Munich Re Group
Short Annual Report 2004

Advancing innovation

Münchener Rück
Munich Re Group

125 years
Munich Re
Advancing innovation

The Munich Re Group

Our operations encompass all aspects of risk assumption in primary insurance and reinsurance. We are one of the world's largest reinsurers and the second-largest primary insurer in Germany.

Reinsurance: We have been in the business of insuring insurers since 1880.

Primary insurance: Our primary insurers – the ERGO Group with its brands VICTORIA, Hamburg-Mannheimer, DKV, D.A.S. and KarstadtQuelle Versicherungen, plus Karlsruher and Europäische Reiseversicherung – provide cover for private individuals and for small and medium-sized businesses.

Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Munich Re Group

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**38.1**	40.4	40.0	36.1	31.1
Result before amortisation of goodwill	€m	**2,948**	1,971*	–20*	–445*	2,595*
Taxes on income*	€m	**712**	1,752*	–605*	–1,070*	379*
Minority interests in earnings	€m	**59**	–34	–74	145	321
Profit for the year	€m	**1,833**	–434	288	250	1,750
Investments	€bn	**178.1**	171.9	156.3	162.0	159.4
Return on equity	%	**9.4**	–2.6	1.7	1.2	8.3
Shareholders' equity	€bn	**20.2**	18.9	13.9	19.4	23.6
Valuation reserves not recognised in balance sheet**	€bn	**3.2**	1.8	1.1	16.4	21.9
Net underwriting provisions	€bn	**154.3**	147.5	143.0	138.6	131.5
Staff at 31 December		**40,962**	41,431	41,396	38,317	36,481

*Adjusted after reallocation of "other tax" to "other expenses".
**Including amounts apportionable to minority interests.

Reinsurance*

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**22.4**	24.8	25.4	22.2	18.3
Investments	€bn	**81.2**	80.4	68.6	71.0	64.9
Net underwriting provisions	€bn	**58.2**	56.7	55.3	50.8	43.9
Reserve ratio property-casualty	%	**243.8**	205.0	201.1	245.6	225.6
Large and very large losses (net)	€m	**1,201**	1,054	1,844	3,407	1,150
Thereof natural catastrophe losses	€m	**713**	288	577	212	410
Combined ratio non-life	%	**98.9**	96.7	122.4	135.1	115.3

*Before elimination of intra-Group transactions across segments.

Primary insurance*

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**17.5**	17.6	16.6	15.7	14.4
Investments	€bn	**115.0**	108.3	104.4	103.6	102.9
Net underwriting provisions	€bn	**96.1**	91.0	88.4	87.4	87.3
Reserve ratio property-casualty	%	**116.8**	114.5	116.3	113.9	113.1
Combined ratio property-casualty	%	**93.0**	96.4	99.9	101.4	97.2

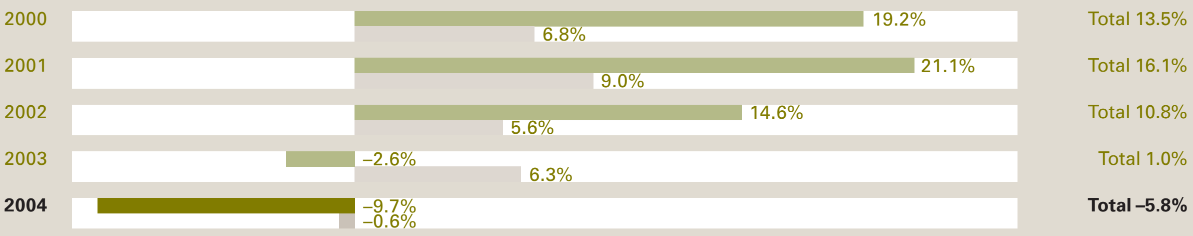
*Before elimination of intra-Group transactions across segments.

Our shares

		2004	2003	2002	2001	2000
Earnings per share	€	**8.01**	–2.25	1.54*	1.34*	9.41*
Dividend per share	€	**2.00**	1.25	1.25	1.25	1.25
Amount distributed	€m	**457**	286	223	221	221
Share price at 31 December	€	**90.45**	96.12	114.00	305.00	380.00
Munich Re's market capitalisation at 31 December	€bn	**20.8**	22.1	20.4	54.0	67.2

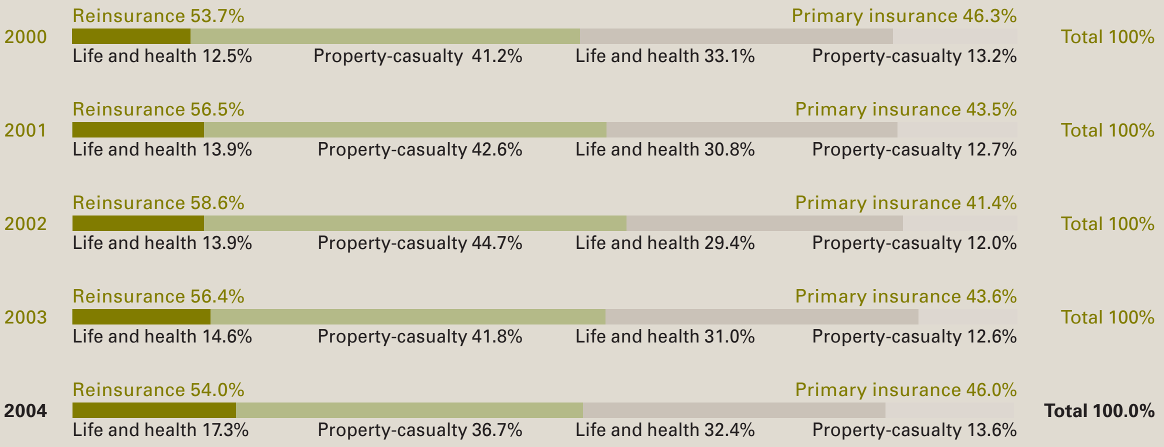
*Taking into account the capital increase in November 2003.

Premium growth



Reinsurance
Primary insurance

Shares of premium income from reinsurance and primary insurance, broken down by life and health and property-casualty*



*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

Share of premium income from outside Germany*

*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

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Dear Shareholders,

Dr. Nikolaus von Bomhard
Chairman of Munich Re's
Board of Management

Today I am in a much more agreeable position than one year ago, when I had to report to you on a disappointing result for 2003. It was already becoming apparent then, however, that the steps we had taken would bear fruit in 2004. With the Group profit for the past business year – the best in Munich Re's history – we have achieved a turnaround that could not be more striking. What did I want to accomplish in the first year of my chairmanship? Are we on course with our result for 2004? At the beginning of last year, we established three focal points in our programme to secure a profitable future for the Munich Re Group:

- Firstly, in reinsurance, to maintain the high level of profitability we had regained in the previous year, building on it where possible.
- Secondly, in primary insurance, to return ERGO to the profit zone.
- Thirdly, to ensure by means of tools like our integrated risk management that our investments support our underwriting business – without themselves tying up too much risk capital.

We worked energetically on these three major projects in the past year. The result we achieved in 2004 is an important and visible step towards sustainable profitability. It documents our will to regain our undisputed strength of former years and gives us the strategic scope we need to secure lasting success for the Munich Re Group in the future. And that is how we also aim to fulfil your justified expectations: the capital that you have invested in Munich Re should earn an adequate return. For I regard your confidence in Munich Re – and thus also the confidence of the capital markets – as a basic precondition for long-term success.

With our Group profit of €1.8bn, we did not quite reach our very ambitious target of €2bn. This is mainly due to the HVB Group's special writedown, which only became known this January and impacted our income statement to the tune of €240m.

In addition to the heavy losses from natural catastrophes, which I wrote about in my letter for the third quarter, burdens from US business also affected our result. Our subsidiary American Re added US$ 180m to its reserves for asbestos-related claims, which are still being reported for periods going back many years. It made a further increase of US$ 302m to reserves for losses stemming in particular from US liability business. In this segment, we have already taken fundamental business policy decisions to ensure that we achieve long-term profitability. These include the decision for MARP, an American Re subsidiary, to give up directly written US liability and professional indemnity business for large clients.

Despite these adversities, a combined ratio of 98.9% enabled us to post an underwriting profit in property-casualty reinsurance. For me, this shows two things. Our reinsurance portfolio has now attained a quality that allows us to absorb even large additional loss burdens. At the same time, the result endorses our policy of not deviating from risk-adequate prices and conditions. We have steadfastly adhered to this policy in the successful renewals of treaties at 1 January 2005. I therefore expect that in the current year we will again record a very satisfactory reinsurance result.

In 2004, primary insurance – in the form of ERGO – also made a positive contribution to the Group result. I am particularly pleased that in the past year ERGO was able to earn its cost of capital, an objective we originally did not envisage meeting until 2005.

Given its importance in the Group, ERGO has a major part to play in sustaining future profitability. The steps for restructuring ERGO, which I strongly supported, were initiated in 2004 and are already having a positive effect. With the clear accountability that now exists, business objectives can be pursued much more vigorously than before.

We are following our clear words on the significance of primary insurance in the Munich Re Group with action. Not only does ERGO remain an integral part of the Group, we will also be placing more emphasis on the Group perspective when taking decisions that affect the Munich Re Group as whole. ERGO and Munich Re will cooperate more closely in future. As regards the fundamental questions of strategy development and value-based management of our business, we see ourselves as one unit. That – no more and no less – is the meaning of "uniform control", to which we committed ourselves at the end of last year. But we have strictly separated the two big blocks in terms of operative business, not least because our clients in reinsurance rightly expect this of us.

The third focal point that I mentioned at the outset is integrated risk management. Here we concentrated last year on asset-liability and active capital management. We made substantial progress in our efforts to relieve our balance sheet of risks that do not conform to our business model strategy. Put plainly, we have significantly reduced our equity exposure, especially our investments in the German and European financial sector. We have thus appreciably diminished the concentration risk, even if there is certainly still scope for further "derisking" measures.

Ladies and gentlemen, we have produced a very good result for the business year 2004. We regard this – especially in reinsurance – not as the chance result of a particular market situation, but as the fruit of consistent and hard work. We are naturally continuing this work, given that the related challenges will remain with us in the coming years. Our programme for the next few years can be subsumed under three – admittedly rather abstract – headings:

- Active diversification of risks
- Focus on controlling "risk" as the underlying object of our business
- Optimising management quality and our VBM methods and tools

In our case, "diversification of risks" is more than the customary spreading of risks in insurance and reinsurance. For us, it is immaterial whether the risks we deal with derive formally from insurance or reinsurance: we approach the risks holistically. The borders between the two segments are becoming increasingly blurred. It is also a significant competitive advantage that we cover the whole value chain in the insurance industry and can exploit synergies in our risk management that profit all parts of the Group. Here we differ clearly from our main competitors, a fact that is plainly evident, for example, in life or health insurance. As social security systems are being restructured in many countries, we see great potential for insurance and reinsurance in these business segments.

To differentiate ourselves even more clearly from the competition and at the same time to achieve profitable growth, we intend to make even greater use of our distinctive risk competence in systematically offering the markets innovative concepts for risk management. The active search for new risks that need managing is a core part of our business model. Dotted throughout Munich Re's history are examples of how we have achieved a competitive edge through innovation and initiative. I want us to continue this tradition, drawing on our old strengths. For one thing is clear: the player that is quicker in identifying, technically modelling and assuming new risks from clients, at an adequate price and at the right conditions, has a decisive competitive lead and sets standards in the markets.

