



Insurance. Investments.

## Talanx Finanz (Luxemburg) S.A.

*(a public company limited by shares incorporated and organised under the laws of the Grand Duchy of Luxembourg)*

### € 350,000,000 4.5 per cent. Guaranteed Subordinated Fixed to Floating Rate Notes due 2025

guaranteed, on a subordinated basis, by

## Talanx Aktiengesellschaft

*(a stock corporation incorporated under the laws of the Federal Republic of Germany)*

**Issue Price: 99.358 per cent.**

Talanx Finanz (Luxemburg) S.A. (the "Issuer") will issue € 350,000,000 nominal amount of Guaranteed Subordinated Fixed to Floating Rate Notes due 30 June 2025 (the "Notes") on 10 February 2005 at an issue price of 99.358 per cent. of the nominal amount of such Notes.

The Notes will bear interest from and including 10 February 2005 to but excluding 30 June 2015 at a rate of 4.5 per cent. per annum, payable annually in arrears on 30 June in each year, commencing 30 June 2005. Thereafter, unless previously redeemed, the Notes will bear interest at a rate of 1.92 per cent. per annum above the Euro-zone inter-bank offered rate for three-months Euro deposits, payable quarterly in arrears on 30 March, 30 June, 30 September and 30 December in each year (each a "Floating Interest Payment Date"), all as more particularly described in "Terms and Conditions of the Notes" – "Interest". Payments of interest may be deferred ("Arrears of Interest") as described in "Terms and Conditions of the Notes" – "Interest".

The Notes are redeemable in whole but not in part at the option of the Issuer at their principal amount together with any interest accrued and Arrears of Interest, if any, on 30 June 2015 or any Floating Interest Payment Date. The Issuer may also redeem the Notes in whole but not in part at any time before 30 June 2015 following a Tax Event, a Gross-up Event or a Regulatory Event (each as defined in "Terms and Conditions of the Notes" – "Redemption and Purchase") at their Early Redemption Amount (as defined in "Terms and Conditions of the Notes" – "Redemption and Purchase") together with any interest accrued and any Arrears of Interest. Prior to 30 June 2015, such repayment will be subject to the prior replacement of the amount of Notes to be redeemed with other at least equivalent own funds (*Eigenmittel*) or if the German Federal Supervisory Authority for Financial Services (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "BaFin") (or any successor in its capacity) has given its prior consent to the repurchase or redemption of the Notes without such replacement (to the extent such replacement is still required for the recognition as regulatory capital). Unless previously redeemed or cancelled, the Notes will be redeemed at par on 30 June 2025. See "Terms and Conditions of the Notes" – "Redemption and Purchase".

The obligations of the Issuer under the Notes constitute unsecured (subject, however, to the Guarantee) and subordinated obligations of the Issuer ranking *pari passu* among themselves and at least *pari passu* with all other present and future subordinated obligations of the Issuer, save for any obligations required to be preferred by law. In the event of the dissolution, liquidation, insolvency, or any other proceeding for the avoidance of insolvency of the Issuer, the obligations of the Issuer under the Notes will be subordinated to the unsubordinated claims of all other creditors of the Issuer so that in any such event no amounts shall be payable in respect of the Notes until the claims of all unsubordinated creditors of the Issuer shall have first been satisfied in full.

Talanx Aktiengesellschaft ("Talanx AG" or the "Guarantor") has given an unconditional and irrevocable Guarantee on a subordinated basis for the due payment of principal of, and interest on, and any other amounts expressed to be payable in respect of the Notes. In the event of the dissolution, liquidation, insolvency or of any proceeding for the avoidance of insolvency of the Guarantor, the claims of the Noteholders under the Guarantee will be satisfied after (but only after) the unsubordinated claims of all creditors of the Guarantor have first been paid in full.

**Investing in the Notes involves risks. Please review the section entitled "Investment Considerations" beginning on page 4 of this Information Memorandum.**

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will be governed by the laws of the Federal Republic of Germany.

The Notes have been assigned a BBB rating by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. and a bbb- rating by A. M. Best. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

The Notes will initially be represented by a temporary global bearer note (the "Temporary Global Note") without coupons which will be deposited with a common depository for Clearstream Banking, société anonyme, Luxembourg, and Euroclear Bank S.A./N.V. as operator of the Euroclear System (together the "Clearing System"). The Temporary Global Note will be exchangeable for a permanent global bearer note (the "Permanent Global Note" and, each of the Temporary Global Note and the Permanent Global Note, a "Global Note") without coupons not earlier than 40 and not later than 180 days after the issue of the Temporary Global Note upon certification as to non U.S. beneficial ownership in accordance with the rules and operating procedures of the Clearing System. Payments on the Temporary Global Note will only be made against presentation of such certifications. No definitive notes or interest coupons will be issued.

