

somewhat  
different

Interim Report | **2/2006**

hannover **re**<sup>®</sup>

# KEY FIGURES

## of the Hannover Re Group

Figures in EUR million	2006					2005		
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.	31.12.
<b>Results</b>								
Gross written premium	2 849.2	2 598.5	+17.4%	5 447.6	+12.8%	2 213.5	4 830.7	
Net premium earned	1 998.1	2 047.2	+8.1%	4 045.3	+10.1%	1 893.9	3 674.6	
Net underwriting result	(6.1)	(24.8)	(47.3%)	(30.9)	(64.8%)	(47.0)	(87.8)	
Net investment income	245.2	249.1	(8.2%)	494.4	(3.3%)	271.3	511.1	
Operating profit (EBIT)	214.3	235.5	+22.5%	449.8	+29.7%	192.2	346.8	
Group net income	105.7	150.8	+2.0%	256.6	+4.2%	147.9	246.2	
<b>Balance sheet</b>								
Policyholders' surplus	4 643.8			4 579.7	(0.3%)			4 595.6
Total shareholders' equity	2 619.5			2 559.9	(1.6%)			2 601.0
Minority interests	585.9			584.2	+5.0%			556.5
Hybrid capital	1 438.4			1 435.6	(0.2%)			1 438.1
Investments (incl. funds held by ceding companies)	28 261.7			27 421.7	(0.4%)			27 526.4
Total assets	41 144.3			39 744.4	(0.1%)			39 789.2
<b>Share</b>								
Earnings per share (diluted) in EUR	0.88	1.25		2.13		1.23	2.04	
Book value per share in EUR	21.72			21.23		23.69	21.57	
<b>Ratios</b>								
Combined ratio (property and casualty reinsurance)	98.5%	97.8%		98.2%		96.6%	96.7%	
Retention	87.3%	76.6%		82.2%		80.4%	82.5%	
Return on investment	4.1%	4.2%		4.2%		4.5%	4.3%	
EBIT margin <sup>1)</sup>	10.7%	11.5%		11.1%		10.2%	9.4%	
Return on equity (after tax)	16.2%	23.4%		19.9%		21.6%	18.3%	

<sup>1)</sup> Operating profit (EBIT) / net premium earned

Wilhelm Zeller  
Chairman of the  
Executive Board



*Dear shareholders,  
Ladies and gentlemen,*

Following a successful start to the 2006 financial year the second quarter also lived up to our expectations. As anticipated, all four business groups delivered positive profit contributions. This semi-annual result thus establishes a good basis for achieving our 2006 profit target – a return on equity of at least 15 percent.

I am particularly satisfied with the development of our largest and most important business group, *property and casualty reinsurance*. All the renewal phases so far this year have presented us with attractive opportunities to write profitable business. Most notably, the 1 July renewal date in the United States clearly demonstrated that reinsurance capacities for natural catastrophe exposures have become considerably scarcer; prices have remained on a high level, even increasing somewhat for property covers. Under programmes that were especially hard hit by last year's hurricanes we were even able to obtain rate rises of more than 100 percent. Taken together with the enhancement of pricing models to include loadings for elements that had previously been inadequately modelled or indeed entirely neglected, these improvements hold the promise of outstanding profitability for the current financial year.

As part of our risk management policy we also significantly scaled back our peak exposures while maintaining an unchanged premium volume, hence considerably improving our portfolio on balance. In addition to using traditional retrocessions as a risk safeguard we continue to transfer insurance risks to the capital market: our hitherto largest-volume transaction of this type, designated "K5", was completed in the spring. What is more, at the end of July we placed our first-ever catastrophe bond – with a volume of USD 150 million – to protect against European windstorm risks.

All in all, our property and casualty reinsurance portfolio developed highly favourably in the second quarter: at 2.7 percent, the burden of major losses was well below the multi-year average of eight percent of net premium, and our other business also performed very satisfactorily. The fact that our combined ratio is higher than in the previous year merely reflects our conservative reserving policy and does not imply a deterioration in the loss experience.

I also have good news to report on *life and health reinsurance*: our second-most important business group continues to offer promising opportunities for growth and profitability. The very good performance as at 30 June 2006, which also includes a special effect, constitutes a solid basis for achieving our ambitious goals in life and health reinsurance for the full financial year.

We are satisfied with the development of our *financial reinsurance* business. After getting off to a good start in the first quarter we further enlarged our business volume, especially in Eastern Europe and Asia. Interest in structured products has again risen sharply, and I am convinced that this trend will be sustained throughout the rest of the year.

Following the restructuring of our *specialty insurance* business group I was already able to discuss positive results in our reporting on the first quarter. This trend has continued. The Praetorian Financial Group, which now transacts our specialty business, enjoys all the benefits of a newly established company without suffering any of the associated disadvantages. Not only that, it has been strengthened by the recruitment of a seasoned management team, the business model has been optimised and market conditions are favourable. This is a superb basis for systematically enhancing the value of our specialty insurance business group.

It was only the movement of our share price that again gave grounds for dissatisfaction. Although our good start to the current financial year and Hannover Re's thoroughly successful International Investors' Day held in London in June went down well among investors and analysts, they did not serve to boost the share price. Yet I remain confident that at the latest by year-end, once we have the so-called hurricane season behind us, your company's potential will be reflected again in its share price.

On my own behalf and that of all my colleagues on the Executive Board, I would like to thank you most sincerely for your trust in Hannover Re. We are and will continue to be guided by our paramount objective of leading your company profitably and securely into the future.

Yours sincerely



Wilhelm Zeller  
Chairman of the Executive Board

# BOARDS AND OFFICERS of Hannover Re

## Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl <sup>1)2)</sup> Hannover	Chairman
Dr. Paul Wieandt <sup>2)</sup> Königstein i. T.	Deputy Chairman
Herbert K. Haas <sup>1)2)</sup> Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller <sup>3)</sup> Hannover	
Dr. Immo Querner Bonn (since 27 June 2006)	
Ass. jur. Renate Schaper-Stewart <sup>3)</sup> Lehrte	
Dipl.-Ing. Hans-Günter Siegerist <sup>3)</sup> Nienstädt	
Dr. Klaus Sturany <sup>1)</sup> Essen	
Bodo Uebber Stuttgart (until 12 May 2006)	

## 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	

<sup>1)</sup> Member of the Standing Committee

<sup>2)</sup> Member of the Balance Sheet Committee

<sup>3)</sup> Staff representative

# THE HANNOVER RE SHARE

In the second quarter of 2006 the upbeat trend on German capital markets was initially sustained, only to suffer a massive setback in May. It was not until the end of June that German stock markets began to show signs of a modest recovery. While the German stock index (Dax) charted its highest point of the year to date in the course of the quarter (6,141 points), it closed on 30 June 2006 at 5,683 points – well below the closing level of the first quarter (5,970). This figure was 5.1% up on 30 December 2005.