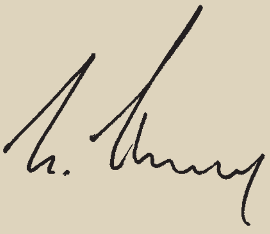
To this end, we need methods and tools for dynamically managing risks with foresight and prudent deployment of capital. The integrated management of risks on the assets side (such as investments) and the liabilities side (underwriting business) is of great importance. The better we control our risks, the more risk capital we can free up to finance, say, strategic growth opportunities and advance our Group's development.

Excellent management requires stable foundations, which include administration systems that provide reliable and versatile data resources for making decisions. In this area, we will be taking a huge step in our reinsurance operations by implementing our global administration system. This will create a joint platform with full data consistency throughout the reinsurance group and a "universal" solution for risk assessment, administration and accounting, thus significantly facilitating the analysis and controlling of our business.

I would like to conclude, ladies and gentlemen, with a far from everyday topic: on 19 April 2005, Munich Re will be 125 years old. This is a special event not many companies are privileged to celebrate. I would like this anniversary to send out a clear signal. Despite its age, Munich Re has remained young, full of energy and fit to take on the competition. Although there have been a few downs as well as ups in the many years of its existence, Munich Re's history is a success story. Our Company can claim an impressive record; it has brought great benefit – to its shareholders, clients and employees, and not least to the economy and society as a whole, both at home and abroad. Many generations have contributed to this success. Our task today is to continue bearing the torch, maintaining the importance and strengths of Munich Re in the future through our entrepreneurial and professional skills, through initiative and innovation – and thus consistently earning the profits that you, our shareholders, expect.

I am sure that I speak on your behalf when I thank the staff of the Munich Re Group for their dedication and hard work in the business year 2004. Without their commitment, the great turnaround in results would not have been possible.

Yours sincerely,

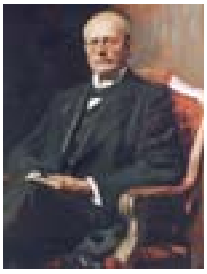


Munich Re – 125 years

2005 is a special year, as we are celebrating our 125th anniversary. Munich Re became the largest reinsurer in the world within five years of its foundation. A glance at our history shows why we have been successful over so many years. We have always looked ahead, have constantly pursued new avenues of opportunity, and have utilised our risk competence for ourselves and our clients. Developing creative and innovative solutions for new risks – that is the recurrent theme of our corporate history.

1880 – Founding of Munich Re

On 19 April, Carl Thieme establishes the Munich Reinsurance Company together with Messrs. Cramer-Klett, von Finck, Schauss, Pemsel and Schmidt-Polex. The first treaty is concluded with Thuringia. This and 32 other treaties, one of which is the first to be taken out with a foreign partner, are the proud results of Munich Re's first year of business. Five years later, Munich Re is the largest reinsurer in the world.



1898 – The birth of machinery insurance

In 1898, chief engineer Fritz Böhrer proposes to Carl Thieme a totally new type of insurance for machinery. Böhrer polls companies in Bavaria and, in collaboration with friendly insurance companies, develops "accident insurance for machinery". On 1 January 1900, Allianz Munich is granted a licence for Bavaria. From 1903, machinery insurance is authorised for all of Germany.

1906 – Earthquake in San Francisco

On 18 April 1906, the San Andreas Fault tears open over a distance of more than 200 kilometres. The earthquake strikes San Francisco with full force. 750 people are killed. The property damage incurred comes to an inconceivable 500 million dollars, Munich Re's share amounting to 11 million marks. In terms of premium income, the San Francisco earthquake constitutes the highest financial burden Munich Re has ever had to bear.

1919 – The second beginning

During the First World War, trading-with-the-enemy laws prohibit any business contacts with the German Reich. Countless reinsurance treaties are annulled and companies in foreign countries wound up. After the war, important countries such as Russia, England and the USA remain closed to Germany for many years. Gradually, from 1919 onwards, Munich Re's old business partners start coming back, eager to revive relations.

1922 – The first change of management

Carl Thieme transfers to the Supervisory Board in 1922; his successor as Chairman of the Board of Management is Wilhelm Kisskalt. He steers the company through difficult, changing times until 1937. In 1938, Dr. Kurt Schmitt takes the helm and manages the Company until 1945. From 1945 until his premature death in 1950, Dr. Eberhard von Reinhaus takes on the arduous task of helping to heal the wounds left by the war.

1985 – Mexico City in ruins

On 19 September, the largest city in the world is jolted by an earthquake measuring 8.1 on the Richter Scale and with a 7.5-magnitude aftershock the following day. 10,000 people are killed. A third of the city is reduced to rubble. Mexico's earthquake is the largest earthquake loss since the 1923 quake in Tokyo and one of the greatest burdens for the company since its founding.

1882 – "Our phone number is 46"
The Royal Bavarian Post Office succeeds in enlisting 104 parties interested in owning a telephone and begins to set up a telephone network. Munich Re is one of these parties, and its first telephone connection is number 46. Not until 17 years later are electric light bulbs used to light the Company's offices. On 2 August 1899, Maffeistrasse 1 is hooked up to the municipal electricity grid.

1885 – Social innovations
Working at Munich Re has always been something special. Salaries are high. A Christmas bonus is introduced in 1885. A company pension scheme is established at Munich Re in 1891. From the mid-1890s, the company adopts "English working hours" from 9 a.m. to 4 p.m. Free lunches are served from 1897 on. In 1898, a programme for procuring housing for families is initiated. And as of 1905, all employees are entitled to paid holidays.

1907 – A great idea is sparked
Hungarian timber merchant Max von Engel is standing on the station platform in Lucerne. There are huge piles of baggage heaped up next to the train. Sparks fly from the steam engine and land on the suitcases. What if the suitcases caught fire? Who would indemnify the loss? Engel is struck by an idea: it would be good to be able to insure one's baggage at the check-in counter. The idea does not catch on at first. Until Engel meets Thieme. On 9 May 1907 they found Europäische Reiseversicherungs-A.G.

1939 – Working during the Second World War
Business proves increasingly difficult from 1939 onwards. Foreign business is largely transacted via Union Zürich, a Munich Re subsidiary. The war also leaves its mark within the Company. Paper consumption is rationalised; after work, typewriters and calculators have to be carried into the air-raid shelter. In 1943, Accounting is transferred to Schliersee. All staff return to Munich in 1946, where they are accommodated in emergency quarters.

1950 – The third beginning
Things are finally starting to look up. Foreign trade is allowed again, and the Company moves back into the previously requisitioned Main Building. Dr. Alois Alzheimer steers the company through the difficult post-war years. He is considered a strong guarantor of continuity and symbolises the successful rebuilding of Munich Re. In 1954, he recruits Horst K. Jannott, who in 1969 becomes his successor as Chairman of the Board of Management and heads the Company until 1993.

1996 – Acquisition of American Re
On 14 August, Munich Re and the Board of Directors of American Re as well as the latter's majority shareholder, investment company Kohlberg Kravis Robert & Co., reach agreement on Munich Re acquiring American Re for a total price of approximately US$ 3.3bn. Through the US reinsurer, Munich Re strongly expands its market position in the USA, the world's largest insurance market.

1997 – ERGO and MEAG established
3 July. The insurance groups VICTORIA/D.A.S. and Hamburg-Mannheimer/DKV merge under one holding company and become ERGO Versicherungsgruppe AG. To reinforce the financial strength of Munich Re and ERGO on a sustained basis, MEAG MUNICH ERGO AssetManagement GmbH is founded in 1999. Today, MEAG manages assets totalling approximately €146.8bn (as at 31 December 2004) and is hence one of the largest asset managers in the German insurance industry.

1888 – Initial public offering
On 21 March 1888, Munich Re's shares are introduced on the stock exchange at a flotation price of 700 marks. In 1895, Munich Re's capital is increased from 4.8 million to 10 million marks and in 1898 to 20 million marks. On 2 January 1890, Munich Re's shares are traded at 990 marks, ten years later at 2,435 marks.

1889 – Carl Thieme establishes a primary insurance company
In September 1889, Carl Thieme and Wilhelm von Finck found an accident and liability insurance company. Its name: Allianz Versicherungs-Aktiengesellschaft. By 1914, Allianz ascends to the rank of largest German property insurer. Only recently, at 31 December 2003, as a consequence of the two companies' strategic realignments, is the general agreement between them terminated. The good business relationship is maintained.

1910 – Munich Re takes to the air
Munich Re enters an absolutely new field – aviation business. The market is young, the number of potential insureds is low, a spread of risks is hardly possible. In 1913, seven insurers purchase the first reinsurance cover for the fire insurance of an airship. In 1918, an extensive exposé is written on the liability and accident insurance of aviation risks. The first aviation risks are reinsured in 1919.

1973 – A logo travels the world
Anton Stankowsi designs Munich Re's new logo: parallel lines meeting on a square field. The linear structure stands for connection and exchange, partnership and interaction, reciprocity and trust, development and order, safety and solidarity, size and differentiation. The logo is introduced worldwide on 1 January 1973.

Münchener Rück
Munich Re Group

11 September 2001
At 8.45 a.m., a Boeing 767 carrying 92 passengers and 90,000 litres of kerosene crashes into the World Trade Center's North Tower. At 9.03 a.m., another plane hits the South Tower. About 3,000 people are killed, and 150,000 lose their workplace. The insured loss is estimated at around US$ 40–60bn. Munich Re anticipates a burden of US$ 2.6bn. 9/11 is by far the largest loss in Munich Re's history.

1890 – London, a difficult terrain

From 1886, the first representative offices abroad are established in Paris, St. Petersburg, Copenhagen and Stockholm. London, however, is still viewed with caution. The market is regarded as extremely difficult for foreign companies. Carl Schreiner goes to London in 1890. Contrary to all expectations, business develops amazingly well. In 1899, Schreiner ventures to cross the big pond – and is again successful. London is considered a milestone in the internationalisation of Munich Re.

1913 – All under one roof

A total of 350 employees work in six different buildings. Thieme finds this unacceptable. A construction site is purchased on Königinstrasse. Architects Bieber and Hollweck design the Main Building. Staff officially move in on 20 March 1913. Miss Hirsch and Miss Fiedler are hired to operate the switchboard. They are the first women to be employed by Munich Re – 33 years after its foundation.

1916 – Life insurance for everyone

Life insurance used to be reserved for the healthy. In 1916, Munich Re creates a department that looks into "substandard risks". Its records and those of other insurers are used to develop a risk assessment system. To this day, Munich Re's mortality tables are the material basis for underwriting life insurance policies – also for people who are not completely healthy.

1974 – Looking nature in the eye

Since the number of natural catastrophes is rising strongly, Munich Re establishes the Joint Office for Natural Hazards. Under the name Geo Risks Research, it soon becomes an indispensable resource for politicians, scientists, idustrialists and insurers worldwide. The World Map of Natural Hazards and the knowledge database NATHAN, both developed by Geo Risks Research, remain unique sources of information to this day. On 15 June 2004, Geo Risks Research celebrates its 30th birthday.