The Notes may be transferred in book-entry form only. The Notes will be issued in denominations of € 1,000. The Global Notes will not be exchangeable for definitive securities.

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this information memorandum (the "Information Memorandum").

No person is authorised to give any information or to make any representations other than those contained in this Information Memorandum and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Lead Manager. Neither the delivery of this Information Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or any of their affiliates since the date of this Information Memorandum, or that the information herein is correct at any time since its date.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. This Information Memorandum does not constitute an offer of Notes or an invitation by or on behalf of the Issuer, the Guarantor or the Lead Manager to purchase any Notes. Neither this Information Memorandum nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer, the Guarantor or the Lead Manager to a recipient hereof and thereof that such recipient should purchase any Notes.

This Information Memorandum does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The offer, sale and delivery of the Notes and the distribution of this Information Memorandum in certain jurisdictions is restricted by law. Persons into whose possession this Information Memorandum comes are required by the Issuer, the Guarantor and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain specific restrictions on the offer, sale and delivery of the Notes and on the distribution of this Information Memorandum and other offering material relating to the Notes see "Subscription and Sale". In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain limited exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In this Information Memorandum, all references to "€", "EUR" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union, the Treaty of Amsterdam and as further amended from time to time.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT CITIGROUP GLOBAL MARKETS LIMITED (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

### **Incorporation by Reference**

The audited unconsolidated annual financial statements for the financial years ended 31 December 2003 and 2002 of the Issuer, the audited consolidated annual financial statements for the financial year ended 31 December 2002, and the audited unconsolidated annual financial statements for the financial years ended 31 December 2003 and 2002, of the Guarantor are incorporated by reference into this Information Memorandum. The consolidated annual financial statements for the financial year ended 31 December 2004 of the Guarantor are expected to be published in June 2005. Copies of the above-mentioned financial statements and, following their publication, copies of financial statements for subsequent years may be inspected and are available free of charge at Dexia Banque Internationale à Luxembourg, 69, route d'Esch, L-2953 Luxembourg, as long as any Notes are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require. Neither the Issuer nor the Guarantor currently publishes interim financial statements.

## TABLE OF CONTENTS

Investment Considerations .....	4
Terms and Conditions .....	6
Guarantee .....	23
Use of Proceeds.....	27
Description of the Issuer .....	28
Description of the Guarantor.....	31
Regulation of Insurance Companies in Germany .....	45
Taxation.....	47
Subscription and Sale.....	51
General Information .....	54
Audited Consolidated Financial Statements of Talanx Group .....	56

## INVESTMENT CONSIDERATIONS

The following is a summary of certain risk factors which prospective investors should consider before deciding to purchase the Notes. The sequence in which the following risk factors are listed is not an indication of their likelihood to occur or of the extent of their commercial consequences. The following statements are not exhaustive: prospective investors should consider all of the information provided in this Information Memorandum or incorporated by reference into this Information Memorandum and consult with their own professional advisers if they consider it necessary.

### *Deferral of Interest*

The Issuer has the option to defer any payment of interest on the Notes if the requirements for deferral set out in § 3(3) of the Terms and Conditions are satisfied. If the Issuer defers a payment of interest on the Notes on an Interest Payment Date (as defined in § 3(3)(a) of the Terms and Conditions), any payment of Arrears of Interest (as defined in § 3(3)(a) of the Terms and Conditions) may only be made in the circumstances set out in § 3(3)(b) or (c) of the Terms and Conditions.

### *Subordination*

The payment obligations of the Issuer under or in connection with the Notes and of the Guarantor under or in connection with the Subordinated Guarantee constitute subordinated obligations of the Issuer and the Guarantor, respectively. Upon the occurrence of any winding-up proceedings of the Issuer or the Guarantor, payments on the Notes or the Subordinated Guarantee will be subordinated in right of payment to the prior payment in full of all other unsubordinated liabilities of the Issuer or the Guarantor, respectively, except for liabilities which rank equal or junior to the Notes or the Subordinated Guarantee. In a winding-up proceeding of the Issuer or the Guarantor, the Noteholders may recover proportionately less than the holders of unsubordinated liabilities of the Issuer or the Guarantor, as the case may be.