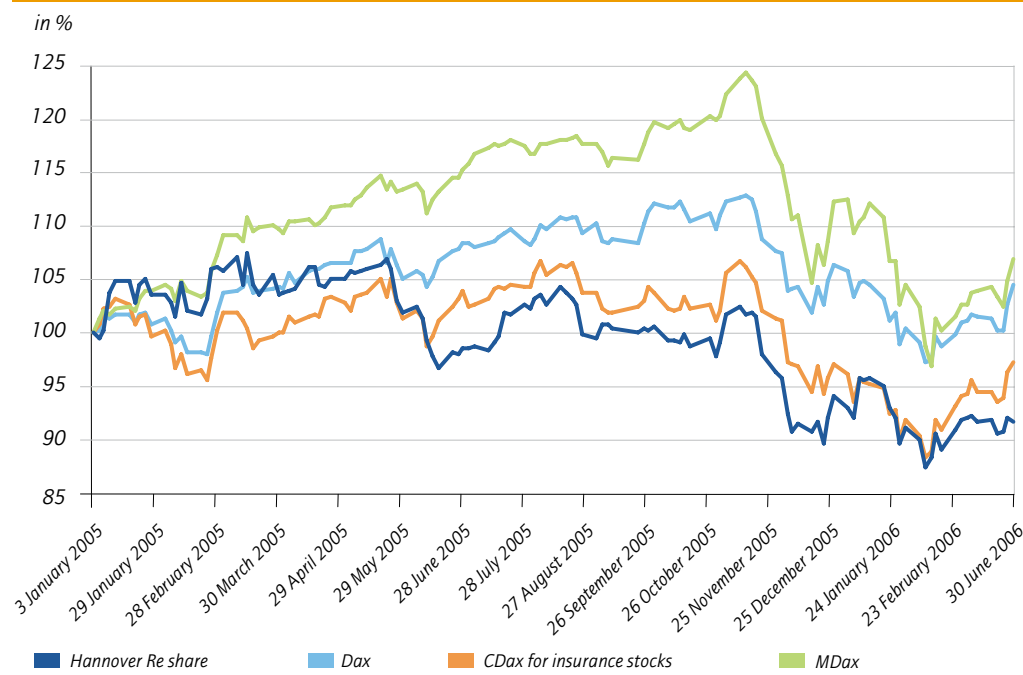
German mid-caps again performed best: at the end of the second quarter the MDax (+7.9%) was well ahead of all benchmark indices. The CDax for Insurance Stocks (-2.1%), EuroStoxx50 (+2.0%) and Dow Jones (+4.0%) all came in behind the MDax.

The Hannover Re share posted its highest price for the year to date of EUR 32.10 on 1 February 2006. Its lowest level so far of EUR 26.11 was recorded on 13 June 2006.

As at the end of the quarter our share was hovering at around EUR 27.35. This is equivalent to a performance of -8.6% since 30 December 2005.

In the second quarter of the current market year the Hannover Re share was no longer able to surpass our internal benchmark, the weighted "ABN Amro Rothschild Global Reinsurance Index": at the end of the quarter our share came in 1.9 percentage points behind the index.

Performance of the Hannover Re share compared with standard benchmark indices



The 9<sup>th</sup> International Investors' Day held by Hannover Re on 23 June 2006 in London was – as in the previous years – exceptionally well received and met with a very favourable response from investors and financial analysts. Hannover Re's Executive Board and worldwide top management provided detailed background information on the company's strategy and the development of its

business. The event focused on issues of risk management, risk modelling and reserving policy. In addition, particularly close attention was paid to the areas of life/health reinsurance and specialty insurance.

Analysts currently put the price target for the Hannover Re share at around EUR 32 on

average, i.e. about 17% higher than the closing price as at 30 June 2006. Given its present price of roughly EUR 27.35, the price/earnings (P/E) ratio based on the consensus profit estimate for 2006 is

exceptionally favourable at a good 7. As at 30 June 15 of the 34 analysts listed in Bloomberg (i.e. around 44%) recommended the Hannover Re share as a "buy".

#### The Hannover Re share in comparison with the ABN Amro Rothschild Global Reinsurance Index



The ABN Amro Rothschild 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	30.6.2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>	2001 <sup>1)</sup>
Earnings per share (diluted)	2.13	0.41	2.32	3.24	2.75	0.11
Dividend per share	–	–	1.00	0.95	0.85	–
Gross dividend	–	–	1.00	0.95	0.85	–

<sup>1)</sup> US GAAP

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	Talanx AG: 50.2% Free float: 49.8%
Common shares as at 30 June 2006:	EUR 120.597.134,00
Number of shares as at 30 June 2006:	120,597,134 no-par-value registered shares
Market capitalisation as at 30 June 2006:	EUR 3,298.3 million

# MANAGEMENT REPORT

## Business development

We are highly satisfied with the progress of the second quarter of 2006. All four business groups developed according to plan, and the results recorded to date have thus put in place a solid foundation for achieving our profit target for the full financial year.

Gross written premium in total business amounted to EUR 5.4 billion (EUR 4.8 billion) as at 30 June 2006; this corresponds to growth of 12.8% compared to the same period of the previous year. At constant exchange rates the growth would have been 9.6%. With the level of retained premium remaining virtually unchanged, net premium climbed 10.1% to EUR 4.0 billion (EUR 3.7 billion).

The performance of our investments was also satisfactory overall, although the rise in interest rates on fixed-income securities and price adjustments on equity markets took a toll on our unrealised gains. Nevertheless, assisted by exchange rate effects, our average portfolio of self-managed assets again grew by an appreciable 11.4% and impressed with very good ordinary income. Net investment income contracted slightly by 3.3% to EUR 494.4 million (EUR

511.1 million) due to a decline in interest on deposits.

The operating profit (EBIT) was boosted by a very healthy 29.7% to EUR 449.8 million (EUR 346.8 million). With a more "normal" tax load compared to the previous year and an increased minority interest, Group net income as at 30 June 2006 gained a mere 4.2% to reach EUR 256.6 million (EUR 246.2 million). Earnings of EUR 2.13 EUR (EUR 2.04) per share were generated, corresponding to a gratifying annualised return on equity of 19.9%.

Our financial strength continues to be very good, even though the shareholders' equity of EUR 2.6 billion was EUR 41.1 million lower than the figure as at 31 December 2005 due to interest rate rises on international bond markets. The policyholders' surplus, comprised of shareholders' equity, minority interests and hybrid capital, stood at EUR 4.6 billion (EUR 4.6 billion). Following the conclusion of the second quarter the rating agency Standard & Poor's therefore reaffirmed our very good "AA-" rating, an assessment which still includes a negative outlook.

## Property and casualty reinsurance

Following the highly satisfactory treaty renewals as at 1 January 2006, the second quarter also offered good opportunities to write profitable business. The renewals in Japan and Korea on 1 April and especially those for North America in June/July passed off very successfully. Most significantly, last year's extraordinarily severe hurricane season prompted substantial – for reinsurers positive – changes in market conditions for property insurance in the United States. In the reinsurance programmes that had been impacted by the hurricane events higher rates were obtained, with increases in excess of 100%. The development of the casualty lines was also relatively gratifying, and with a few exceptions prices generally held stable across the board.

The updating of pricing models to reflect the insights gained from the hurricanes also played a part in the positive rate trend in catastrophe-exposed property lines: loadings for components that had previously been disregarded or inadequately modelled, such as cyclical climate fluctuations, flood and inundation damage, business interruption losses or demand-driven price rises for restorative and remedial services, were extended and pushed through on the market. The adjustments that we had implemented shortly after last year's hurricane events have now also been applied by external model providers.

In addition to revising our models, we also scaled back our peak exposures – in some cases to a substantial extent. If, for example, a severe hurricane comparable with "Katrina" were to

occur again this year, the burden of losses for our company would be roughly half that of the previous year. Thanks to the sharp rise in rates we were able to reduce our risks in this way without suffering a decline in the premium volume generated by this segment.

The profitability of our portfolio is also promoted by an aspect of our treaty negotiations

with clients that we refer to as "showing and signing": as an established and financially strong reinsurer we are offered the opportunity to underwrite virtually the entire spectrum of reinsurance business. This is a clear competitive advantage, since in this way we are able to cherry-pick the business that best lives up to our exacting profitability standards.

#### Key figures for property and casualty reinsurance

Figures in EUR million	2006					2005	
	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 premium	1 418.7	1 188.3	+9.2%	2 607.0	+7.6%	1 088.7	2 424.0
Net premium earned	1 014.7	1 021.0	+3.2%	2 035.7	+10.6%	989.3	1 840.7
Underwriting result	14.8	22.7	(33.6%)	37.4	(38.8%)	34.1	61.2
Net investment income	113.2	127.7	(10.3%)	240.9	+5.9%	142.4	227.5
Operating profit (EBIT)	121.9	158.5	+1.2%	280.5	+19.4%	156.6	235.0
Group net income	60.7	106.8	(23.7%)	167.5	(13.8%)	139.8	194.4
Earnings per share in EUR	0.51	0.88	(23.7%)	1.39	(13.8%)	1.16	1.61
Retention	88.4%	76.7%		83.1%		86.2%	86.8%
Combined ratio	98.5%	97.8%		98.2%		96.6%	96.7%

Gross written premium totalled EUR 2.6 billion (EUR 2.4 billion) as at 30 June 2006; this corresponded to an increase of 7.6%. At constant exchange rates, especially against the US dollar, growth would have been 5.2%. The level of retained premium fell by 3.7 percentage points to 83.1%. Net premium earned increased by 10.6% to EUR 2.0 billion (EUR 1.8 billion).