2002 – The flood

2002 sees record values for windstorms, precipitation and floods. The most prominent event of the year is the flood in August. The heaviest flooding in Europe in centuries, possibly even since the millennium floods in August 1342, occurs on the Danube, Elbe, Vltava, and their tributaries. It causes economic losses throughout Europe of some €18.5bn, €3bn of which is insured.

Shareholdings reduced further
We reduce our investments in the financial services sector further in conjunction with HypoVereinsbank's capital increase and by lowering our stake in Allianz to under 10%. The marketing cooperation between ERGO and the HVB Group is maintained.

Geothermal energy project insured
Germany's largest geothermal energy project is launched in Unterhaching. The plan is to erect a geothermal power plant with an output of around 3.7 MW by the end of 2005, saving up to 30,000 tonnes of carbon dioxide per year. We come up with a new kind of insurance to cover the investment risks involved.

New management structure for ERGO
ERGO reorganises its management, providing for uniform, group-wide control and thus greater profitability. The identity of the individual brands and their sales channels remain intact.

Involvement in India
By founding Munich Re India Services Ltd, Mumbai, we strengthen our presence in the Indian insurance market. Our service company Paramount offers local health insurers effective services.

Cyclones cause high losses
An unusually high number of cyclones hit the Atlantic and Pacific coasts. In a space of six weeks, four major hurricanes give rise to losses in the Caribbean and southeastern United States running into billions.

Closer integration of ERGO
Munich Re involves ERGO more closely in significant Group processes, especially strategic issues and risk management. There is now "unified control" within the meaning of the German Stock Companies Act.

DKV in China
DKV plays an active part in becoming a shareholder of the first private health insurer in growth market China.

Tsunami in South Asia
On 26 December, there is an extremely strong earthquake off Sumatra. Seismic sea waves (tsunamis) surge with great force against sections of coast thousands of kilometres away. Around 180,000 people are killed, 100,000 reported missing and millions made homeless.

Turning risk into value

We are focused on managing risks, diversifying them and steering our Group efficiently and effectively.

Our business as an insurer and reinsurer is the professional handling of risk. We utilise advantages obtained from the diversification of risks and, through management of the selected and calculated risks that we assume, provide for a balance over time, regions and classes of insurance. We create value by using our broad knowledge and sophisticated underwriting techniques to make risks from many different spheres of private and economic life manageable – for our clients and for us. We are only successful in the long run if what we do is worthwhile both for our shareholders and for our clients. Consequently, our business model is "turning risk into value".

What we aim to achieve

We are successful if we achieve our ambitious objectives:

Segment	Key indicator	Objective 2004	Result 2004	Objective 2005
Reinsurance	Combined ratio*	97%	98.9%	97%
Primary insurance	Combined ratio**	97%	93.0%	95%
Group	RoI	4.5%	4.6%	4.5%
	Annual result	€2bn	€1.8bn	–
	RoE***	–	9.4%	12%

*Non-life.
**Property-casualty (including legal expenses insurance).
***Annual result divided by mean shareholders' equity, including minority interests in each case.

In life primary and reinsurance and in health primary insurance, we manage and measure performance using the embedded-value system.

Cornerstones of our strategy

Three strategic statements form the foundation of our business activities and determine our success:

- We utilise the diversification of risks as the essential driver for creating value.
- We manage risks in both the primary insurance and the reinsurance sectors on this basis.
- We strive for operative quality in the management of our business and in the methods and tools we use to steer it.

Diversification effects are calculated using our risk model, with which we determine the amount of risk capital necessary for the respective risk assumed. If risks are independent of each other in terms of their occurrence probability, less risk capital is needed for the portfolio as a whole than for the sum of the individual risks. The size and mix of our risk portfolio allows us to use such diversification effects on our existing risk capital to make available comparatively more capacity. A further dimension is to be found in the area of capital allocation between the fields of business, e.g. in asset-liability management, which we are making a point of expanding, not least in the light of our experiences in the stock market crisis of the last few years. Also important in this context is accumulation control.

Whether a risk is written in insurance or reinsurance is not material for risk management, given that the borderline between the two is becoming increasingly blurred anyway. We can react flexibly and innovatively to the challenges of the future on the basis of our extensive risk know-how across the fields of business. Thus positioned, our objective is to generate the growth necessary for sustained success in the area where more value can be created in the market environment concerned.

Under "operative quality" we subsume a number of different requirements. We devote particular attention to sophisticated steering tools and excellent management. Thus we see the "art of underwriting" as a cycle that includes not only sophisticated actuarial methods but also ongoing analysis and monitoring of business development. By incorporating feedback from claims experience into pricing policy, we can respond rapidly to current trends. The art of underwriting also means that knowledge from science or trend research is taken into account for new risks at an early stage, using scenario techniques, in order to make such risks manageable and thus insurable. The more successful we are in this, the greater the lead we have on the competition and on possible political measures that might limit the scope for structuring appropriate underwriting solutions.

Implementation of our strategy

From this strategic foundation, we derive concrete business-policy principles and initiatives for their realisation. The various strategies are set out in balanced scorecards. Such a scorecard exists firstly for the Munich Re Group as a whole. From this, scorecards are derived for primary insurance and reinsurance, and then cascaded downwards – in the case of the reinsurance group, for example, for the individual divisions, divisional units and departments. In these scorecards, we record in concrete terms who in the Group, in what position, instigates, carries out and is accountable for particular actions or initiatives, in order to generate the required added value. In so doing, we focus on the following aspects:

Achieving sustained profitable growth and value creation for our investors

- A strictly profit-based approach in the design of products and in underwriting: We aim for long-term profitability in both reinsurance and primary insurance. We reject growth geared solely to volume and intended merely to achieve or defend places in the rankings, regardless of profitability.
- Value-based management: We set clear financial objectives and ensure the requisite earnings orientation. The central performance measure for value-based management is the enhancement of corporate value.

Strong capital base, integrated risk management and concentration of our resources on commercial success

- Financial strength: We safeguard and improve our financial strength, which offers our clients top-level security.
- Integrated risk management: We strive for an optimised portfolio in respect of the risks on the assets and liabilities sides of our balance sheet – i.e. the risks of investments and underwriting – both individually and in the interplay between the two, in order to use our risk capital in the best possible way. Internal risk models form the basis for decision-making. The structure of our obligations on the liabilities side of the balance sheet determines the investment of our assets.

Meeting the individual requirements of our clients

- Quality: We offer our clients individual, tailor-made solutions to which high standards are applied.
- Market proximity and international presence: We are close to clients and the market, allowing us to identify at any early stage any changes in the social, economic and legal environment or among our cedants, to translate these changes into business measures, and thus to add value for our clients.

High quality in management and administration

- Optimised decision-making and organisational structures and processes: We develop structures and processes that are transparent, efficient and geared to profitability, and consistently implement them.

Our staff, who find the best solutions with their knowledge of risk and the capital markets and their capacity for innovation

- Knowledge and expertise: We distinguish ourselves from our competitors through our knowledge edge. To this end, we build on the know-how of our staff throughout the world, their experience, and their specialist and intercultural knowledge.
- Innovation: We draw on our innovative capacity for dealing with challenges of the future like climate or demographic change, and exploit it to derive new business perspectives.

Pronounced performance culture that motivates staff

- Quality performance: We achieve optimum performance by setting clear objectives for our staff at all levels.
- Management: We give feedback openly, learn from mistakes, and reward success.

Progress in 2004 and outlook

A successful strategy must measure up in terms of results. We have geared our activities clearly to the goal of profitability and have reduced the risks in the investment sector. These initiatives had a strikingly positive impact on our results in 2004.

- In reinsurance, we consistently pursued our policy of charging risk-adequate prices and are firmly on track in terms of earnings.
- We have achieved the desired turnaround in results in primary insurance. The new structure of the ERGO Group, which was conceived and largely put in place in 2004, is designed to make this recovery lasting.
- 2004 produced the best result in Munich Re's history.

With these results, we have gained considerably more room for manoeuvre in developing the Munich Re Group, which we intend to utilise in the coming years in the long-term interests of our shareholders.

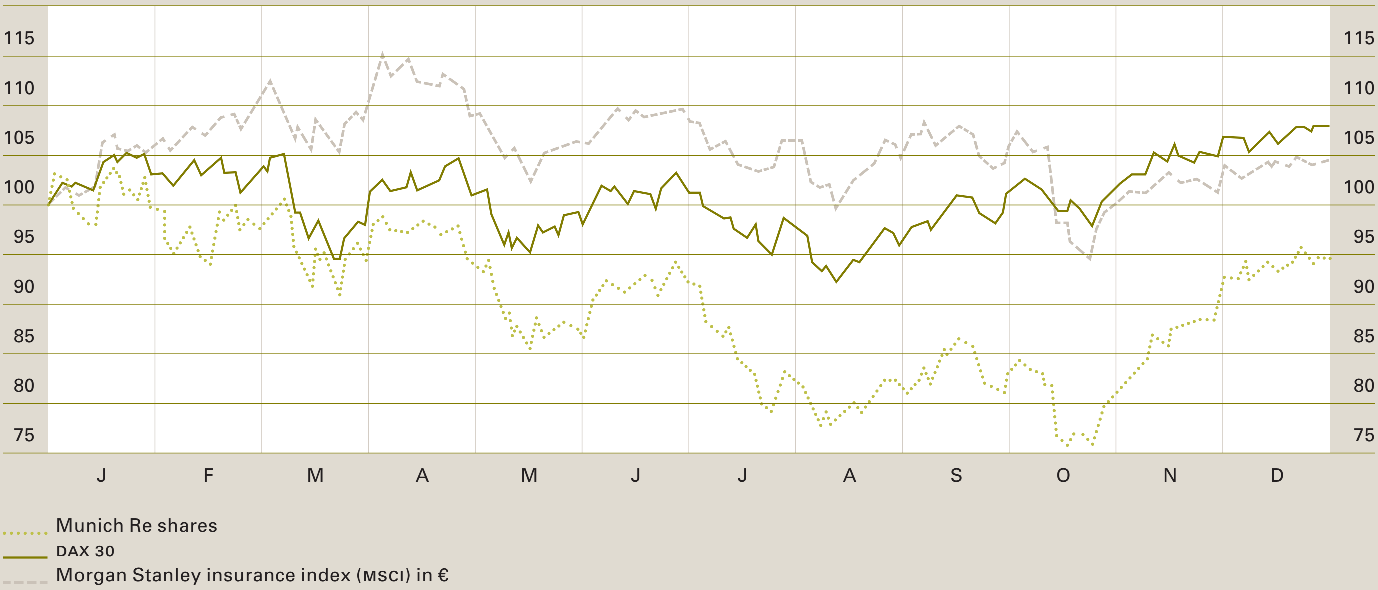
Stock market year 2004
Hesitant start but strong finish

Although we were not satisfied with the performance of our shares in 2004, the largely positive assessments from analysts show their confidence in the development of our Group

In the first half of 2004, a sideways trend prevailed on the main stock markets. Positive news of rising company profits was negated by investors' fear of higher interest rates. After most stock exchanges had recorded their year low in mid-August, share prices took an upward turn, boosted by declining yields on the bond markets and the outcome of the elections in the USA. At the end of 2004, indices like the Dow Jones, the EURO STOXX 50 and the DAX closed between 3% and 7% up.

