004	2003	
	Commercial treatment	US GAAP "as-if-pooling method"*		Commercial treatment	US GAAP "as-if-pooling method"*		Commercial treatment	US GAAP "as-if-pooling method"*
1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.
674 830	923 251	1 168 452	1 065 644	1 304 871	1 304 871	4 795 323	5 977 526	6 222 727
551 991	644 695	745 507	559 809	477 715	477 715	3 461 029	3 638 858	3 739 670
543 587	644 366	700 407	387 544	377 585	377 585	2 523 909	2 874 886	2 930 927
–	–	–	–	–	–	(94 021)	(207 060)	(207 060)
137 065	116 179	132 049	111 818	29 992	29 992	812 363	563 894	579 764
199 753	156 270	200 272	27 661	20 505	20 505	566 957	486 225	530 227
1 005	1 841	2 015	41 229	41 491	41 491	122 526	126 326	126 500
(4 747)	(826)	(2 521)	(4 400)	(7 994)	(7 994)	(99 797)	(67 676)	(69 371)
65 340	37 753	108 787	42 479	41 158	41 158	375 370	285 241	356 275
2 884	1 938	1 938	6 580	3 590	3 590	31 422	26 926	26 926
62 456	35 815	106 849	35 899	37 568	37 568	343 948	258 315	329 349
10 133	7 115	14 607	9 973	13 498	13 498	90 494	68 599	76 091
(6 393)	(3 760)	(3 760)	–	–	–	(41 984)	(27 342)	(27 342)
45 930	24 940	88 482	25 926	24 070	24 070	211 470	162 374	225 916

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).

SFAS 141 "Business Combinations" Para. 11 in conjunction with Appendix D 11 to 18 sets out standards governing the accounting of transfer transactions between entities under common control. This statement requires that the assets and liabilities of the transferred entity be carried over with the book values at the transferring parent company. The comparative figures presented for previous reporting periods must also be adjusted according to this treatment. The consolidated financial statement was drawn up in accordance with these requirements, which we refer to in their entirety as the "as-if pooling" method, and supplemented with certain additional information. All figures in the previous year's reference period were compiled applying the "as-if pooling" method. For further information the reader is referred to the management report and notes of our annual report prepared as at 31 December 2003.

All Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board (FASB) on or before 30 June 2004 with binding effect for the 2004 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 30 June 2004. The reader is also referred to the corresponding information contained in the consolidated financial statement drawn up as at 31 December 2003.

3. Consolidated companies and consolidation principles

Consolidated companies

The consolidated companies have remained unchanged since 31 December 2003.

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 41,984 thousand (previous year: EUR 27,342 thousand) as at 30 June 2004.

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 30 June 2004 and 31 December 2003

Figures in EUR thousand	2004		2003	
	Cost or amortised cost 30.6.	Estimated fair value 30.6.	Cost or amortised cost 31.12.	Estimated fair value 31.12.
Held-to-maturity				
Due in one year	67 485	68 185	67 169	68 408
Due after one through five years	98 009	104 425	114 953	123 384
Due after five through ten years	297 269	302 460	295 000	298 825
Due after ten years	21 671	22 697	21 573	22 831
Total	484 434	497 767	498 695	513 448
Available-for-sale				
Due in one year	1 992 635	1 996 549	1 375 756	1 382 997
Due after one through five years	7 340 952	7 308 778	6 212 600	6 280 794
Due after five through ten years	1 834 714	1 832 797	2 150 603	2 196 050
Due after ten years	1 165 906	1 176 229	1 235 717	1 259 726
Total	12 334 207	12 314 353	10 974 676	11 119 567

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

30.6.2004

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Investments held to maturity				
Fixed-income securities				
Debt securities issued by semi-governmental entities	130 565	7 302	–	137 867
Corporate securities	255 176	3 450	1 655	256 971
Asset-backed securities	98 693	4 236	–	102 929
Total	484 434	14 988	1 655	497 767

31.12.2003

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Investments held to maturity				
Fixed-income securities				
Debt securities issued by semi-governmental entities	145 896	8 718	–	154 614
Corporate securities	249 128	4 037	3 845	249 320
Asset-backed securities	103 671	5 843	–	109 514
Total	498 695	18 598	3 845	513 448

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

30.6.2004				
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	1 598 886	4 909	15 782	1 588 013
US Treasury Notes	1 911 634	1 961	26 097	1 887 498
Other foreign government debt securities	233 712	2 278	3 412	232 578
Debt securities issued by semi-governmental entities	2 842 906	16 610	36 422	2 823 094
Corporate securities	3 885 230	57 889	52 720	3 890 399
Asset-backed securities	1 308 356	19 777	9 965	1 318 168
From investment funds	553 483	27 239	6 119	574 603
	12 334 207	130 663	150 517	12 314 353
Dividend-bearing securities				
Equities	295 128	27 491	7 007	315 612
From investment funds	797 582	71 418	2 632	866 368
Other dividend-bearing securities	1 359	851	–	2 210
	1 094 069	99 760	9 639	1 184 190
Short-term investments	513 071	–	–	513 071
Total	13 941 347	230 423	160 156	14 011 614