On the claims side we were highly satisfied with the second quarter. Two major losses were incurred in Germany, with a net strain of EUR 22.4 million for our account. The net burden of losses for the first half-year totalled EUR 54.2 million (EUR 112.3 million). Equivalent to 2.7% of

net premium in property and casualty reinsurance this figure is well below the multi-year average of 8%. The combined ratio of 98.2% (96.7%) reflects the very conservative assessment of the loss reserves constituted in the first six months.

The operating profit (EBIT) in property and casualty reinsurance was boosted by 19.4% to EUR 280.5 million (EUR 235.0 million). The Group net income of EUR 167.5 million (EUR 194.4 million) as at 30 June 2006 was 13.8% lower than in the first six months of the previous year due to a higher tax load and an increased minority interest. Earnings of EUR 1.39 (EUR 1.61) per share were generated.

## Life and health reinsurance

In life and health reinsurance we are active in five business segments: new business financing, identification of new markets and products – such as special senior citizens' and annuity products –, bancassurance, partnerships with large international clients and traditional life and health business. In this way we ensure that our portfolio offers considerable promise for the future.

Life and health reinsurance progressed exceptionally favourably in the second quarter of 2006, both as regards premium income and profitability. We further expanded our premium volume, with growth driven primarily by European markets – including, for example, the United Kingdom, where Hannover Re was able to write particularly vigorous new business in the area of

annuity insurance. Especially in the developed industrial nations, the demographic trend is proving to be an engine for growth in the annuity and health insurance sectors. Although in the current interest rate environment it is not yet possible to design enhanced annuities as attractively as we would like in Germany, we see here a promising market for the future in the senior citizens' product segment.

In Europe, along with enhanced annuities, our sights remain firmly set on the expansion of our bancassurance business. The American market continues to be dominated by steady growth in seniors' products and high-value financing transactions.

### Key figures for life and health reinsurance

Figures in EUR million	2006					2005	
	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 premium	605.7	676.9	+14.8%	1 282.6	+13.4%	589.8	1 131.2
Net premium earned	525.8	598.2	+9.7%	1 124.0	+6.7%	545.1	1 053.4
Net investment income	63.3	70.1	+8.3%	133.3	+7.2%	64.7	124.4
Operating profit (EBIT)	25.9	52.3	+187.4%	78.2	+78.5%	18.2	43.8
Group net income	14.0	37.1	+205.1%	51.1	+72.5%	12.2	29.7
Earnings per share in EUR	0.12	0.30	+205.1%	0.42	+72.5%	0.10	0.25
Retention	87.7%	88.3%		88.0%		92.1%	93.2%
EBIT margin <sup>1)</sup>	4.9%	8.7%		7.0%		3.3%	4.2%

<sup>1)</sup> Operating profit (EBIT) / net premium earned

Gross written premium as at 30 June 2006 was boosted by 13.4% to EUR 1.3 billion (EUR 1.1 billion). At constant exchange rates the growth would have amounted to 11.1%. The level of retained premium was 5.2 percentage points lower at 88.0% (93.2%), and net premium earned consequently grew less vigorously by 6.7% to EUR 1.1 billion (EUR 1.1 billion).

After the usual restrained first quarter we were highly satisfied with the results as at 30 June

2006: the operating profit (EBIT) surged an impressive 78.5% to EUR 78.2 million (EUR 43.8 million); this figure does, however, include extraordinary income of roughly EUR 20 million from the commutation of a sizeable US treaty. Had it not been for this effect EBIT would have risen by 28.1%. Group net income as at 30 June 2006 improved 72.5% to EUR 51.1 million (EUR 29.7 million), producing earnings of EUR 0.42 (EUR 0.25) per share.

## Financial reinsurance

The development of financial reinsurance was also highly satisfactory. Having got off to a good start in the first quarter, we continued to enlarge our business – especially in Central and Eastern Europe as well as Asia. Yet other regions also experienced an upturn in business following

previous declines in premium volume. Most notably, demand for surplus relief contracts continued to strengthen. The majority of our clients for such solutions are mutual insurers or privately owned insurance companies that do not have access to the capital market.

### Key figures for financial reinsurance

Figures in EUR million	2006					2005	
	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 premium	450.1	261.2	+67.3%	711.3	+39.5%	156.2	510.0
Net premium earned	237.5	198.9	+11.8%	436.4	+16.5%	177.9	374.6
Net investment income	32.1	28.7	(55.3%)	60.8	(54.7%)	64.3	134.4
Operating profit (EBIT)	27.5	6.0	(75.4%)	33.5	(33.2%)	24.5	50.1
Group net income	19.1	6.1	(70.6%)	25.2	(34.9%)	20.9	38.7
Earnings per share in EUR	0.16	0.05	(70.6%)	0.21	(34.9%)	0.17	0.32
Retention	96.0%	92.8%		94.8%		104.1%	92.0%
EBIT margin <sup>1)</sup>	11.6%	3.0%		7.7%		13.8%	13.4%

<sup>1)</sup> Operating profit (EBIT) / net premium earned

Gross written premium in financial reinsurance climbed to EUR 711.3 million (EUR 510.0 million) as at 30 June 2006, a vigorous rise of 39.5% compared to the same period of the previous year. At constant exchange rates growth would have been 34.8%. The level of retained premium edged 2.8 percentage points higher to 94.8% (92.0%). Net premium earned increased by a less marked 16.5% to EUR 436.4 million (EUR 374.6 million) due to the effects of unearned premium as at the mid-point of the year.

The operating profit (EBIT) contracted by 33.2% to EUR 33.5 million (EUR 50.1 million) as a consequence of sharply lower investment income from interest on deposits. Group net income as at 30 June 2006 fell 34.9% short of the same quarter of the previous year, coming in at EUR 25.2 million (EUR 38.7 million). This was equivalent to earnings of EUR 0.21 (EUR 0.32) per share.

## Specialty insurance

In the first quarter of 2006 we fundamentally reorganised our specialty business in the USA with a view to maximising the value of this business group: the specialty insurance that constitutes the strategic focus of our activities has henceforth been assumed by the Praetorian Financial Group, Inc., while Clarendon Insurance Group, Inc. will concentrate on the professional

management of the cancelled programs as well as commodity business.

The results of the first six months show that with our systematic orientation towards specialty business we are on the right track for achieving our target for the year in the specialty insurance business group.

The gross premium volume grew by 30.6% to EUR 1.1 billion (EUR 0.8 billion). At constant exchange rates growth would have been 25.0%. The level of retained premium increased by 2.8 percentage points to 47.2% (44.4%). Net premium climbed 8.8% to EUR 449.6 million (EUR 413.1 million).

The combined ratio improved on the figure for the corresponding period of the previous year to a good 97.3% (98.0%). The operating profit (EBIT) consequently increased by a substantial 32.5% to EUR 35.5 million (EUR 26.8 million). Group net income grew by 43.3% as at 30 June 2006 to EUR 27.9 million (EUR 19.4 million), producing earnings of EUR 0.23 (EUR 0.16) per share.