Insurance stocks moved more or less parallel to the market as a whole, with the MSCI insurance index rising by 3.9% in 2004. Within the insurance industry, international reinsurers had a rougher ride as their results came under pressure from heavy windstorm losses. The hurricanes and typhoons in the USA, the Caribbean and Japan, and the earthquake off Sumatra, made 2004 the costliest year ever for natural catastrophes.

Share price performance
1 January 2004 = 100
Source: Datastream



The insurance sector also suffered following the news that a lawsuit was being filed by the New York Attorney General against US insurance brokers. In the aftermath of this announcement, our shares fell to a year low of €72.73 in October. However, bolstered by the turnaround of the ERGO Group and the unchanged prospect of a record result for 2004, our shares rallied at the end of the year. In the last two months, they recorded an above-average price increase compared with the market and the sector as a whole.

Nevertheless, ending down 5.9% overall in 2004, Munich Re shares were outperformed by the blue chip indices and competitors' stocks. We are not satisfied with our share price performance, but we remain convinced that if we continue to rigorously pursue our strategy, our stock price should soon reflect the fundamental positive development of our Group.

Key figures for our shares

		2004	Previous year
Number of shares at 31 December	m	229.6	229.6
Share capital	€m	587.7	587.7
Year high	€	99.00	117.32
Year low	€	72.73	49.93
Year-end closing price	€	90.45	96.12
Annual performance (excluding dividend)	%	–5.90	–11.4
Beta relative to DAX		1.1	1.4
Market capitalisation at 31 December	€bn	20.8	22.1
Market value/book value at 31 December		1.0	1.2
Average daily turnover	'000	1,827	2,402
Earnings per share	€	8.01	–2.25
Dividend per share	€	2.00	1.25
Dividend yield at 31 December	%	2.2	1.3
Overall dividend amount	€m	457	286

Free float over 80%

At the end of 2004, the number of Munich Re shareholders totalled 178,000.

Our free float, which is important for the weighting of Munich Re shares in various indices, stands at around 80.6%.

Munich Re shares as seen by the analysts

More than 50 analysts give regular assessments on the performance of Munich Re's shares. During the period under review, the buy-recommendations showed a marked increase year on year. At the end of 2004, 62% of analysts assessed our shares positively, compared with only 44% the year before.

Higher dividend

Given the record result in 2004, the dividend proposal of the Board of Management and Supervisory Board at the Annual General Meeting on 28 April 2005 will be payment of an increased dividend of €2.00 per share (75 cents higher than last year). We will thus distribute a record amount of €457m (286m) to shareholders.

Whereas in the past we have focused on continuity in our dividend payments, in future the amount distributed will depend more strongly on the result for the year and on our capital resources and requirements. This means the dividend will fluctuate more strongly than in the past.

Internet services expanded

We publish all important investor relations information on our website where, besides annual and quarterly reports, investors can find details about our shares, analysts' opinions, important dates in the financial calendar, and much more. Our already extensive online services were expanded further last year with the section "Socially responsible investing". A further addition followed on 3 January 2005 with our new online shareholder portal.

www.munichre.com/register

All the information relating to our 2005 Annual General Meeting can be found on our website in a special section created for the AGM (www.munichre.com/agm). Our portal's service pages also offer shareholders other options, such as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online.

Corporate governance: Transparent and efficient

We have expanded and broken down further the data we provide on the Board of Management's compensation, thus offering extensive information even without individualised disclosure

Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. Of particular importance to the Munich Re Group in this context are the promotion of shareholders' interests, efficient practices on the Board of Management and Supervisory Board, good collaboration between these bodies, and corporate communications that are open and transparent internally and externally.

With its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe the respective national standards and internationally recognised best practices. In Germany, where Munich Re has its registered seat, corporate governance rules are contained in statutory provisions and also in the German Code of Corporate Governance, which came into force in 2002 and was revised in 2003. The Code contains the main legal rules to be observed by listed German companies; in addition, it gives recommendations and proposals based on nationally and internationally recognised standards of good and responsible management.

The corporate governance issue that dominated public debate in Germany this year was undoubtedly the individualised disclosure of compensation paid to management boards. The subject is a controversial one. Munich Re has carefully weighed up the arguments for and against individualised disclosure. In so doing, we have found it disquieting how far the important topic of corporate governance has been reduced to this one aspect. In our view, whether a company has "good" or "bad" corporate governance does not depend on whether it discloses its individual board members' remuneration or not.

On mature reflection, the Board of Management has ultimately decided against publication in this form because it does not consider such disclosure to be appropriate. The Munich Re Group Annual Report 2004 (notes to our consolidated financial statements) shows how much the Board of Management as a whole earned in the business year 2004, broken down according to the different compensation components. In addition, the notes specify the structure of the Board of Management's compensation system. Supplementary to the data provided last year, there is now information on the Board members' pension entitlements as well. Even without individualised disclosure, Munich Re thus meets the objective needs of investors and shareholders for information, since they are in a position to assess the relationship between the Board of Management's performance and compensation on the basis of the details they receive regarding the Board of Management as a collegial body.

We thus cover the most important grounds advanced in favour of individualised publication. The allegation that if a company does not disclose compensation on an individual basis, it may be concealing unreasonably high amounts does not withstand scrutiny. Any excessive remuneration of individual Board members could be deduced from the amount of compensation for the Board as a whole, which is published every year. And as the relationship between performance and compensation can be ascertained on the basis of the existing information, the requirements of transparency are also met. The publication of managers' remuneration in the Anglo-American legal sphere has in no way prevented compensation excesses there.

Last year, too, the Supervisory Board reviewed the efficiency of its activities in terms of good corporate governance, in particular the question of whether the measures decided on by the Supervisory Board in the previous year to improve its efficiency had been effectively implemented. The main points of emphasis therefore, as in the previous year, were the form, content and timing of reports from the Board of Management to the Supervisory Board, and the flow of information between the committees and the full Supervisory Board. In all areas, the Supervisory Board found that there had been improvements, sometimes substantial ones. Where this was not yet the case to the desired extent, it decided on further refinements. Thus, for example, it has asked the Board of Management to extend its reporting to the Supervisory Board on certain topics.

In order to enhance the efficiency of its operations still further, the Supervisory Board made various adjustments to the rules of procedure for both Board of Management and Supervisory Board in 2004. On the one hand, it has expanded the group of transactions that require its approval and is therefore able to perform its supervisory function better than before. On the other hand, a change in its own rules of procedure has transferred certain responsibilities of the Standing Committee back to the full Supervisory Board, so that particularly important decisions are taken by all the members. This means that with regard to some topics that were previously discussed mainly in the committees, the Board of Management will report in detail at meetings with the full Supervisory Board.

Corporate governance is an ongoing process. We will continue to address this issue, refining our corporate governance principles and thereby taking into account the guidelines laid down by the German Code of Corporate Governance. But for us the key is that corporate governance is not only incorporated in rules and regulations but is also lived out in practice. Major contributors to ensuring this are internal auditing, risk management and the Compliance Office. Our Internal Auditing Division supports the Board of Management in its monitoring duties by performing risk-oriented reviews and audits. The job of Munich Re Group's risk management is to identify and analyse risk situations holistically. The Compliance Office makes sure that particular legal and supervisory obligations, such as those arising from securities trading law, are properly met.

On 9 December 2004 the Board of Management and the Supervisory Board published the following declaration of compliance, in accordance with Section 161 of the German Stock Companies Act:

"Since the last declaration of compliance on 5 December 2003, Munich Re has fulfilled the recommendations of the Government Commission's German Code of Corporate Governance in the version of 21 May 2003, or will fulfil these recommendations in future, with the following exceptions:

– Item 7.1.2
  The consolidated financial statements for the business year 2003 were published on 15 April 2004. This means Munich Re kept well within the deadline stipulated in the German Commercial Code but did not comply with the 90-day deadline recommended in the German Code of Corporate Governance.
  The publication of the consolidated financial statements for the business year 2004 is scheduled to take place within the 90-day deadline. In line with previous announcements, since the second quarter of 2004 the interim reports have been made publicly accessible within the 45-day deadline recommended by the German Code of Corporate Governance.
– Item 4.2.4 sentence 2
  For the business year 2003, the remuneration of the members of Munich Re's Board of Management was shown in detail for the whole Board in the notes to the consolidated financial statements, broken down according to fixed compensation, performance-related components and components with long-term incentive effect, although not individualised as recommended by the German Code of Corporate Governance. For the business year 2004, too, the Board of Management's remuneration will be published in detail for the whole Board but not individualised."

On our website, we provide detailed information on the Board of Management and the Supervisory Board. This includes information on the duties and composition of the four committees of the Supervisory Board, on the powers of the Annual General Meeting and how to participate in it, and on other topics of corporate governance.

The Supervisory Board

CHAIRMAN (until 26 May 2004)
Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

CHAIRMAN (from 26 May 2004)
Dr. jur. Hans-Jürgen Schinzler (from 2 January 2004)
Former Chairman of the Board of Management
of Munich Reinsurance Company

DEPUTY CHAIRMAN
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Klaus Peter Biebrach (until 26 May 2004)
Employee of Munich Reinsurance Company

Peter Burgmayr (until 26 May 2004)
Employee of Munich Reinsurance Company

Holger Emmert (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. rer. nat. Rainer Janßen (from 26 May 2004)
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Henning Kagermann
Chairman of the Executive Board and Chief Executive Officer of SAP AG

Gertraud Köppen (until 26.5.2004)
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Hubert Markl
Former President of the Max Planck Society

Wolfgang Mayrhuber
Chairman of the Board of Management of Deutsche Lufthansa AG

Prof. Karel Van Miert
Professor at the University of Nyenrode

Ingrid Müller (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Board of Management of Siemens AG
(until 27 January 2005)
Chairman of the Supervisory Board of Siemens AG
(from 27 January 2005)

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder
Chairman of the Board of Management of Volkswagen AG

Dr. rer. nat. Jürgen Schimetschek (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. jur. Dr. h. c. Albrecht Schmidt
Chairman of the Supervisory Board of
Bayerische Hypo- und Vereinsbank AG

Dr. rer. nat. Dipl.-Chemiker Klaus Schumann (until 26 May 2004)
Employee of Munich Reinsurance Company

Kerstin Seefried (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. phil. Ron Sommer
Former Chairman of the Board of Management of Deutsche Telekom AG

Wolfgang Stögbauer
Employee of Munich Reinsurance Company

Josef Süßl
Employee of Munich Reinsurance Company

Judy Võ
Employee of Munich Reinsurance Company

Ludwig Wegmann (until 26 May 2004)
Employee of Munich Reinsurance Company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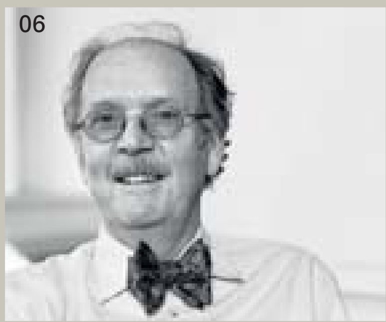
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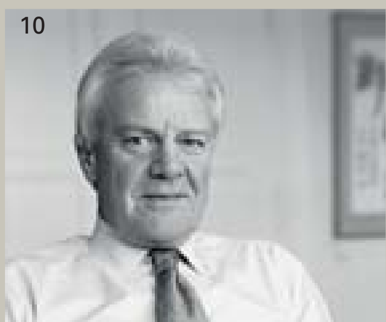
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The Board of Management
(in alphabetical order)