Unsubordinated liabilities of the Issuer and the Guarantor may also arise from events that are not reflected on the balance sheet of the Issuer or the Guarantor, as the case may be, including, without limitation, the issuance of guarantees or the incurrence of other contingent liabilities on an unsubordinated basis. Claims made under such guarantees or such other contingent liabilities will become unsubordinated liabilities of the Issuer or the Guarantor, as the case may be, that in a winding-up or insolvency proceeding of the Issuer or the Guarantor, will need to be paid in full before the obligations under the Notes or the Subordinated Guarantee, respectively may be satisfied.

### *Redemption Risk*

The Notes may be redeemed at the option of the Issuer (in whole but not in part) (i) at the principal amount of the Notes plus accrued interest until the date of redemption (exclusive) and all outstanding Arrears of Interest on June 30, 2015 or on any Floating Interest Payment Date (as defined in § 3(2)(b) of the Terms and Conditions) thereafter or (ii) until June 30, 2015 (exclusive) (x) at the Redemption Amount (as defined in § 4(3) of the Terms and Conditions) upon the occurrence of a Gross-up Event (as defined in § 4(4)(a) of the Terms and Conditions) or (y) at the Early Redemption Amount (as defined in § 4(5) of the Terms and Conditions) upon the occurrence of a Tax Event (as defined in § 4(4)(b) of the Terms and Conditions) or upon the occurrence of a Regulatory Event (as defined in § 4(4)(c) of the Terms and Conditions), all as more fully described in the Terms and Conditions of the Notes. In the event that the Notes are redeemed prior to the Maturity Date (as defined in § 4(1) of the Terms and Conditions) the Noteholders might receive a lower than expected yield.

### *No Limitation on Issuing Debt*

There is no restriction on the amount of debt which the Issuer or the Guarantor may issue which ranks senior to the obligations under or in connection with the Notes or the Subordinated Guarantee, respectively, or on the amount of debt which the Issuer or Guarantor may issue which rank equal to the obligations under or in connection with the Notes or the Subordinated Guarantee, respectively. Such issuance of further debt may reduce the amount recoverable by the Noteholders upon winding-up or insolvency of the Issuer or the Guarantor, as the case may be, or may increase the likelihood that the Issuer or the Guarantor may elect to defer payments of interest under the Notes.

### *No Express Events of Default*

The Noteholders should be aware that the Terms and Conditions of the Notes do not contain any express events of default.

*Notice pursuant to the German Insurance Supervisory Law*

After the Issue Date, the subordination of the Notes as set out in § 2 of the Terms and Conditions may not be limited and the Maturity Date (as defined in § 4(1) of the Terms and Conditions) may not be amended to an earlier date and all notice periods for redemption of the Notes may not be shortened. If the Notes are repaid prior to the Maturity Date, in circumstances other than as described in § 4(2) through (7) of the Terms and Conditions, then, irrespective of any agreement to the contrary, the amount so repaid must be returned to the Issuer unless the Issuer has been dissolved or such amounts have been replaced by other, at least equivalent own funds (*Eigenmittel*).

*No Prior Market for the Notes*

There is currently no secondary market for the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that a secondary market for the Notes will develop or, if it develops, that it will continue.