#### Key figures for specialty insurance

Figures in EUR million	2006					2005	
	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 premium	520.5	551.6	+37.8%	1 072.1	+30.6%	400.2	821.0
Net premium earned	213.2	236.4	+26.6%	449.6	+8.8%	186.7	413.1
Underwriting result	17.9	(5.8)	+560.9%	12.1	+48.9%	(0.9)	8.1
Net investment income	21.1	13.0	+15.9%	34.1	+87.8%	11.2	18.2
Operating profit (EBIT)	28.8	6.7	(39.7%)	35.5	+32.5%	11.1	26.8
Group net income	18.7	9.2	+32.6%	27.9	+43.3%	6.9	19.4
Earnings per share in EUR	0.16	0.07	+32.6%	0.23	+43.3%	0.06	0.16
Retention	49.7%	45.0%		47.2%		35.0%	44.4%
Combined ratio	91.6%	102.5%		97.3%		100.5%	98.0%

#### Investments

After the international stock indices – and especially European markets – had fared very well at the start of the year, the second quarter was unable to build on this performance.

The situation on US and European bond markets was notable for sharp yield increases in virtually all durations along the yield curve. In the area of fixed-income securities we therefore continue to emphasise above all high quality and liquidity with a neutral duration.

The sustained strong inflow of cash almost offset the price effects associated with the rise in yields on international bond markets, and our assets under own management consequently contracted by a mere EUR 0.1 billion compared to year-end 2005 to stand at EUR 19.0 billion.

All in all, investment income was in line with our expectations: ordinary income excluding interest on deposits climbed sharply by 25.2% to EUR 399.4 million, as against EUR 318.9 million in the corresponding period of the previous year. This was attributable principally to the vigorous growth in the average portfolio of self-managed assets (11.4%) and the stronger US dollar compared to 2005. As anticipated, the rise in interest rates in our main currency areas eroded the unrealised gains in our portfolio of fixed-income securities.

As part of our pro-active approach to portfolio management profits of EUR 51.0 million (EUR 97.9 million) were generated on the disposal of investments, as against realised losses of EUR 38.4 million (EUR 37.7 million). The write-downs taken on securities were again marginal at EUR 8.3 million (EUR 8.6 million).

Due to sharply lower interest on deposits of EUR 108.6 million (EUR 173.0 million), net investment income declined slightly by 3.3% com-

pared to the same period of the previous year to EUR 494.4 million (EUR 511.1 million).

## Outlook for the full 2006 financial year

In view of the attractive market opportunities that are opening up to us – especially in property/casualty and life/health reinsurance – we are looking forward to a very good 2006 financial year. This assessment is, as always, subject to the proviso that the burden of major losses remains within the bounds of the multi-year average and that there are no unforeseen adverse downturns on the capital markets.

At the end of July we successfully placed our first catastrophe bond with a volume of USD 150 million with institutional investors. The bond protects against European windstorm risks and constitutes a further component in our extensive array of risk safeguards.

Market conditions in *property and casualty reinsurance* remain good on balance. The outcome of all the treaty renewal phases completed to date demonstrates that the "hard" market is holding firm in most segments: in the first place, capacity for reinsurance protection against property catastrophe risks is continuing to shrink, with the result that prices are maintaining their present very high level or even rising further in certain segments; secondly, rates are benefiting from the recalibration of pricing models to factor in the insights gained from last year's hurricanes.

The renewals as at 1 July in the USA, when around one-third of our portfolio in North America was renegotiated, further confirmed this trend. Appreciable price increases of up to 100% were pushed through in segments that had been particularly hard hit by last year's hurricane losses. Developments in the casualty lines, where with a few exceptions prices generally held stable, were also gratifying. It is our expectation that this favourable market climate will continue unchanged into the impending October renewal phase. Although we have scaled back our peak exposures, most notably in the USA, we expect

premium growth in this segment of 3% to 5%. As long as the burden of major losses remains within the multi-year average of 8% of net premium, we anticipate a very healthy profit contribution.

In *life and health reinsurance* growth impetus is expected from the European markets. Overall, we anticipate double-digit increases in both the premium volume and the result. Our goal of generating a three-figure operating profit (EBIT) and an EBIT margin of 5% on a sustained basis from 2006 onwards will be achieved.

In *financial reinsurance* demand for structured products is expected to continue growing. Overall premium growth should be able to reach double digits in percentage terms. Another pleasing contribution to Group net income is likely.

Our primary focus in the *specialty insurance* business group continues to be on the profitability of our portfolio; a positive result comfortably in excess of the cost of capital is expected.

The anticipated favourable underwriting cash flow will likely lead to further growth in the total asset volume. With interest rates rising modestly the income from *investments* under our own management should also increase again.

In light of the forecast development of our business groups and the economic environment, we are absolutely on track for a highly successful 2006 financial year. Assuming that the burden of major losses is in line with the multi-year average and that there are no unexpectedly adverse movements on capital markets, an excellent result should be attainable in the current year: we expect to generate a return on equity of at least 15% in the 2006 financial year. Our aim is to pay a dividend in the range of 35% to 40% of Group net income.



# CONSOLIDATED QUARTERLY ACCOUNTS

of the Hannover Re Group

# CONSOLIDATED BALANCE SHEET

as at 30 June 2006

Figures in EUR thousand	2006	2005
Assets	30.6.	31.12.
Fixed-income securities – held to maturity	1 633 787	458 717
Fixed-income securities – loans and receivables	781 318	745 982
Fixed-income securities – available for sale	12 794 623	14 383 176
Fixed-income securities – at fair value through profit or loss	103 669	88 111
Equity securities – available for sale	1 508 228	1 213 291
Equity securities – at fair value through profit or loss	9 929	–
Trading	22 939	22 834
Real estate	189 914	198 122
Investments in associated companies	164 601	170 414
Other invested assets	570 492	563 493
Short-term investments	770 624	769 758
Cash	417 778	465 161
<b>Total investments and cash under own management</b>	<b>18 967 902</b>	<b>19 079 059</b>
Funds held	7 855 669	8 169 282
Contract deposits	598 110	278 028
<b>Total investments</b>	<b>27 421 681</b>	<b>27 526 369</b>
Reinsurance recoverables on unpaid claims	4 197 990	4 739 026
Reinsurance recoverables on benefit reserve	364 333	94 089
Prepaid reinsurance premium	330 197	463 528
Reinsurance recoverables on other technical reserves	4 257	19 436
Deferred acquisition costs	2 306 375	2 228 501
Accounts receivable	3 427 828	3 367 105
Goodwill	188 265	193 098
Deferred tax assets	981 472	881 765
Other assets	513 485	269 000
Accrued interest and rent	8 543	7 290
	39 744 426	39 789 207

Figures in EUR thousand	2006	2005
Liabilities	30.6.	31.12.
Loss and loss adjustment expense reserve	18 990 647	20 210 041
Benefit reserves	5 743 045	5 779 169
Unearned premium reserve	2 184 889	1 977 570
Provisions for contingent commissions	192 188	190 551
Funds held	1 895 233	1 135 479
Contract deposits	2 522 868	2 442 952
Reinsurance payable	1 049 134	1 139 843
Provisions for pensions	60 316	57 626
Taxes	180 291	135 678
Provision for deferred taxes	1 698 459	1 670 876
Other liabilities	577 742	346 404
Long-term liabilities	1 505 597	1 545 531
<b>Total liabilities</b>	<b>36 600 409</b>	<b>36 631 720</b>
Shareholders' equity		
Common shares	120 597	120 597
Nominal value 120 597   Authorized capital 60 299		
Additional paid-in capital	724 562	724 562
Common shares and additional paid-in capital	845 159	845 159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	30 214	225 391
Cumulative foreign currency translation adjustment	(37 715)	64 934
Other changes in cumulative other comprehensive income	(1 499)	(1 582)
Total other comprehensive income	(9 000)	288 743
Retained earnings	1 723 707	1 467 132
Shareholders' equity before minorities	2 559 866	2 601 034
Minority interests	584 151	556 453
<b>Total shareholders' equity</b>	<b>3 144 017</b>	<b>3 157 487</b>
	<b>39 744 426</b>	<b>39 789 207</b>