01 Dr. jur. Nikolaus von Bomhard
(Chairman of the Board of Management)

* 1956, lawyer, with Munich Re since 1985
Executive Offices
Press
Internal Auditing
Strategic Planning

03 Dr. jur. Heiner Hasford

*1947, lawyer, with Munich Re since 1978
Finance
General Services
Organisational Design and Development

05 Dr. rer. nat. Torsten Jeworrek

*1961, mathematician, with Munich Re since 1990
Special and Financial Risks
Information Technology

07 John Phelan

*1947, underwriter, with Munich Re since 1973
North America

09 Dr. jur. Jörg Schneider

*1958, business graduate, lawyer,
with Munich Re since 1988
Accounting
Controlling
Integrated Risk Management
Taxes
Investor Relations

02 Georg Daschner

*1949, chartered insurer,
with Munich Re since 1965
Europe 2 and Latin America

04 Stefan Heyd

*1945, lawyer, with Munich Re since 1975
Corporate Underwriting/Global Clients

06 Christian Kluge

*1941, chartered marine insurer,
with Munich Re since 1964
Europe 1
Corporate Communications

08 Dr. phil. Detlef Schneidawind

*1944, lawyer,
graduate in business management,
with Munich Re since 1973
Life and Health
Human Resources

10 Karl Wittmann

*1945, chartered insurer,
with Munich Re since 1961
Asia, Australasia, Africa

Management report (excerpt)
Business performance: Overview and important key figures

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**38.1**	40.4	40.0	36.1	31.1
Combined ratio – Reinsurance non-life	%	**98.9**	96.7	122.4	135.1	115.3
– Primary insurance property-casualty	%	**93.0**	96.4	99.9	101.4	97.2
Group result	€m	**1,833**	–434	288	250	1,750

In the past year, we successfully implemented our "profit before growth" strategy, thereby achieving the best result in Munich Re's history.

In reinsurance we were hit in the second half of the year by an unprecedented series of severe natural catastrophes involving claims expenditure of more than €700m overall. The tsunami triggered by an earthquake off Sumatra on 26 December caused immeasurable human suffering in the coastal regions affected. However, our burden from this tragic event was far exceeded by the claims costs incurred for the cyclones that raged over the Atlantic and Pacific in late summer and in autumn. 2004 demonstrated with terrible clarity that despite all the technical progress made, the vulnerability to devastating natural disasters has substantially increased, on the one hand because of disquieting climatic developments and on the other because human settlements are spreading further and further into exposed zones. This makes it all the more important to strengthen and concentrate efforts worldwide towards achieving sustainable and ecologically sound development.

Apart from these natural catastrophes, we were also burdened by a strengthening of loss provisions by US$ 482m at our US subsidiary American Re. These increases mainly involved liability business for the accident years 1997–2001 and reserves for asbestosis claims. Given the pleasing improvement in our investment result and, above all, our very successful profit-oriented underwriting, we nevertheless achieved a very good reinsurance underwriting result. Where conditions did not meet our requirements, we refrained from writing the business. At the renewal dates, we improved prices and conditions for the third time in succession.

In primary insurance, our Group companies are successfully back on track. The fiscal changes affecting life insurance policies in Germany from the beginning of 2005 fuelled new business in 2004. VICTORIA Leben was given a capital injection of €500m from Group funds, which will allow it to further enhance its level of security. Over and beyond this, we used the last year to realign our organisation. At the beginning of 2005, a new management structure was introduced in the ERGO Insurance Group, which provides for central and uniform Group-wide accountability in the individual business segments.

In private health insurance, modern case and healthcare management is gaining in importance. With increasing frequency, our clients are demanding an integrated range of financial security, extensive services and medical care. We are responding to these mounting requirements by offering appropriate solutions in primary insurance and reinsurance, which we are continuing to expand. In short, there has been a move away from pure cost reimbursement towards active healthcare management.

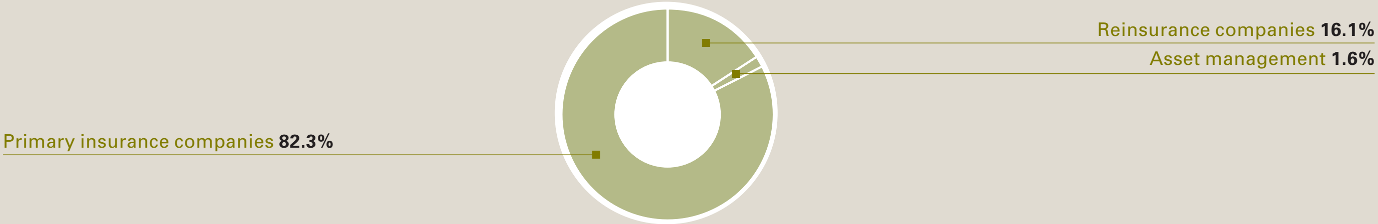
Employees

On 31 December 2004, the Munich Re Group employed 40,962 (41,431) staff worldwide, 6,612 (6,445) in reinsurance, 33,703 (34,360) in primary insurance and 647 (626) in asset management.

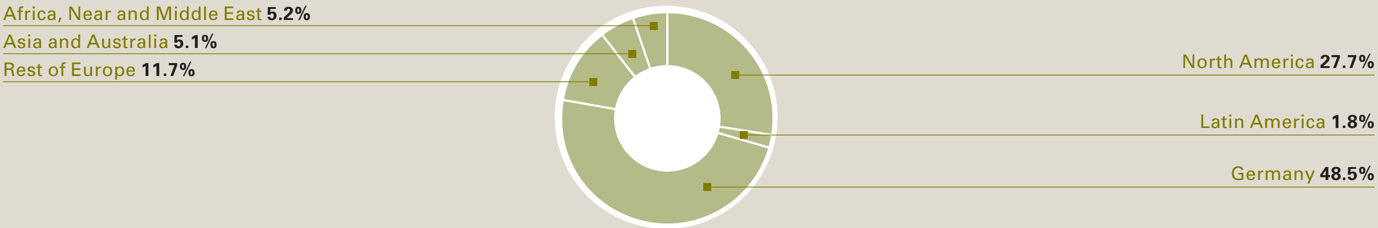
The total number of staff remained virtually constant compared with the previous year. Staff numbers increased slightly by 2.6% and 3.4% in reinsurance and asset management respectively. The decrease of 1.9% at the primary insurance companies is attributable to cost-saving programmes. For the most part, the employees concerned either found new jobs in the Group or took advantage of other options such as semi-retirement, sabbaticals and the conversion of special payments into free time.

For the reporting on individual fields of business, the following principle applies: volumes and results that come from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the data. Where the information relates to national accounting law, this is mentioned specifically. As from year-end 2004, "other tax" is included in "other expenses". The item designations and the previous year's figures have been adjusted accordingly throughout our reporting.

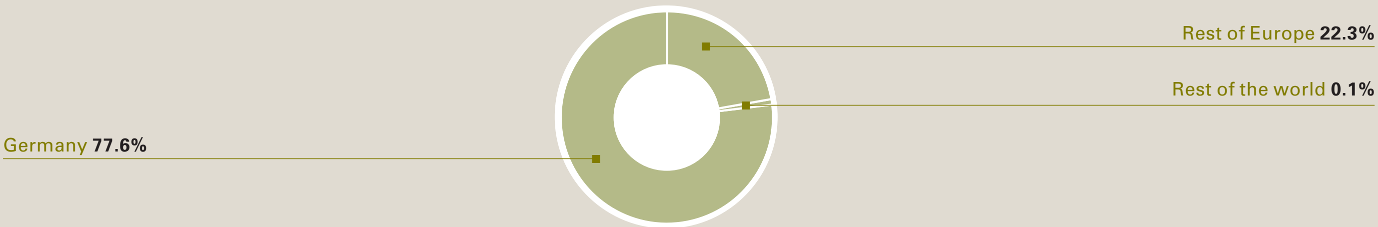
Munich Re Group staff



Reinsurance – Staff by region



Primary insurance and asset management – Staff by region



Result

In the year under review, the Group result showed a significant improvement on 2003 in nearly all segments. With a profit of €1,833m (–434m), we almost achieved our target of approximately €2bn after taxes on income, despite the exceptionally high claims burden from natural catastrophes. The result before amortisation of goodwill climbed from €1,971m to €2,948m, mainly due to a much better investment result. We made particularly marked progress in the primary insurance segment life and health. Here, both the underwriting result and the Group result are in the black again.

Group result

All figures in €m	**2004**	2003	2002	2001	2000
Result before amortisation of goodwill	**2,948**	1,971	–20	–445	2,595
Operating result before taxes on income	**2,604**	1,284	–391	–675	2,450
Group result	**1,833**	–434	288	250	1,750

The Group's result for 2004 was affected in particular by the following factors:

- Owing to our selective underwriting policy, premiums in reinsurance declined by 9.7% (2.6%). Changes in exchange rates also had an adverse effect on gross premiums. However, at €22.4bn they are still at a high level.
- Losses from natural catastrophes (in particular the cyclones) impacted the operating result before taxes on income with about €715m (290m). A combined ratio of 94.4% (95.1%), adjusted to eliminate natural catastrophe losses, shows that our portfolio is in good shape, in particular considering the fact that this figure includes 2.5 percentage points for the strengthening of our US claims provisions for accident years prior to 2002. The unadjusted combined ratio was 98.9% (96.7%). At €1,201m (1,054m) before tax, claims costs for major losses were at the same level as in the previous year.
- In primary insurance, we recorded marginal growth in premiums of 0.6% (–6.3%) and a pleasingly low claims burden in property-casualty. Moreover, our programme for increasing efficiency and lowering costs already had a positive impact on the result in 2004.
- The investment result increased significantly. As stock markets were more stable, we were noticeably less affected by writedowns on securities than in the previous year. However, downward real estate prices necessitated writedowns of €217m on our real estate.
- We further reduced our equity holdings in the banking and insurance sector, our stakes in Allianz and HypoVereinsbank being lowered to 9.0% and 18.4% respectively. At –€331m, the proportionate annual result from associated enterprises was clearly negative, in particular because of the special writedowns totalling €2.5bn made by HypoVereinsbank at the end of the year. After deduction of provisions for deferred premium refunds, however, the impact on our Group result was considerably lower at –€180m.
- Our effective income tax rate returned to normal and declined from 136% in 2003 to 27%.

Balance sheet structure

All figures in €m	31.12.2004	Prev. year
ASSETS		
Intangible assets	4,387	4,940
Investments	178,132	171,881
Ceded share of underwriting provisions	6,964	8,038
Other assets	25,308	24,525
Total assets	**214,791**	**209,384**
EQUITY AND LIABILITIES		
Shareholders' equity	20,196	18,899
Minority interests	541	483
Underwriting provisions (gross)	161,291	155,514
Other liabilities	32,763	34,488
Total equity and liabilities	**214,791**	**209,384**

Valuation reserves

The difference between the fair value of our assets and their balance sheet value developed very positively as a whole:

Valuation reserves not recognised in the balance sheet

All figures in €m	Valuation reserves 31.12.2004	Fair value 31.12.2004	Carrying amount 31.12.2004	Valuation reserves Prev. year	Fair value Prev. year	Carrying amount Prev. year
Real estate	1,768	11,497	9,729	1,555	11,630	10,075
Associated enterprises	466	4,191	3,725	400	4,596	4,196
Loans	949	21,259	20,310	–170	15,876	16,046
Other securities	30	592	562	28	775	747
Total	**3,213**	**37,539**	**34,326**	1,813	32,877	31,064

The rise in the fair value of the already significantly larger portfolio of loans was mainly due to falling interest rates.