## TERMS AND CONDITIONS

THE GERMAN TEXT OF THE TERMS AND CONDITIONS IS LEGALLY BINDING.  
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

### BEDINGUNGEN

der

€ 350.000.000

4,5% nachrangigen fest bzw. variabel verzinslichen Schuldverschreibungen

fällig 2025 der

Talanx Finanz (Luxemburg) S.A.,

Luxemburg, Großherzogtum Luxemburg

### § 1

#### VERBRIEFUNG UND NENNBETRAG

- (1) **Währung, Nennbetrag und Form.** Talanx Finanz (Luxemburg) S.A., Luxemburg, Großherzogtum Luxemburg (die *Emittentin*) begibt am 10 Februar 2005 (der *Begebungstag*) 350.000 auf den Inhaber lautende, nachrangige, fest- bis variabel verzinsliche Schuldverschreibungen (die *Schuldverschreibungen*) im Nennbetrag von je € 1.000 (der *Nennbetrag*) und im Gesamtnennbetrag von € 350.000.000.
- (2) **Globalurkunden und Austausch.** Die Schuldverschreibungen werden zunächst in einer vorläufigen Globalinhaberschuldverschreibung (die *Vorläufige Globalurkunde*) ohne Zinsscheine verbrieft und am oder um den Begebungstag bei einer gemeinsamen Verwahrstelle für Clearstream Banking, société anonyme, Luxemburg und Euroclear Bank S.A./N.V. als Betreiberin des Euroclear-Systems (beide gemeinsam nachstehend als *Clearing-System* bezeichnet) hinterlegt. Die Vorläufige Globalurkunde wird nicht vor Ablauf von 40 und spätestens nach Ablauf von 180 Tagen nach dem Begebungstag gegen Vorlage einer Bestätigung über das Nichtbestehen U.S.-amerikanischen wirtschaftlichen Eigentums (*beneficial ownership*) an den Schuldverschreibungen gemäß den Regeln und Betriebsabläufen des Clearing-Systems gegen eine endgültige Globalinhaberschuldverschreibung (die *Dauer-Globalurkunde*) ohne Zinsscheine ausgetauscht. Zahlungen auf eine Vorläufige Globalurkunde erfolgen nur gegen Vorlage einer solchen Bestätigung. Einzelurkunden oder Zinsscheine werden nicht ausgegeben.

### TERMS AND CONDITIONS

of the

€ 350,000,000

4.5% Subordinated Fixed to Floating Rate Notes

due 2025 issued by

Talanx Finanz (Luxemburg) S.A.,

Luxembourg, Grand-Duchy of Luxembourg

### § 1

#### FORM AND DENOMINATION

- (1) **Currency, Denomination and Form.** Talanx Finanz (Luxemburg) S.A., Luxembourg, Grand-Duchy of Luxembourg (the *Issuer*) issues on 10 February 2005 (the *Issue Date*) 350,000 subordinated fixed to floating rate bearer notes (the *Notes*) in a denomination of € 1,000 each (the *Denomination*) in the aggregate principal amount of € 350,000,000.
- (2) **Global Notes and Exchange.** The Notes will initially be represented by a temporary global bearer note (the *Temporary Global Note*) without coupons which will be deposited with a common depositary for Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System (together hereinafter referred to as the *Clearing System*) on or about the Issue Date. The Temporary Global Note will be exchangeable for a permanent global bearer note (the *Permanent Global Note*) without coupons not earlier than 40 and not later than 180 days after the Issue Date upon certification as to non-U.S. beneficial ownership in accordance with the rules and operating procedures of the Clearing System. Payments on a Temporary Global Note will only be made against presentation of such certification. No definitive Notes or interest coupons will be issued.

§ 2  
STATUS, GARANTIE  
UND AUFRECHNUNGSVERBOT

- (1) **Status der Schuldverschreibungen.** Die Schuldverschreibungen begründen nicht besicherte (mit Ausnahme der in Absatz (3) beschriebenen Garantie), nachrangige Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen gegenwärtigen und zukünftigen nicht besicherten und nachrangigen Verbindlichkeiten der Emittentin zumindest gleichrangig sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Emittentin dienenden Verfahrens stehen solche Verbindlichkeiten nicht nachrangigen Ansprüchen aller anderen Gläubiger im Rang nach, so dass Zahlungen auf die Schuldverschreibungen erst erfolgen, wenn alle Ansprüche gegen die Emittentin aus nicht nachrangigen Verbindlichkeiten vollständig befriedigt sind.
- (2) **Hinweis nach § 53c Absatz 3b Satz 4 Versicherungsaufsichtsgesetz (VAG).** Für die Rechte der Anleihegläubiger aus den Schuldverschreibungen ist diesen (mit Ausnahme der in Absatz (3) beschriebenen Garantie) keine Sicherheit durch die Emittentin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden. Nachträglich können weder der Nachrang gemäß diesem § 2 beschränkt, noch die Laufzeit der Schuldverschreibungen oder die jeweiligen Kündigungsfristen verkürzt werden. Eine vorzeitige Rückerstattung, die nicht unter den nachstehend in § 4(2) bis (7) beschriebenen Voraussetzungen erfolgt, ist der Emittentin ohne Rücksicht auf entgegenstehende Vereinbarungen zurückzugewähren, sofern die Emittentin nicht aufgelöst wurde oder sofern nicht der Betrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist.
- (3) **Nachrangige Garantie.** Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Bundesrepublik Deutschland (die *Garantin*) hat eine unwiderrufliche und unbedingte nachrangige Garantie (die *Garantie*) für die fristgerechte Zahlung von Kapital, Zinsen und allen sonstigen aufgrund der Schuldverschreibungen zu zahlenden Beträgen übernommen. Die Garantie ist ein Vertrag zugunsten jedes Anleihegläubigers (§ 2(4)) als begünstigtem Dritten (§ 328 Abs. 1 BGB), der das Recht jedes Anleihegläubigers begründet, die Garantin unmittelbar aus der Garantie auf Erfüllung in Anspruch zu nehmen und Ansprüche gegen die Garantin unmittelbar durchzusetzen. Die Garantie