# CONSOLIDATED STATEMENT OF INCOME

## for the period 1 January to 30 June 2006

Figures in EUR thousand	2006		2005	
	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.
Gross written premium	2 598 481	5 447 647	2 213 471	4 830 736
Ceded written premium	608 002	970 431	434 654	845 573
Change in gross unearned premium	84 885	(315 460)	121 506	(263 120)
Change in ceded unearned premium	(28 130)	(116 426)	(6 432)	(47 417)
<b>Net premium earned</b>	<b>2 047 234</b>	<b>4 045 330</b>	<b>1 893 891</b>	<b>3 674 626</b>
Ordinary investment income	205 596	399 355	178 543	318 864
Profit/loss from investments in associated companies	870	1 192	(6 221)	(6 476)
Income/expense on funds withheld and contract deposits	56 356	108 553	75 127	173 044
Realised gains on investments	28 720	51 033	77 266	97 909
Realised losses on investments	25 292	38 425	30 424	37 684
Unrealised gains and losses on investments	2 474	10 207	(2 759)	1 935
Total depreciation, impairments and appreciation of investments	6 116	11 197	7 830	11 541
Other investment expenses	13 465	26 334	12 398	24 925
<b>Net investment income</b>	<b>249 143</b>	<b>494 384</b>	<b>271 304</b>	<b>511 126</b>
Other technical income	711	910	2 237	5 958
<b>Total revenues</b>	<b>2 297 088</b>	<b>4 540 624</b>	<b>2 167 432</b>	<b>4 191 710</b>
Claims and claims expenses	1 464 139	2 791 165	1 334 042	2 568 181
Change in benefit reserves	2 164	67 513	50 571	105 384
Commission and brokerage, change in deferred acquisition costs	534 481	1 064 244	482 170	936 327
Other acquisition costs	2 739	10 313	2 161	9 645
Other technical expenses	14 147	27 893	11 842	28 706
Administrative expenses	55 050	115 994	62 388	120 168
<b>Total technical expenses</b>	<b>2 072 720</b>	<b>4 077 122</b>	<b>1 943 174</b>	<b>3 768 411</b>
Other income and expenses	11 089	(13 751)	(32 082)	(76 533)
<b>Operating profit/loss (EBIT)</b>	<b>235 457</b>	<b>449 751</b>	<b>192 176</b>	<b>346 766</b>
Interest on hybrid capital	20 552	41 092	17 877	34 104
<b>Net income before taxes</b>	<b>214 905</b>	<b>408 659</b>	<b>174 299</b>	<b>312 662</b>
Taxes	43 114	106 511	26 501	54 071
<b>Net income</b>	<b>171 791</b>	<b>302 148</b>	<b>147 798</b>	<b>258 591</b>
thereof				
Minority interest in profit and loss	20 947	45 573	(72)	12 435
<b>Group net income</b>	<b>150 844</b>	<b>256 575</b>	<b>147 870</b>	<b>246 156</b>
<b>Earnings per share</b>				
Earnings per share in EUR	1.25	2.13	1.23	2.04

# CONSOLIDATED STATEMENT

## of changes in shareholders' equity 2006

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/losses	Other			
<b>Balance as at 1.1.2005</b>	120 597	724 562	(41 409)	190 389	(1 597)	1 532 611	531 328	3 056 481
Capital increases/additions							3 216	3 216
Capital repayments							(2 196)	(2 196)
Changes without effect on income			112 355	92 303	15	545	18 155	223 373
Dividends paid						(120 597)	(19 466)	(140 063)
Net income						246 156	12 435	258 591
<b>Balance as at 30.6.2005</b>	120 597	724 562	70 946	282 692	(1 582)	1 658 715	543 472	3 399 402
<b>Balance as at 1.1.2006</b>	120 597	724 562	64 934	225 391	(1 582)	1 467 132	556 453	3 157 487
Capital increases/additions							15 832	15 832
Capital repayments							(3 730)	(3 730)
Changes without effect on income			(102 649)	(195 177)	83		(20 099)	(317 842)
Dividends paid							(9 878)	(9 878)
Net income						256 575	45 573	302 148
<b>Balance as at 30.6.2006</b>	120 597	724 562	(37 715)	30 214	(1 499)	1 723 707	584 151	3 144 017

# CONSOLIDATED CASH FLOW STATEMENT

as at 30 June 2006

Figures in EUR thousand	2006	2005
	1.1.–30.6.	1.1.–30.6.
<b>I. Cash flow from operating activities</b>		
Net income	302 148	258 591
Appreciation/depreciation	18 311	17 673
Net realised gains and losses on investments	(12 608)	(60 225)
Amortisation of investments	(5 371)	6 035
Changes in funds held	865 915	171 642
Net changes in contract deposits	(210 596)	350 528
Changes in prepaid reinsurance premium (net)	431 934	299 100
Changes in tax assets/provisions for taxes	81 394	2 777
Changes in benefit reserves (net)	(182 285)	20 122
Changes in claims reserves (net)	69 200	(161 394)
Changes in deferred acquisition costs	(129 630)	(125 404)
Changes in other technical provisions	35 334	42 484
Changes in clearing balances	(275 229)	(51 138)
Changes in other assets and liabilities (net)	30 262	81 496
<b>Cash flow from operating activities</b>	<b>1 018 779</b>	<b>852 287</b>
<b>II. Cash flow from investing activities</b>		
Fixed-income securities – held to maturity		
Maturities	43 048	20 830
Purchases	(15 953)	(18 750)
Fixed-income securities – loans and receivables		
Maturities, sales	453	401 809
Purchases	(41 839)	(583 617)
Fixed-income securities – available for sale		
Maturities, sales	3 227 771	3 624 880
Purchases	(3 861 610)	(4 430 081)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	10 359	4 760
Purchases	(28 491)	(7 268)
Equity securities – available for sale		
Sales	437 261	–
Purchases	(709 757)	–
Equity securities – at fair value through profit or loss		
Sales	–	290 417
Purchases	(10 000)	(449 640)

Figures in EUR thousand	2006	2005
	1.1.–30.6.	1.1.–30.6.
Other trading securities		
Sales	–	3 030
Other invested assets		
Sales	31 119	28 652
Purchases	(42 714)	(35 340)
Affiliated companies and participating interests		
Sales	6 651	9 835
Purchases	(11 325)	(510)
Real estate		
Sales	769	–
Purchases	(316)	(58)
Short-term investments		
Changes	(44 444)	112 647
Other changes (net)	(10 938)	(20 914)
<b>Cash flow from investing activities</b>	<b>(1 019 956)</b>	<b>(1 049 318)</b>
<b>III. Cash flow from financing activities</b>		
Contribution from capital measures	12 409	1 020
Dividends paid	(9 878)	(116 019)
Proceeds from long-term debts	1 522	494 897
Repayment of long-term debts	(31 100)	(241 149)
<b>Cash flow from financing activities</b>	<b>(27 047)</b>	<b>138 749</b>
<b>IV. Exchange rate differences on cash</b>	<b>(19 159)</b>	<b>32 323</b>
<b>Change in cash and cash equivalents (I.+II.+III.+IV.)</b>	<b>(47 383)</b>	<b>(25 959)</b>
Cash and cash equivalents at the beginning of the period	465 161	481 051
Change in cash and cash equivalents according to cash flow statement	(47 383)	(25 959)
<b>Cash and cash equivalents at the end of the period</b>	<b>417 778</b>	<b>455 092</b>
Income taxes	(24 421)	(45 648)
Interest paid	(120 587)	(115 761)

# SEGMENTAL REPORT

## as at 30 June 2006

Hannover Re's segmental report is based on IAS 14 "Segment Reporting" and on the principles set out in German Accounting Standard No. 3 "Segment Reporting" (DRS 3) of the German Standards Council, supplemented by the requirements of DRS 3–20 "Segment Reporting of Insurance Enterprises".

The segments are shown after consolidation of internal transactions within the individual segment, but before consolidation across the segments. This is reported separately in the "Consolidation" column.