Premium

We earned 54% (56%) of our Group premium income from reinsurance and 46% (44%) from primary insurance.

In reinsurance, premium income fell by 9.7% to €22,397m (24,795m) because of the volume-curbing effect of a strong euro and our strictly risk-adequate underwriting policy. The strong demand for private-provision products gave rise to robust growth in the life and health segment.

At €17,526m (17,640m), premium in primary insurance remained fairly constant. Allowing for the changes in the consolidation group from the acquisition or sale of companies, growth was 0.4%. Changes in exchange rates do not play a significant role in primary insurance.

Group premium income

All figures in €bn	**2004**	2003	2002	2001	2000
Reinsurance	**22.4**	24.8	25.4	22.2	18.3
Primary insurance	**17.5**	17.6	16.6	15.7	14.4
Consolidation	**–1.8**	–2.0	–2.0	–1.8	–1.6
Total	**38.1**	**40.4**	**40.0**	**36.1**	**31.1**

Equity capital and financing

We continually monitor the capitalisation of the Munich Re Group and the insurance companies belonging to it with due regard to the requirements of insurance supervisory authorities and the criteria of the leading rating agencies. An important role is played by our internal risk model, which we use to determine the capital requirements of individual business units, taking into account fluctuations in results and risk exposure.

In the year under review, our shareholders' equity increased by €1,297m (4,951m). The valuation reserves for assets not accounted for at fair value are given on page 24.

Group shareholders' equity

All figures in €bn	**31.12.2004**	31.12.2003	31.12.2002	31.12.2001	31.12.2000
Group shareholders' equity	**20.2**	18.9	13.9	19.4	23.6
Valuation reserves not recognised in the balance sheet, including those apportionable to minority interests and policyholders (before tax)	**3.2**	1.8	1.1	16.4	21.9

The causes of the most important changes in shareholders' equity were as follows:

- The Group profit of €1.8bn was responsible for the major portion of the increase, the previous year's loss of €434m and the dividend payment for 2003 of €286m having been offset against the revenue reserves.
- Net unrealised gains rose by €110m compared with the position at the beginning of the year. The reason for this was the good development in the value of fixed-interest securities owing to the decline in interest rates, which more than offset the reduction in net unrealised gains in the equity portfolio primarily due to realisations.
- In some cases, exchange rates underwent significant changes compared with the beginning of the year. Especially the appreciation of the euro against the US dollar was responsible for a reduction of €275m in the reserve for currency translation, where we recognise the effects of changes in exchange rates arising from the translation of our foreign subsidiaries' assets and liabilities.

Liquidity

In the year under review, the liquidity of Munich Re and its subsidiaries continued to be assured at all times. Our cash flow from operating activities amounted to €5,308m (3,145m). Details are provided in the cash flow statement on page 40.

Rating: Stabilisation at a high level

Munich Re's financial strength is traditionally given top ratings by the leading rating agencies. Following the downgradings that took place throughout the industry in the previous year, the ratings of the Munich Re Group stabilised in 2004 at a high level in comparison with our competitors. The rating agencies A. M. Best, Moody's and Fitch put Munich Re in their second-best category for financial strength, and Standard & Poor's in their third-best. Across the board, the rating agencies attest to our very strong market position, outstanding expertise and good capitalisation.

The current ratings of the Munich Re Group and its subsidiaries are published on our internet website **www.munichre.com**.

Business performance: Reinsurance

The Munich Re Group operates in virtually all classes of reinsurance. We offer a full range of products – from traditional reinsurance to alternative risk financing and risk transfer structures.

Our reinsurance business is divided between seven divisions: Life and Health; Europe 1; Europe 2 and Latin America; Asia, Australasia, Africa; North America; Corporate Underwriting/Global Clients; and Special and Financial Risks.

Marketing

As reinsurers, we write our business predominantly in direct collaboration with the primary insurers but also via brokers. The latter includes business offered to us by industrial clients through their captives or risk retention groups (alternative market business), which we accept via Munich-American RiskPartners (MARP).

Overview and important key figures

Last year business again developed very satisfactorily. Cyclones on the coasts of the Atlantic and Pacific, as well as the tsunami triggered by the severe earthquake in the Indian Ocean, significantly burdened the combined ratio with 4.5 percentage points. Nevertheless, it remained below 99% for reinsurance as a whole.

		2004	2003	2002	2001	2000
Gross premiums written in property-casualty	€m	**14,857**	17,919	18,884	16,296	13,624
Loss ratio non-life	%	**71.0**	69.6	95.8	104.5	85.0
Thereof natural catastrophes	Percentage points	**4.5**	1.6	3.3	1.5	2.0
Expense ratio non-life	%	**27.9**	27.1	26.6	30.6	30.3
Combined ratio non-life	%	**98.9**	96.7	122.4	135.1	115.3
Group result in property-casualty	€m	**1,229**	1,370	788	–1,203	464

In 2004, we adhered to our strictly profit-oriented underwriting policy. In property reinsurance, prices stabilised at a risk-adequate level, whilst in liability business they even continued to rise in some areas. All in all, we again improved the risk profile of our portfolio.

The first part-decision regarding the terrorist attack on the World Trade Center was in line with our expectations. In accordance with the applicable treaty conditions, it presupposed one loss event rather than two. In a second part-decision, however, the jurors based their verdict on divergent treaty conditions and determined that the attack constituted two events. Since in establishing our reserves for the consequences of the terrorist attack we had made sufficient provision for claims not yet reported or not reported enough, we do not need to strengthen our reserves further.

The global standardisation of our business processes and data resources on the new reinsurance platform Global Reinsurance Application (GLORIA) is making excellent progress. The test phase, which is scheduled to take one year, began in autumn 2004; it will be followed by the implementation in Munich of the first productive version of the SAP-supported IT system tailored to our requirements. Once the system is finally established, the internationally integrated data resources will allow us to analyse, manage and control our reinsurance business even better.

Result

Our two reinsurance segments property-casualty and life and health accounted for €1,661m (1,632m) of the Group profit. The segment result is thus 1.8% higher than in the previous year, although compared to 2003 our burden from natural catastrophes was much greater. At €2,381m (2,711m), the result before amortisation of goodwill fell short of the previous year's level.

Reinsurance result

All figures in €m	**2004**	2003	2002	2001	2000
Result before amortisation of goodwill	**2,381**	2,711	1,768	–697	1,518
Operating result before taxes on income	**2,281**	2,606	1,639	–834	1,386
Group result	**1,661**	1,632	2,336	–52	1,321

Several cyclones left their mark on the combined ratios, in particular in the divisions Europe 2 and Latin America; Asia, Australasia, Africa; North America; and Corporate Underwriting/Global Clients.

Combined ratio by division

in %	**2004**	2003	2002	2001
Life and Health*	**98.9**	97.8	104.4	113.9
Europe 1	**89.1**	96.5	117.7	106.7
Europe 2 and Latin America	**98.5**	96.6	96.4	115.3
Asia, Australasia, Africa	**102.3**	91.8	86.8	112.5
North America	**119.3**	99.1	168.1	156.8
Corporate Underwriting/Global Clients	**94.0**	98.0	120.8	160.4
Special and Financial Risks	**78.9**	92.9	116.5	140.9

*Figures for health reinsurance only.

When interpreting the combined ratio, the particular circumstances of a class of business must be taken into account, the composition of the portfolio being of particular significance. The following factors (among others) are important:
- The more the claims burden fluctuates over time, the greater is the risk and the higher must be the rates needed to cover the risk; the lower, then, are the loss ratios in good years and also the average loss ratios that provide the reinsurer with an adequate return for assuming the risk. This is particularly true in the case of exposure to natural catastrophes, which may occur rarely, but are often very severe when they do.
- Another important distinguishing feature relates to the time-lag between premium being received and claims being paid. The longer these periods are, the longer the premiums received can be invested in the capital market. High combined ratios in classes of business in which claims settlement takes a long time (e.g. liability) therefore also generally entail higher returns from investments with which the loss reserves are covered. These returns are not reflected in the combined ratio.

Premium

Premium income fell by 9.7% to €22,397m (24,795m). Around 2.8 percentage points of the decrease were attributable to changes in exchange rates. Our reporting currency, the euro, rose against most other important currencies in the past business year. The development in the exchange rates of the US dollar and pound sterling have a particularly significant influence on our business. The premium written in these two currencies accounts for about €11bn or 49%; 34% of our premium was transacted in euros, the remainder in other currencies. These proportions are more or less equivalent to our premium breakdown by country: about 33% derives from the eurozone, 22% from the USA and 21% from the UK. Treaties in the other regions are largely written in local currencies or in US dollars.

Another reason for the decline in premium income was our strictly risk-adequate underwriting policy. Where prices or conditions were not commensurate with the risks, we refrained from renewing treaties or writing new business. In addition, a slight trend away from proportional business towards non-proportional forms of cover also had a reducing effect on premium income.

About 34% of our total premium income was attributable to life and health reinsurance and 66% to the property-casualty segment. Whilst our selective underwriting policy adversely affected premium income particularly in property-casualty insurance, we grew substantially in the life and health segment, despite our high-level profitability requirements. This growth was largely due to the strong demand for private-provision products worldwide.

Gross premiums by segment

All figures in €m	2004	2003	2002	2001
Life and health	7,540	6,876	6,561	5,900
Property-casualty	14,857	17,919	18,884	16,296
Total	**22,397**	**24,795**	**25,445**	**22,196**

Business performance: Primary insurance

The primary insurers in the Munich Re Group essentially comprise the ERGO Insurance Group, the Karlsruher Insurance Group, Europäische Reiseversicherung and the Watkins Syndicate, which operates within Lloyd's and belongs to Munich Re Underwriting Ltd. They write nearly all classes of life, health, property and casualty insurance. Some 81% (83%) of their premium stems from Germany and the remaining 19% (17%) derives mainly from other European countries. The bulk of business is therefore transacted in euros.

Overview and important figures

		2004	2003	2002	2001	2000
Gross premiums written	€m	**17,526**	17,640	16,593	15,715	14,474
Loss ratio*	%	**58.1**	60.0	62.4	64.9	60.6
Expense ratio*	%	**34.9**	36.4	37.5	36.5	36.6
Combined ratio*	%	**93.0**	96.4	99.9	101.4	97.2
Group result	€m	**261**	–1,091	–939	561	624

*Property-casualty including legal expenses insurance.

Our primary insurers are well on the way to recovering their former strength. The negative exceptional effects of recent years have been almost fully absorbed, and underwriting business performed distinctly better than in 2003. As a consequence, the result before amortisation of goodwill totalled more than €615m (212m). The contribution to Group profit after amortisation of goodwill, taxes on income, and minority interests in earnings, was €261m, following a deficit of €1,091m in the previous year. The result in 2003 had been distorted by tax expenditure, write-downs of goodwill and the poor performance of the stock markets in prior years.