§ 2  
STATUS, GUARANTEE,  
NO RIGHT TO SET-OFF

- (1) **Status of the Notes.** The obligations under the Notes constitute unsecured (subject, however, to the Guarantee described in paragraph (3)) and subordinated obligations of the Issuer ranking *pari passu* among themselves and at least *pari passu* with all other present and future unsecured subordinated obligations of the Issuer, save for any obligations required to be preferred by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Issuer, such obligations will be subordinated to the unsubordinated claims of all other creditors of the Issuer such that in any such event no amounts shall be payable under the Notes until the claims against the Issuer arising from unsubordinated obligations shall first have been satisfied in full.
- (2) **Notification pursuant to § 53c(3b) sentence 4 of the German Insurance Supervisory Act (VAG).** No security of whatever kind (subject, however, to the Guarantee described in paragraph (3)) is, or shall at any time be, provided by the Issuer or any other person securing rights of the Noteholders under the Notes. No subsequent agreement may limit the subordination pursuant to the provisions set out in this § 2 or shorten any applicable notice period (*Kündigungsfrist*) in respect of the Notes. If the Notes are redeemed early in circumstances other than as described in § 4(2) through (7) below the amounts redeemed must be returned to the Issuer irrespective of any agreement to the contrary unless the Issuer has been dissolved or such amounts have been replaced by other, at least equivalent own funds (*Eigenmittel*).
- (3) **Subordinated Guarantee.** Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Federal Republic of Germany (the *Guarantor*) has given a subordinated unconditional and irrevocable guarantee (the *Guarantee*) for the due payment of principal, interest and any other amounts payable under the Notes. The Guarantee constitutes a contract for the benefit of the Noteholders (§ 2(4)) from time to time as third party beneficiaries in accordance with Section 328 paragraph 1 of the German Civil Code, giving rise to the right of each Noteholder to require performance under the Guarantee directly from the Guarantor and to enforce the Guarantee directly against the Guarantor. The

ist bei Citibank, N.A., Agency and Trust, Citigroup Centre 2, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, hinterlegt. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens stehen Verbindlichkeiten der Garantin aus der Garantie nicht nachrangigen Ansprüchen aller anderen Gläubiger der Garantin im Rang nach, so dass Zahlungen auf die Garantie erst erfolgen, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten vollständig befriedigt sind.

- (4) **Aufrechnungsverbot.** Die Inhaber der Schuldverschreibungen (die *Anleihegläubiger*) sind nicht berechtigt, Forderungen aus den Schuldverschreibungen oder der Garantie mit möglichen Forderungen der Emittentin oder der Garantin gegen sie aufzurechnen. Die Emittentin und die Garantin sind nicht berechtigt, Forderungen gegenüber den Anleihegläubigern gegen ihre Verpflichtungen aus den Schuldverschreibungen oder der Garantie aufzurechnen.