### Segmentation of assets

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	30.6.	31.12.	30.6.	31.12.
<b>Assets</b>				
Held to maturity	1 224 095	324 208	56 014	22 349
Loans and receivables	504 944	476 725	38 276	40 219
Available for sale	9 246 106	10 065 983	1 655 073	1 713 446
At fair value through profit or loss	51 062	52 564	31 847	34 338
Trading	15 737	15 345	6 644	6 974
Other invested assets	870 211	881 565	54 776	49 695
Short-term investments	273 792	336 110	322 876	166 824
Cash	250 131	277 828	107 749	47 342
Total investments and cash under own management	12 436 078	12 430 328	2 273 255	2 081 187
Funds held by ceding companies	209 704	206 646	6 580 188	6 497 292
Contract deposits	–	–	597 877	278 028
<b>Total investments</b>	12 645 782	12 636 974	9 451 320	8 856 507
Reinsurance recoverables on unpaid claims	2 017 240	2 178 090	106 189	107 100
Reinsurance recoverables on benefit reserves	–	–	364 333	94 089
Prepaid reinsurance premium	181 444	131 957	7 684	950
Reinsurance recoverables on other reserves	(453)	(1 087)	4 710	5 353
Deferred acquisition costs	265 963	262 885	1 860 882	1 860 294
Accounts receivable	1 628 227	1 370 080	532 048	732 734
Other assets in the segment	2 431 879	2 234 829	255 729	167 942
<b>Total</b>	19 170 082	18 813 728	12 582 895	11 824 969

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
30.6.	31.12.	30.6.	31.12.	30.6.	31.12.	30.6.	31.12.
141 609	81 375	38 825	–	173 244	30 785	1 633 787	458 717
105 281	96 376	–	–	132 817	132 662	781 318	745 982
1 099 581	1 136 026	1 757 262	1 912 719	544 829	768 293	14 302 851	15 596 467
11 223	1 209	–	–	19 466	–	113 598	88 111
558	515	–	–	–	–	22 939	22 834
17	63	3	706	–	–	925 007	932 029
35 059	161 173	138 796	105 509	101	142	770 624	769 758
13 752	12 655	42 747	118 256	3 399	9 080	417 778	465 161
1 407 080	1 489 392	1 977 633	2 137 190	873 856	940 962	18 967 902	19 079 059
1 153 152	1 455 396	16 240	12 086	(103 615)	(2 138)	7 855 669	8 169 282
233	–	–	–	–	–	598 110	278 028
2 560 465	2 944 788	1 993 873	2 149 276	770 241	938 824	27 421 681	27 526 369
159 259	141 950	2 614 768	2 738 741	(699 466)	(426 855)	4 197 990	4 739 026
–	–	–	–	–	–	364 333	94 089
895	383	276 730	390 253	(136 556)	(60 015)	330 197	463 528
–	–	–	15 170	–	–	4 257	19 436
76 181	6 358	103 551	98 964	(202)	–	2 306 375	2 228 501
223 593	305 422	1 059 226	1 006 901	(15 266)	(48 032)	3 427 828	3 367 105
118 549	50 527	191 574	165 874	(1 305 966)	(1 268 019)	1 691 765	1 351 153
3 138 942	3 449 428	6 239 722	6 565 179	(1 387 215)	(864 097)	39 744 426	39 789 207

# SEGMENTAL REPORT

as at 30 June 2006

## Segmentation of technical and other liabilities

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	30.6.	31.12.	30.6.	31.12.
<b>Liabilities</b>				
Loss and loss adjustment expense reserves	12 465 334	12 513 061	1 283 991	1 284 403
Benefit reserves	–	–	5 743 045	5 779 169
Unearned premium reserves	1 303 513	1 181 376	31 144	21 057
Provision for contingent commissions	118 724	119 164	35 639	36 439
Funds held under reinsurance contracts	509 979	472 497	916 866	297 910
Contract deposits	–	–	2 395 877	2 287 462
Reinsurance payable	589 789	415 907	221 949	261 138
Long-term liabilities	69 949	107 432	–	–
Other liabilities in the segment	1 506 045	1 492 279	1 239 370	1 150 229
<b>Total</b>	<b>16 563 333</b>	<b>16 301 716</b>	<b>11 867 881</b>	<b>11 117 807</b>

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
30.6.	31.12.	30.6.	31.12.	30.6.	31.12.	30.6.	31.12.
2 285 055	2 789 737	3 655 836	4 051 892	(699 569)	(429 052)	18 990 647	20 210 041
-	-	-	-	-	-	5 743 045	5 779 169
297 932	68 613	688 601	769 691	(136 301)	(63 167)	2 184 889	1 977 570
31 762	34 948	6 063	-	-	-	192 188	190 551
35 787	25 707	536 342	339 365	(103 741)	-	1 895 233	1 135 479
126 991	155 490	-	-	-	-	2 522 868	2 442 952
102 373	108 495	152 117	400 915	(17 094)	(46 612)	1 049 134	1 139 843
-	-	-	67 602	1 435 648	1 370 497	1 505 597	1 545 531
211 627	220 240	1 037 182	887 386	(1 477 416)	(1 539 550)	2 516 808	2 210 584
3 091 527	3 403 230	6 076 141	6 516 851	(998 473)	(707 884)	36 600 409	36 631 720

# SEGMENTAL REPORT

as at 30 June 2006

## Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2006	2005	2006	2005
	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.	1.1.–30.6.
Gross written premium	2 607 037	2 423 991	1 282 564	1 131 209
thereof				
From insurance business with other segments	49 471	44 673	10 318	9 368
From insurance business with external third parties	2 557 566	2 379 318	1 272 246	1 121 841
Net premium earned	2 035 735	1 840 731	1 123 957	1 053 434
Net investment income	240 943	227 472	133 339	124 428
Claims and claims expenses	1 495 339	1 356 133	697 129	670 420
Change in benefit reserves	–	–	67 513	105 384
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	448 135	369 644	387 954	322 944
Administrative expenses	54 840	53 791	28 015	29 739
Other income and expenses	2 090	(53 682)	1 516	(5 572)
<b>Operating profit/loss (EBIT)</b>	<b>280 454</b>	<b>234 953</b>	<b>78 201</b>	<b>43 803</b>
Interest on hybrid capital	–	–	–	–
<b>Net income before taxes</b>	<b>280 454</b>	<b>234 953</b>	<b>78 201</b>	<b>43 803</b>
Taxes	76 823	31 506	20 871	12 770
<b>Net income</b>	<b>203 631</b>	<b>203 447</b>	<b>57 330</b>	<b>31 033</b>
thereof				
Minority interest in profit and loss	36 132	9 066	6 176	1 382
<b>Group net income</b>	<b>167 499</b>	<b>194 381</b>	<b>51 154</b>	<b>29 651</b>

Financial reinsurance		Specialty insurance		Consolidation		Total	
2006	2005	2006	2005	2006	2005	2006	2005
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.
711 342	510 011	1 072 054	820 959	(225 350)	(55 434)	5 447 647	4 830 736
165 561	1 393	–	–	(225 350)	(55 434)	–	–
545 781	508 618	1 072 054	820 959	–	–	5 447 647	4 830 736
436 404	374 586	449 590	413 102	(356)	(7 227)	4 045 330	3 674 626
60 826	134 352	34 127	18 168	25 149	6 706	494 384	511 126
313 764	278 544	284 624	267 173	309	(4 089)	2 791 165	2 568 181
–	–	–	–	–	–	67 513	105 384
147 198	175 196	121 450	101 820	(3 197)	(884)	1 101 540	968 720
3 988	2 702	31 410	35 977	(2 259)	(2 041)	115 994	120 168
1 210	(2 378)	(10 713)	509	(7 854)	(15 410)	(13 751)	(76 533)
33 490	50 118	35 520	26 809	22 086	(8 917)	449 751	346 766
–	–	–	–	41 092	34 104	41 092	34 104
33 490	50 118	35 520	26 809	(19 006)	(43 021)	408 659	312 662
5 016	9 417	7 654	7 361	(3 853)	(6 983)	106 511	54 071
28 474	40 701	27 866	19 448	(15 153)	(36 038)	302 148	258 591
3 265	1 987	–	–	–	–	45 573	12 435
25 209	38 714	27 866	19 448	(15 153)	(36 038)	256 575	246 156

Our secondary segmental reporting for the investments and gross written premium is based upon regional origin.