Development of premium income in the individual classes of business varied. All in all, gross premiums written decreased marginally by 0.6% to €17,526m (17,640m).

Result

The investment result increased from €4,209m to €4,587m in the year under review. Net expenses for claims and benefits decreased to €15,214m (15,888m). This was mainly attributable to appreciably lower allocations to the provision for premium refunds over the year, namely €1,035m (2,158m), of which €468m (1,282m) was apportionable to the provision for deferred premium refunds.

The trend on the claims side was also positive. In the health segment, the loss burden improved, partly owing to our efforts in claims management. In property-casualty insurance, the combined ratio of 93.0% (96.4%) remained at an excellent level, unaffected by major losses.

Premium

Development of premium income in the various classes of business differed. While the life and health insurers suffered marginal losses, premium income increased in property-casualty business. Overall, gross premiums written in primary insurance fell by 0.6% to €17,526m (17,640m). This represents a share of 46% (44%) of the Munich Re Group's total premium.

Gross premiums overall in €bn

In 2004, the life insurers recorded premium income of €7,787m (8,011m) – a modest decrease of 2.8%. The reasons for this were lower single premiums and a higher number of normal policy expiries. In German new business, the forthcoming amendments to the fiscal treatment of endowment insurance policies did not trigger strong impulses until the fourth quarter. Overall, new business in 2004 remained below the very good previous year's level. In terms of total premiums, an indicator that is of greater relevance for analysis, there was clear growth.

Gross premiums in the life segment in €bn

On account of disinvestments abroad, our health insurers' premiums of €4,537m were 0.2% down on the previous year. Adjusted for these sales of consolidated companies, premiums climbed. In Germany, new business was expanded appreciably, with double-digit growth rates. Widening gaps in public health insurance coverage boosted business with supplementary benefits covers.

Gross premiums in the health segment in €bn

In property-casualty insurance, including legal expenses insurance, our premiums grew by 2.4% to €5,202m. Personal lines business expanded especially in liability and homeowners' insurance. Commercial and industrial property insurance, which we write very selectively, also increased.

Gross premiums in the property-casualty segment in €bn

Reporting by subgroup
In reporting on our primary insurance operations, we follow the structure of our subgroups, in each case referring to our subsidiaries' individual or consolidated financial statements for the year under IFRS.

Business performance: Asset management

Overview and important figures

		2004	2003
Volume of Group's own investments under management	€bn	158.4	147.4
Volume of third-party business	€bn	13.2	11.7
Group result	€bn	–42	20

Performance and structure of investments
As at 31 December 2004, the Munich Re Group's investments amounted to €178.1bn (171.9bn), up 3.6% on the previous year. The growth was due primarily to capital gains on existing securities items and to the pleasing performance of our underwriting business.

The table below shows the composition of the portfolio by investment type:

Investment mix

	31.12.2004 €m	%	Prev. year €m	%	Change in %
Real estate	9,046	5.1	10,075	5.9	–10.2
Investments in affiliated and associated enterprises	3,883	2.2	4,353	2.5	–10.8
Loans	20,310	11.4	16,046	9.3	26.6
Shares and equity funds	20,864	11.7	21,633	12.6	–3.6
Fixed-interest securities	103,216	57.9	99,886	58.1	3.3
Deposits retained on assumed reinsurance business, and other investments	19,494	10.9	18,879	11.0	3.3
	176,813	99.2	170,872	99.4	3.5
Investments for unit-linked life insurance	1,319	0.8	1,009	0.6	30.7
Total	**178,132**	**100.0**	**171,881**	**100.0**	**3.6**

Investment result

All figures in €m	2004	2003	2002	2001	2000
Regular income	7,498	7,328	7,778	9,654	8,652
Write-ups/writedowns	–775	–1,177	–6,004	–324	–82
Net realised capital gains	2,339	2,484	5,853	1,765	4,072
Other income/expenses	–1,021	–1,504	–2,692	–675	–476
Total	**8,041**	7,131	4,935	10,420	12,166

The investment result for the business year includes writedowns of about €217m for impairments of real estate. Given the persistently tight economic situation in the real estate sector, we revalued our buildings, above all in Germany. Owing to the positive trend on the equities markets, we had to make writedowns of only €0.4bn (0.8bn) on our securities available for sale. Other income and expenses includes a profit contribution of –€337m from the at-equity valuation of HypoVereinsbank AG.

The table on the right shows the investment result for 2004 broken down by type of investment:

Investment result by type of investment

	2004 €m	Prev. year €m	Change in %
Real estate	194	370	–47.6
Investments in affiliated enterprises	–36	23	–
Investments in associated enterprises	–331	–853	61.2
Mortgage loans and other loans	1,009	886	13.9
Other securities	7,154	6,698	6.8
Other investments	575	551	4.4
Expenses for the management of investments and other expenses	524	544	–3.7
Total	**8,041**	**7,131**	**12.8**

Prospects

There is a growing tendency among some capital market players to sue companies in connection with statements they publish on future development, a trend that involves considerable loss potential for the companies concerned and for their other shareholders. This practice inevitably affects transparency, as many companies are reticent about the information they give on future business performance and disclose only what is required by law.

For this reason we, too, wish to emphasise the following: predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our incomplete assumptions and subjective views. It follows that we cannot accept any responsibility or liability for the event that they are not realised either in part or in full.

Overview

Macroeconomic parameters and the situation on the capital markets are not quite as bright as in 2004. A largely stable pricing level for reinsurance covers characterised the renewals at the turn of the year. It is in the common interests of end-clients, primary insurers and reinsurers to continue focusing on risk-adequate prices and conditions. In primary insurance in Germany, marketing will concentrate on the changes in the fiscal treatment of life insurance products. The debates on a reform of the German healthcare system are continuing.

Low investment returns will require profitable underwriting in reinsurance and primary insurance also in 2005, as well as moderate bonuses for life insurance policyholders. Our actions will be determined not only by adequate prices and conditions but also by the further integration of the various modules of our risk management and the introduction of an enhanced process and system landscape.

The year 2004 has shown that we are on the right track with our business policy; profitability will therefore again take precedence over growth. Our objectives for 2005 are challenging but realistic. We aim for a return on equity of 12% for 2005 after taxes on income – assuming that there are no exceptional events.

Development of the Munich Re Group

Asset management

In 2004, we already extended the periods to redemption in our bond portfolios, thereby achieving correspondingly higher returns. If interest rates remain low, however, interest-bearing securities will not earn the same regular income achieved in previous years. It will therefore be difficult to emulate last year's investment result.

We consider the risk of losses in market value due to a rise in interest rates to be low, especially as such losses would not be recognised in income and we assess any effects on equity primarily from the perspective of asset-liability management. More importantly, the economic value of our liabilities would show a corresponding fall.

Given the risks described, we will continue to closely monitor the assets side of our balance sheet and further reduce our equity exposure as required.

Reinsurance

The renewals at 1 January 2005 did not result in any major changes in prices and conditions. The market remained largely disciplined. In certain segments, stronger competitive pressure has set in, particularly since capacities in the market as a whole have increased. We offered our capacities only at risk-adequate conditions and realised the required margins; our superior reinsurance expertise and capital strength were again in great demand.

In property insurance, prices for natural hazard covers in regions affected by losses rose again in some cases. In other property covers, developments remained basically stable, as expected, although claims-free treaties were again subject to pressure on prices. In liability, personal accident and marine insurance, prices were also largely unchanged, whereas in aviation, they fell marginally as anticipated but were still at a risk-adequate level.

Against this background, we anticipate a premium volume of about €22.1bn in reinsurance, which would represent a marginal decline of approximately 1.4%. Provided there are no exceptional developments as regards natural catastrophes and major losses, we aim for a combined ratio of 97%, which – with normal investment returns – would allow us to post a very good reinsurance result in 2005 as well.

The property-casualty business of our subsidiary Munich Reinsurance Company of Australasia (MRA) has been transferred to our Australian and New Zealand branch with effect from 1 January 2005. Organisationally, New Zealand will continue to be serviced by our Australian unit. This reorganisation has optimised our capital structure. For life insurance business, the legal status of a subsidiary (MRA) will be retained, as this is prescribed by the local regulatory authority.

Primary insurance

The German Retirement Income Act, which entered into force on 1 January 2005, will worsen Germany's fiscal conditions for endowment policies and annuity covers with a lump-sum option. It was therefore precisely these products that were in especially great demand at the end of 2004. As a result, there will initially be a significant market-wide decline in new business in 2005, especially since there is no time pressure on clients wanting to conclude private provision covers and many policies were taken out in 2004. For the medium and long term, we expect sustained growth impulses from changes relating to company pension business. This area will continue to gain in significance. Thanks to the reduced taxation on the income content of annuity policies, traditional annuity insurance will become increasingly popular. In addition, the new type of pension insurance on a funded basis, included in the "basic pension" category, can and will constitute an interesting supplementary provision for old age. A number of amendments have made the so-called "Riester pension" more attractive and will give this product a second chance in the market.

For primary insurance as a whole, we anticipate growth of approximately 4.0% in gross premiums written, which would mean a premium volume of €18.2bn.

We will rigorously pursue the measures taken to increase profitability. A combined ratio of 95% is our goal in primary insurance.

Result and premium

All in all, we expect Group premium income in reinsurance and primary insurance to total €38.5bn, disregarding the effects of changes in exchange rates. This would amount to growth of approximately 1.0%. With our Group result, we aim to achieve a return of 12% after taxes on income, based on our average shareholders' equity, including minority interests, at the beginning of the year (€20.7bn) and at year-end. We intend to let our shareholders participate in this result by pursuing a dividend policy geared even more strongly than before to our earnings situation and capitalisation, naturally taking into account the requirements of financial supervision and the rating agencies.