31.12.2003				
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	1 490 422	15 622	3 247	1 502 797
US Treasury Notes	1 483 771	8 420	4 607	1 487 584
Other foreign government debt securities	318 673	4 612	458	322 827
Debt securities issued by semi-governmental entities	2 873 524	34 981	17 898	2 890 607
Corporate securities	3 114 644	97 006	24 835	3 186 815
Asset-backed securities	1 133 208	29 856	4 796	1 158 268
From investment funds	560 434	13 921	3 686	570 669
	10 974 676	204 418	59 527	11 119 567
Dividend-bearing securities				
Equities	220 587	21 397	17 174	224 810
From investment funds	644 842	53 885	100	698 627
Other dividend-bearing securities	1 138	1 020	–	2 158
	866 567	76 302	17 274	925 595
Short-term investments	569 592	–	–	569 592
Total	12 410 835	280 720	76 801	12 614 754
Trading				
Dividend-bearing securities				
Derivatives	–	2 480	78	2 402
Total	–	2 480	78	2 402

Investment income

Figures in EUR thousand	2004	2003
	30.6.	30.6.
Real estate	11 561	12 610
Dividends	15 640	13 449
Ordinary investment income on fixed-income securities	267 785	241 590
Other income	238 147	302 850
Ordinary investment income	533 133	570 499
Realised gains on investments	102 111	87 460
Realised losses from investments	18 893	17 085
Unrealised gains and losses	1 179	-3 928
Real estate depreciation	4 282	3 385
Write-off on dividend-bearing securities	12 287	52 043
Write-off on fixed-income securities	2 852	26 063
Write-downs on participations	4 735	2 211
Other investment expenses	26 417	23 017
Total investment income	566 957	530 227

The other income includes interest on deposits in the amount of EUR 231.6 million (EUR 281.8 million).

4.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,972 (31 December 2003: 1,970). Of this number, 805 were employed in Germany in the year under review. The majority of staff 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. Of this 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

30.6.2004

Figures in EUR thousand	Balance as at 1 January	Capital-increase/additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer	Group stock-holders' equity	Minority interests	Group Stock-holders' equity incl. minority interests
Common stock	120 597	–			–	120 597		
Additional paid-in capital	724 562	–			–	724 562		
Cumulative comprehensive income	(202 761)	–	(17 545)		–	(220 306)		
Retained earnings	1 762 252	–			–	1 762 252		
Net income		–		211 470	–	211 470		
Dividend paid		–		(114 567)	–	(114 567)		
Other changes		–		321	–	321		
Total	2 404 650	–	(17 545)	97 224	–	2 484 329	509 286	2 993 615

30.6.2003

Figures in EUR thousand	Balance as at 1 January	Capital-increase/additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer	Group stock-holders' equity	Minority interests	Group Stock-holders' equity incl. minority interests
Common stock	110 881	9 716	–	–	–	120 597		
Additional paid-in capital	514 687	209 874	–	–	–	724 561		
Cumulative comprehensive income	(102 450)	–	74 498	–	(88 359)	(116 311)		
Retained earnings	1 340 529	–	–	–	–	1 340 529		
Net income	–	–	–	225 916	–	225 916		
Dividend paid	–	–	–	(82 589)	–	(82 589)		
Other change	–	–	–	624	88 359	88 983		
Total	1 863 647	219 590	74 498	143 951	–	2 301 686	440 664	2 742 350

** The cumulative currency effects from previous years in the amount of EUR 88.4 million hitherto reported under retained earnings will in future not be included in the comprehensive income. These currency effects derive primarily from the conversion of foreign annual financial statements to euros.*

4.4 Other comprehensive income

The changes of EUR 6.0 million in the cumulative comprehensive income in the year under review resulted principally from the application of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". This development was due to changes in the fair value of interest-rate swaps included in a cash-flow hedge transaction used to hedge floating-rate loans.

4.5 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 as at 30 June 2004.

5. Other notes

5.1 Contingent liabilities

Hannover Re has secured by guarantee a surplus note 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 surplus note, leaving a residual volume of USD 30.0 million secured by guarantee.

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

Hannover Re has also provided security for 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.

As security for our technical liabilities to our U.S. clients, we have established a Master Trust Fund in the USA. As at the balance sheet date this Master Trust Fund amounted to EUR 1,808.9 million (31 December 2003: EUR 1,664.2 million). The securities held in the Master Trust Fund are shown as available-for-sale investments.

As further security for technical liabilities, various financial institutions have furnished collateral in the form of letters of credit or other types of collateral. The total amount of this collateral as at the balance sheet date was EUR 3,021.9 million (31 December 2003: EUR 2,950.5 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 64.7 million for E+S Rückversicherung AG and EUR 128.2 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 estimated at EUR 27.0 million as at the balance sheet date.

Hannover
Rückversicherung AG

Karl-Wiechert-Allee 50
30625 Hannover
Germany

Telephone +49/5 11/56 04-0
Fax +49/5 11/56 04-11 88
info@hannover-re.com

www.hannover-re.com

Investor Relations/Public Relations

Eric Schuh

Telepone +49/5 11/56 04-15 00
Fax +49/5 11/56 04-16 48
eric.schuh@hannover-re.com

Investor Relations

Gabriele Bödeker

Telephone +49/5 11/56 04-17 36
Fax +49/5 11/56 04-16 48
gabriele.boedeker@hannover-re.com

Public Relations

Gabriele Handrick

Telephone +49/5 11/56 04-15 02
Fax +49/5 11/56 04-16 48
gabriele.handrick@hannover-re.com