#### Investments <sup>1)</sup>

Figures in EUR thousand	2006	2005
	30.6.	31.12.
Total investments excluding cash		
Germany	5 322 803	5 138 837
United Kingdom	1 036 599	1 003 165
France	885 311	989 583
Other	2 263 396	2 093 018
Europe	9 508 109	9 224 603
USA	7 353 442	7 677 451
Other	587 120	571 724
North America	7 940 562	8 249 175
Asia	222 862	239 891
Australia	430 456	410 876
Australasia	653 318	650 767
Africa	242 299	245 946
Other	205 836	243 407
<b>Total</b>	<b>18 550 124</b>	<b>18 613 898</b>

#### Gross written premium <sup>1)</sup>

Figures in EUR thousand	2006	2005
	1.1.–30.6.	1.1.–30.6.
Gross written premium		
Germany	842 458	857 245
United Kingdom	670 847	626 698
France	234 881	154 021
Other	613 939	591 223
Europe	2 362 125	2 229 187
USA	2 162 326	1 860 274
Other	196 276	175 664
North America	2 358 602	2 035 938
Asia	277 977	196 785
Australia	201 234	178 388
Australasia	479 211	375 173
Africa	132 961	112 882
Other	114 748	77 556
<b>Total</b>	<b>5 447 647</b>	<b>4 830 736</b>

<sup>1)</sup> After elimination of internal transactions within the Group across segments

## 1. General reporting principles

The parent company Hannover Rückversicherung AG ("Hannover Re") and its subsidiaries (collectively referred to as the "Hannover Re Group") belong to Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Re and its subsidiaries. Under § 291 Para. 3 No. 1 German Commercial Code (HGB), the consolidated annual accounts of the parent company do not release Hannover Re from its obligation to compile a consolidated financial statement.

The consolidated financial statement of Hannover Re was drawn up in full compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; unless the Notes make explicit reference to a particular standard, both terms are used synonymously.

The quarterly results of reinsurance enterprises, including those of Hannover Re, are for various reasons not a reliable indicator of the results for the financial year as a whole. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events 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 major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 June 2006.

All standards adopted by the IASB as at 30 June 2006 with binding effect for the 2006 financial year have been observed in the consolidated financial statement.

We would also refer to the relevant information in the consolidated financial statement as at 31 December 2005.

## 3. Consolidated companies and consolidation principles

### Consolidated companies

Effective 1 January 2006 Kaith Re Ltd., a Bermuda-based special purpose entity for the securitisation of reinsurance risks, was registered under the Segregated Accounts Act 2000, and since that date Hannover Re has held the majority interest in the company. The special purpose entity was also consolidated for the first time as at that date.

Hannover Euro Private Equity Partners IV GmbH & Co. KG was consolidated for the first time in the first quarter of 2006. Hannover Re and E+S Rück each hold shares of 36.8% in the company's capital. The company commenced business operations on 1 January 2006. Its purpose is to build, hold and manage an investment portfolio.

## Capital consolidation

The capital consolidation complies with the standards of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The capital consolidation is based on the revaluation method. Under the "purchase accounting" method the purchase costs of the parent company are netted with the proportionate shareholders' equity of the subsidiary at the time when it is 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 IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, unscheduled amortisation is taken where necessary on the basis of regular impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Companies over which Hannover Re is able to exercise a controlling influence ("associated companies") are normally consolidated "at equity" with the proportion of the shareholders' equity attributable to the Group. A controlling influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Where minority interests in shareholders' equity exist, such interests are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements".

The minority interest in the result is a component of net income and is shown separately as a "thereof" note following net income. As at 30 June 2006 it amounted to EUR 45.6 million (EUR 12.4 million).

## Debt consolidation

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

## Consolidation of special purpose entities

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 are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Hannover Re classifies investments according to the following categories: held to maturity, loans and receivables, financial assets at fair value through profit or loss, held for trading and available for sale. The allocation and measurement of investments are determined by the investment intent.

Fixed-income securities classified as held to maturity as well as loans and receivables originated by the entity that are not listed on an active market or sold at short notice are measured at purchase cost – i. e. fair value including directly allocable transaction costs – plus amortised cost. The amortised cost derives 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 measured at fair value. The difference between the fair value and amortised cost is recognised outside the statement of income until realisation.

Financial assets at fair value through profit or loss and securities held for trading are measured at fair value. The difference between the fair value and amortised cost is recognised in the statement of income.

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

The investments also include investments in associated companies, real estate used by third parties, short-term investments, cash and funds held. The other investments primarily consist of shares in private-equity limited partnerships.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2005.

## Maturities of the fixed-income and variable-yield securities

Figures in EUR thousand	2006		2005	
	Cost or amortised cost	Fair value	Cost or amortised cost	Fair value
	30.6.	30.6.	31.12.	31.12.
<b>Held to maturity</b>				
due in one year	53 118	53 467	57 293	57 769
due after one through two years	28 456	28 988	49 301	51 086
due after two through three years	25 195	24 579	23 118	23 176
due after three through four years	22 239	22 239	–	–
due after four through five years	137 439	135 679	10 538	10 986
due after five through ten years	1 356 027	1 348 737	316 565	342 977
due after ten years	11 313	10 991	1 902	1 902
<b>Total</b>	<b>1 633 787</b>	<b>1 624 680</b>	<b>458 717</b>	<b>487 896</b>
<b>Loans and receivables</b>				
due in one year	35 280	36 865	37 417	37 579
due after one through two years	18 823	20 148	19 015	19 709
due after two through three years	49 976	49 843	24 609	26 934
due after three through four years	159 268	154 036	63 631	62 955
due after four through five years	40 089	38 412	127 626	126 003
due after five through ten years	445 510	421 742	436 778	435 410
due after ten years	32 372	29 153	36 906	36 766
<b>Total</b>	<b>781 318</b>	<b>750 199</b>	<b>745 982</b>	<b>745 356</b>
<b>Available for sale</b>				
due in one year	1 225 946	1 215 884	1 543 185	1 529 823
due after one through two years	1 788 164	1 749 888	1 419 412	1 397 314
due after two through three years	1 893 176	1 850 714	2 037 995	2 028 214
due after three through four years	1 584 437	1 543 085	1 638 228	1 617 552
due after four through five years	1 332 136	1 316 889	1 557 596	1 568 347
due after five through ten years	4 252 206	4 098 732	5 175 331	5 208 951
due after ten years	1 017 139	1 019 431	983 662	1 032 975
<b>Total</b>	<b>13 093 204</b>	<b>12 794 623</b>	<b>14 355 409</b>	<b>14 383 176</b>
<b>Financial assets at fair value through profit or loss</b>				
due in one year	53 413	53 413	51 319	51 319
due after one through two years	405	508	4 310	4 489
due after two through three years	935	1 114	828	939
due after three through four years	–	–	–	–
due after four through five years	–	–	–	–
due after five through ten years	20 805	20 742	–	–
due after ten years	27 478	27 892	31 722	31 364
<b>Total</b>	<b>103 036</b>	<b>103 669</b>	<b>88 179</b>	<b>88 111</b>

The stated 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.

Floating-rate bonds (also known as "floaters") are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value

30.6.2006					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	51 746	–	307	544	51 983
US treasury notes	370 589	256	6 595	3 018	367 268
Other foreign government debt securities	7 206	–	166	26	7 066
Debt securities issued by semi-governmental entities	469 304	6 248	7 125	7 111	475 538
Corporate securities	448 574	7 831	5 046	14 342	465 701
Asset-backed securities	256 688	427	4 630	4 639	257 124
<b>Total</b>	<b>1 604 107</b>	<b>14 762</b>	<b>23 869</b>	<b>29 680</b>	<b>1 624 680</b>

31.12.2005					
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Foreign government debt securities	20 948	117	–	–	21 065
Debt securities issued by semi-governmental entities	117 078	12 092	–	3 585	132 755
Corporate securities	263 719	16 125	153	8 574	288 265
Asset-backed securities	42 786	998	–	2 027	45 811
<b>Total</b>	<b>444 531</b>	<b>29 332</b>	<b>153</b>	<b>14 186</b>	<b>487 896</b>

In the second quarter fixed-income securities with a fair value of EUR 1.4 billion were reclassified from "available for sale" to "held to maturity". Taking account of cash flow projections, these securities will be permanently available to the company. The ability to hold these instruments to maturity enables us to reduce balance sheet volatility.