Consolidated financial statements (excerpt)
Consolidated balance sheet as at 31 December 2004

Assets				Prev. year		Change
	€m	€m	€m	€m	€m	%
A. Intangible assets						
I. Goodwill		3,144		3,568	–424	–11.9
II. Other intangible assets		1,243		1,372	–129	–9.4
			4,387	4,940	–553	–11.2
B. Investments						
I. Real estate		9,046		10,075	–1,029	–10.2
II. Investments in affiliated enterprises and associated enterprises		3,883		4,353	–470	–10.8
III. Loans		20,310		16,046	4,264	26.6
IV. Other securities						
1. Held to maturity	562			747	–185	–24.8
2. Available for sale	124,956			122,367	2,589	2.1
3. Held for trading	657			548	109	19.9
		126,175		123,662	2,513	2.0
V. Other investments						
1. Deposits retained on assumed reinsurance	14,530			14,480	50	0.3
2. Miscellaneous	2,869			2,256	613	27.2
		17,399		16,736	663	4.0
			176,813	170,872	5,941	3.5
C. Investments for the benefit of life insurance policyholders who bear the investment risk			1,319	1,009	310	30.7
D. Ceded share of underwriting provisions			6,964	8,038	–1,074	–13.4
E. Receivables			8,683	8,175	508	6.2
F. Cash with banks, cheques and cash in hand			2,027	1,884	143	7.6
G. Deferred acquisition costs			8,396	7,997	399	5.0
H. Deferred tax assets			4,326	5,140	–814	–15.8
I. Other assets			1,876	1,329	547	41.2
Total assets			**214,791**	**209,384**	**5,407**	**2.6**

Equity and liabilities			Prev. year		Change
	€m	€m	€m	€m	%
A. Shareholders' equity					
I. Issued capital and capital reserve	7,388		7,388	–	–
II. Revenue reserves	7,018		7,823	–805	–10.3
III. Other reserves	3,957		4,122	–165	–4.0
IV. Consolidated profit	1,833		–434	2,267	–
		20,196	18,899	1,297	6.9
B. Minority interests		541	483	58	12.0
C. Subordinated liabilities		3,393	3,390	3	0.1
D. Gross underwriting provisions					
I. Unearned premiums	5,874		6,315	–441	–7.0
II. Provision for future policy benefits	101,926		98,134	3,792	3.9
III. Provision for outstanding claims	42,839		42,619	220	0.5
IV. Other underwriting provisions	9,324		7,488	1,836	24.5
		159,963	154,556	5,407	3.5
E. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders		1,328	958	370	38.6
F. Other accrued liabilities		3,450	3,577	–127	–3.6
G. Liabilities					
I. Notes and debentures	2,242		2,209	33	1.5
II. Other liabilities	16,612		18,098	–1,486	–8.2
		18,854	20,307	–1,453	–7.2
H. Deferred tax liabilities		7,041	7,159	–118	–1.6
I. Other deferred items		25	55	–30	–54.5
Total equity and liabilities		**214,791**	**209,384**	**5,407**	**2.6**

Consolidated income statement for the business year 2004

Items		Prev. year		Change
	€m	€m	€m	%
1. Gross premiums written	38,071	40,431	–2,360	–5.8
2. Net earned premiums	36,534	37,617	–1,083	–2.9
3. Investment result	8,041	7,131	910	12.8
– Thereof income from associated enterprises	–331	–853	522	61.2
4. Other income	1,116	1,211	–95	–7.8
Total income (2–4)	45,691	45,959	–268	–0.6
5. Net expenses for claims and benefits	31,636	32,487	–851	–2.6
6. Net operating expenses	8,847	8,997	–150	–1.7
7. Other expenses	2,260	2,504*	–244	–9.7
Total expenses (5–7)	42,743	43,988*	–1,245	–2.8
8. Result before amortisation of goodwill	2,948	1,971*	977	49.6
9. Amortisation of goodwill	344	687	–343	–49.9
10. Operating result before taxes on income*	2,604	1,284*	1,320	102.8
11. Taxes on income*	712	1,752*	–1,040	–59.4
12. Minority interests in earnings	59	–34	93	–
13. Profit for the year	1,833	–434	2,267	–
	€	€	€	%
Earnings per share	8.01	–2.25	10.26	–

*As from year-end 2004, "other tax" is included in "other expenses".
Item designations and the previous-year figures have been adjusted accordingly throughout the reporting.

Changes in Group shareholders' equity

All figures in €m	Issued capital	Capital reserve	Revenue reserves		Other reserves			Consolidated result	Shareholders' equity
			Revenue reserves before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges		
Status at 31.12.2002	**457**	**2,990**	**9,046**	**–93**	**1,260**	**–**	**–**	**288**	**13,948**
Restatement of currency translation reserve	–	–	–337	–	–	337	–	–	–
Currency translation	–	–	–	–	–	–736	–	–	–736
Capital increases	131	3,810	–	–	–	–	–	–	3,941
Allocation to revenue reserves	–	–	65	–	–	–	–	–65	–
Change in consolidated group	–	–	–58	–	–294	–	–	–	–352
Change resulting from valuation at equity	–	–	–778	–	–54	–	–	–	–832
Unrealised gains and losses on other securities	–	–	–	–	4,052	–	–	–	4,052
Consolidated result	–	–	–	–	–	–	–	–887	–887
Dividend	–	–	–	–	–	–	–	–223	–223
Other changes	–	–	–8	–14	–	–	10	–	–12
– Associated enterprises	–	–	–	–	101	–	–	–101	–
– Non-fixed-interest securities	–	–	–	–	–554	–	–	554	–
Status at 31.12.2003	**588**	**6,800**	**7,930**	**–107**	**4,511**	**–399**	**10**	**–434**	**18,899**
Currency translation	–	–	–	–	–	–284	–	–	–284
Allocation to revenue reserves	–	–	–720	–	–	–	–	720	–
Change in consolidated group	–	–	–13	–	–	9	–	–	–4
Change resulting from valuation at equity	–	–	–1	–	102	–	–	–	101
Unrealised gains and losses on other securities	–	–	–	–	8	–	–	–	8
Consolidated result	–	–	–	–	–	–	–	1,833	1,833
Dividend	–	–	–	–	–	–	–	–286	–286
Share buy-backs	–	–	–	–51	–	–	–	–	–51
Other changes	–	–	–20	–	–	–	–	–	–20
Status at 31.12.2004	**588**	**6,800**	**7,176**	**–158**	**4,621**	**–674**	**10**	**1,833**	**20,196**

Consolidated cash flow statement for the business year 2004

	€m	Prev. year €m
Consolidated result, including minority interests in earnings	**1,892**	–468
Net change in underwriting provisions	**5,396**	5,042
Change in deferred acquisition costs	**–407**	–489
Change in deposits retained and accounts receivable and payable	**–177**	–1,921
Change in other receivables and liabilities	**–995**	1,189
Gains and losses on the disposal of investments	**–2,339**	–2,484
Change in securities held for trading	**–100**	632
Change in other balance sheet items	**29**	482
Other income/expenses without impact on cash flow	**–2,009**	1,162
I. Cash flows from operating activities	**5,308**	**3,145**
Inflows from the sale of consolidated enterprises	**373**	–
Outflows from the acquisition of consolidated enterprises	**78**	88
Change from the acquisition, sale and maturities of other investments	**–3,389**	–9,677
Change from the acquisition and sale of investments for unit-linked life insurance	**–252**	–248
Other	**–877**	–1,198
II. Cash flows from investing activities	**–4,223**	**–11,211**
Inflows from increases in capital	**–**	3,941
Dividend payments	**295**	230
Change from other financing activities	**–637**	3,532
III. Cash flows from financing activities	**–932**	**7,243**
Cash flows for the business year (I + II + III)	**153**	**–823**
Effect of exchange rate changes on cash	**–10**	–28
Cash at the beginning of the business year	**1,884**	2,735
Cash at the end of the business year	**2,027**	1,884
Additional information		
Taxes on income (net)	**707**	683
Interest paid	**644**	385

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements. This has been supplemented by the requirements of DRS 2–20, which applies specifically to insurance companies.
In accordance with the recommendations of the DSR for insurance companies, we have applied the indirect presentation method.
The "cash fund" within the meaning of the German Accounting Standard is limited to cash and cash equivalents shown under balance sheet item F "cash with banks, cheques and cash in hand".

Important dates 2005/2006

28 April 2005	Annual General Meeting
29 April 2005	Dividend payment
9 May 2005	Interim report on 1st quarter 2005
4 August 2005	Interim report on 2nd quarter 2005
4 August 2005	Half-year press conference
7 November 2005	Interim report on 3rd quarter 2005
14 March 2006	Balance sheet conference for 2005 financial statements
14 March 2006	Analysts' conference for 2005 financial statements
19 April 2006	Annual General Meeting
20 April 2006	Dividend payment
9 May 2006	Interim report on 1st quarter 2006
3 August 2006	Interim report on 2nd quarter 2006
7 November 2006	Interim report on 3rd quarter 2006

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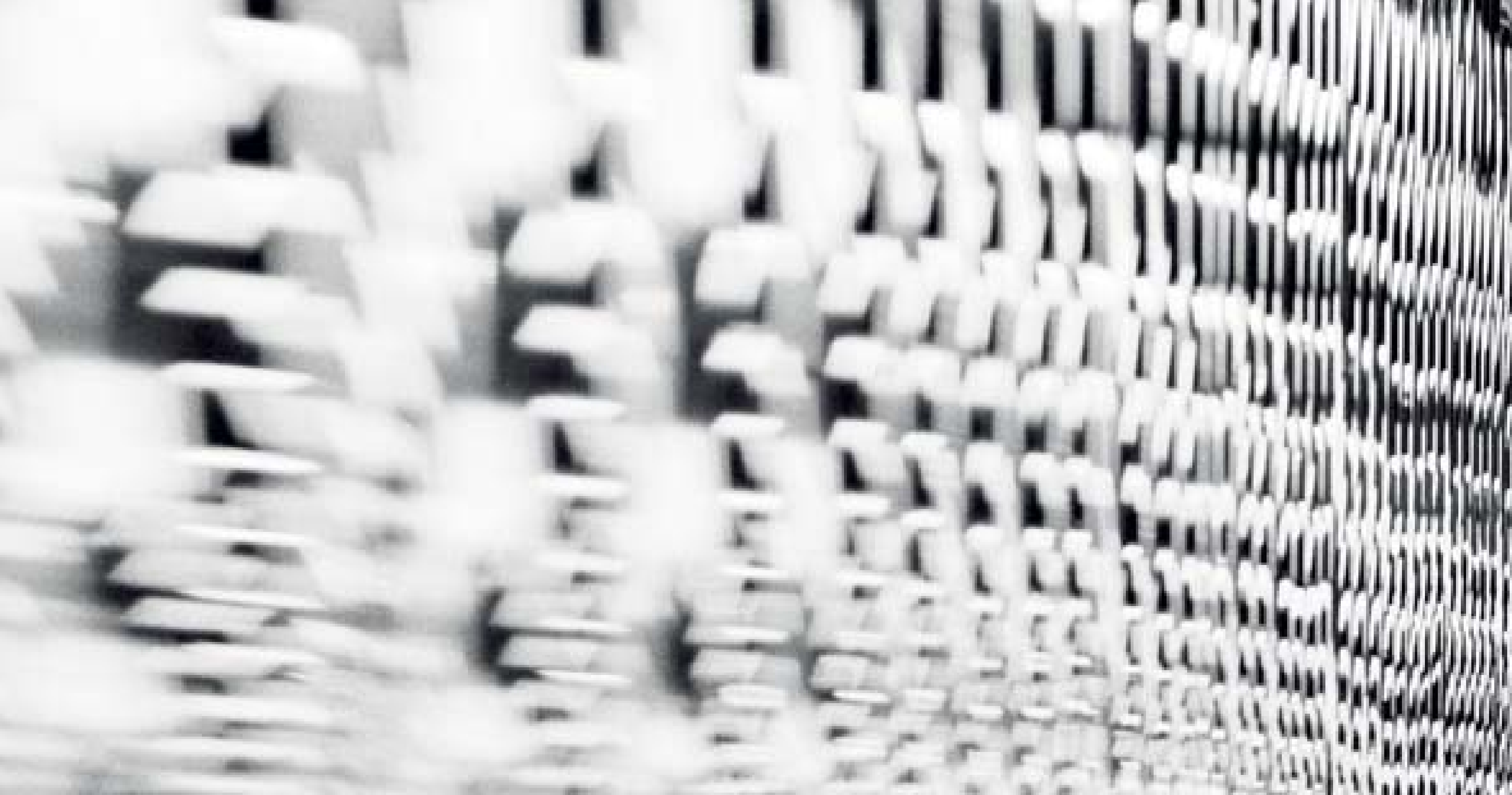

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