Amortised cost, unrealised gains and losses and accrued interest  
on loans and receivables as well as their fair value

30.6.2006

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Loans and receivables</b>					
Debt securities issued by semi-governmental entities	225 851	343	10 544	4 208	219 858
Corporate securities	303 398	2 722	11 482	6 776	301 414
Asset-backed securities	235 184	1 057	13 215	5 901	228 927
<b>Total</b>	<b>764 433</b>	<b>4 122</b>	<b>35 241</b>	<b>16 885</b>	<b>750 199</b>

31.12.2005

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Loans and receivables</b>					
Debt securities issued by semi-governmental entities	226 610	749	2 124	6 206	231 441
Corporate securities	304 674	2 546	2 131	8 540	313 629
Asset-backed securities	197 423	1 528	1 194	2 529	200 286
<b>Total</b>	<b>728 707</b>	<b>4 823</b>	<b>5 449</b>	<b>17 275</b>	<b>745 356</b>

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

30.6.2006

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	878 391	1 881	16 519	13 713	877 466
US treasury notes	2 566 383	433	83 045	28 979	2 512 750
Other foreign government debt securities	304 013	758	5 315	2 535	301 991
Debt securities of semi-governmental entities	3 249 179	11 795	93 729	46 598	3 213 843
Corporate securities	3 891 594	19 721	104 537	63 798	3 870 576
Asset-backed securities	1 309 462	8 105	31 827	13 230	1 298 970
Investment funds	715 203	13 540	19 842	10 126	719 027
	12 914 225	56 233	354 814	178 979	12 794 623
Equity securities					
Shares	211 120	43 452	2 592	–	251 980
Investment funds	1 083 080	181 419	8 251	–	1 256 248
	1 294 200	224 871	10 843	–	1 508 228
Short-term investments	770 464	–	–	160	770 624
<b>Total</b>	14 978 889	281 104	365 657	179 139	15 073 475

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

31.12.2005

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for sale</b>					
Fixed-income securities					
Government debt securities of EU member states	1 147 438	9 131	4 086	19 358	1 171 841
US treasury notes	3 087 349	8 171	35 992	32 381	3 091 909
Other foreign government debt securities	323 305	3 554	1 425	3 735	329 169
Debt securities of semi-governmental entities	3 471 957	37 331	39 336	40 520	3 510 472
Corporate securities	3 959 214	64 958	40 542	67 096	4 050 726
Asset-backed securities	1 495 295	16 600	13 658	19 014	1 517 251
Investment funds	678 483	23 061	–	10 264	711 808
	14 163 041	162 806	135 039	192 368	14 383 176
Equity securities					
Shares	192 338	46 572	999	–	237 911
Investment funds	820 565	154 815	–	–	975 380
	1 012 903	201 387	999	–	1 213 291
Short-term investments	769 160	–	–	598	769 758
<b>Total</b>	15 945 104	364 193	136 038	192 966	16 366 225

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets

30.6.2006			
Figures in EUR thousand	Fair value before accrued interest	Accrued interest	Fair value
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	9 481	92	9 573
Corporate securities	89 089	536	89 625
Asset-backed securities	4 452	19	4 471
	103 022	647	103 669
Equity securities			
Investment funds	9 929	–	9 929
<b>Total</b>	<b>112 951</b>	<b>647</b>	<b>113 598</b>

31.12.2005			
Figures in EUR thousand	Fair value before accrued interest	Accrued interest	Fair value
<b>Financial assets at fair value through profit or loss</b>			
Debt securities of semi-governmental entities	8 799	183	8 982
Corporate securities	74 473	497	74 970
Asset-backed securities	4 140	19	4 159
	87 412	699	88 111
Equity securities			
Investment funds	–	–	–
<b>Total</b>	<b>87 412</b>	<b>699</b>	<b>88 111</b>

#### Fair value of the trading portfolio

As at 30 June 2006 Hannover Re's trading portfolio was comprised largely of technical derivatives in an amount of EUR 22.9 million (31 December 2005: EUR 22.8 million) that were separated from the underlying transaction and measured at fair value.

## Investment income

Figures in EUR thousand	2006	2005
	30.6.	31.3.
Real estate	11 617	10 477
Dividends	20 111	26 285
Interest income on investments	352 230	278 097
Other income	15 397	4 005
<b>Ordinary investment income</b>	<b>399 355</b>	<b>318 864</b>
Profit or loss on shares in associated companies	1 192	(6 476)
Interest income on funds withheld and contract deposits	129 346	190 063
Interest expense on funds withheld and contract deposits	20 793	17 019
Realised gains on investments	51 033	97 909
Realised losses on investments	38 425	37 684
Unrealised gains and losses	10 207	1 935
Impairments/depreciation on real estate	2 906	2 948
Impairments on equity securities	5 450	3 474
Impairments on fixed-income securities	–	511
Impairments on participating interests and other financial assets	2 841	4 608
Other investment expenses	26 334	24 925
<b>Total investment income</b>	<b>494 384</b>	<b>511 126</b>

The interest rate swaps purchased by Hannover Finance, Inc. in 1999 to hedge the risk of interest rate changes associated with a floating-rate loan have been recognised as stand-alone derivatives since the buyback of 95% of the loan by Hannover Rückversicherung AG and were terminated in the second quarter of 2006 with an equivalent amount of -EUR 4.3 million. For further details please see our comments on contingent liabilities in Section 5 "Other notes".

## Interest income on investments

Figures in EUR thousand	2006	2005
	30.6.	20.6.
Fixed-income securities – held to maturity	33 107	13 979
Fixed-income securities – loans and receivables	13 729	12 040
Fixed-income securities – available for sale	283 489	234 940
Financial assets – at fair value through profit or loss	2 060	2 140
Other	19 845	14 998
<b>Total</b>	<b>352 230</b>	<b>278 097</b>

## 4.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,983 (31 December 2005: 1,972). Of this number, 863 were employed in Germany in the year under review and 1,120 were employed at the consolidated Group companies abroad.

## 4.3 Shareholders' equity and minority interests

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' 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.

The shareholders' equity (share capital of the parent company) amounts to EUR 120,597,134.00. It is divided into 120,597,134 voting and dividend-bearing registered no-par-value shares with a nominal value of EUR 1.00. The shares are paid in full.

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

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009.

New individual 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 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of profit-sharing rights or participating bonds with conversion rights and warrants and has a time limit of 11 May 2011.

## 4.4 Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 12 May 2006, the company was authorised until 31 October 2007 to acquire treasury shares of up to 10% of the share capital existing on

the date of the resolution. The company did not hold treasury shares at any time during the reporting period.

## 4.5 Earnings per share

### Basic and diluted earnings per share for the quarter

	2006	2005
	1.1.–30.6.	1.1.–30.6.
Group net income (in EUR thousand)	256 575	246 156
Weighted average of issued shares (number)	120 597 134	120 597 134
Earnings per share in EUR	2.13	2.04
Earnings per share in EUR (diluted)	–	–

## 5. Other notes

### 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 and May 2005 Hannover Re bought back portions of the subordinated debt in amounts of USD 370.0 million and USD 10.0 million respectively, leaving an amount of USD 20.0 million still secured by the guarantee.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138.1 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750.0 million and EUR 500.0 million respectively. For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2005.

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 for a period until 2009 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 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 2,422.9 million (31 December 2005: EUR 2,668.5 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 2,581.7 million (31 December 2005: EUR 3,154.2 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 104.3 million (31 December 2005: EUR 118.3 million) for E+S Rück AG and EUR 193.8 million (31 December 2005: EUR 233.4 million) for Hannover Re. These involve primarily private equity funds and venture capital firms.

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 27.7 million.



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