### § 3 ZINSEN

- (1) **Festzinsperiode.** Im Zeitraum ab 10. Februar 2005 (einschließlich) bis 30. Juni 2015 (ausschließlich) werden die Schuldverschreibungen bezogen auf den Gesamtnennbetrag mit jährlich 4,5% verzinst. Zinsen sind nachträglich am 30. Juni eines jeden Jahres fällig, erstmals am 30. Juni 2005 (jeweils ein *Festzinszahlungstag*), sofern die Emittentin nicht von ihrem Recht gemäß § 3 (3) Gebrauch macht. Die Berechnung von Zinsen für einen Zeitraum, der kürzer als ein Jahr ist, erfolgt auf der Grundlage der tatsächlichen Anzahl von Tagen in diesem Zeitraum dividiert durch die tatsächliche Anzahl von Tagen (365 oder 366) im jeweiligen Jahr.
- (2) **Variable Zinsperiode.**
- (a) **Variable Verzinsung.** Im Zeitraum ab dem 30. Juni 2015 (einschließlich) bis zum Fälligkeitstag (§4(1)) (ausschließlich) werden Schuldverschreibungen, bezogen auf ihren Gesamtnennbetrag, zu einem von der Berechnungsstelle (§ 8(1)) bestimmten Zinssatz, der dem Variablen Zinssatz entspricht, verzinst. Zinsen werden jeweils vierteljährlich nachträglich an jedem Variablen Zinszahlungstag fällig, erstmals am 30. September 2015, sofern die Emittentin nicht von ihrem Recht gemäß § 3 (3) Gebrauch macht.
- (b) **Variable Zinszahlungstage und Variable Zinsperioden.** *Variabler Zinszahlungstag* bezeichnet den 30. März, 30. Juni,

Guarantee is deposited with Citibank N.A., Agency and Trust, Citigroup Centre 2, Canada Square, Canary Wharf, London E14 5LB, United Kingdom. In the event of the dissolution, liquidation, insolvency or any proceedings for the avoidance of the Guarantor's insolvency, obligations of the Guarantor under the Guarantee will be subordinated to the claims of all unsubordinated creditors of the Guarantor so that in any such event no amounts shall be payable under the Notes until the claims against the Guarantor arising from unsubordinated obligations shall first have been satisfied in full.

- (4) **No right to set-off.** The holders of the Notes (the *Noteholders*) may not set off any claims arising under the Notes or the Guarantee against any claims that the Issuer or the Guarantor may have against each of them. The Issuer and the Guarantor may not set off any claims which any of them may have against any Noteholder against any of its obligations under the Notes or the Guarantee.

### § 3 INTEREST

- (1) **Fixed Interest Period.** For the period from and including 10 February 2005 to but excluding 30 June 2015 the Notes bear interest on their aggregate principal amount at the rate of 4.5% per annum. Interest shall be payable annually in arrear on 30 June of each year commencing on 30 June 2005 (each a *Fixed Interest Payment Date*), unless the Issuer exercises its right pursuant to § 3 (3). If interest is to be calculated for a period of less than one year, it shall be calculated on the basis of the actual number of days in such period divided by the actual number of days (365 or 366) in the respective year.
- (2) **Floating Rate Interest Period.**
- (a) **Floating Rate Interest.** In the period from and including 30 June 2015 to and excluding the Maturity Date (§4(1)) the Notes shall bear interest on their aggregate principal amount at a rate determined by the Calculation Agent (§ 8(1)) equal to the Rate of Interest. Interest will be payable quarterly in arrear on each Floating Interest Payment Date, the first such payment to be made on 30 September 2015, unless the Issuer exercises its right pursuant to § 3 (3).
- (b) **Floating Interest Payment Dates and Floating Interest Periods.** *Floating Interest Payment Date* means 30 March,

30. September und 30. Dezember eines jeden Jahres. Falls ein Variabler Zinszahlungstag auf einen Tag, der kein Geschäftstag ist, fällt, wird dieser Variable Zinszahlungstag auf den nächstfolgenden Geschäftstag verschoben, es sei denn, jener würde dadurch in den nächsten Kalendermonat fallen; in diesem Fall wird der Variable Zinszahlungstag auf den unmittelbar vorausgehenden Geschäftstag vorgezogen. In diesen Anleihebedingungen bezeichnet **Geschäftstag** einen Tag, an dem alle maßgeblichen Stellen des Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) Systems Geschäfte tätigen. Jeder Zeitraum ab dem 30. Juni 2015 (einschließlich) bis zum ersten Variablen Zinszahlungstag und nachfolgend ab jedem Variablen Zinszahlungstag (einschließlich) bis zu dem jeweils nächstfolgenden Variablen Zinszahlungstag (ausschließlich) wird als **Variable Zinsperiode** bezeichnet.

- (c) **Variabler Zinssatz.** Der Zinssatz (der **Variable Zinssatz**) für die jeweilige Variable Zinsperiode berechnet sich aus dem Angebotssatz (ausgedrückt als jährlicher Prozentsatz) für Dreimonatseinlagen in Euro für diese Variable Zinsperiode, der am Zinsfestsetzungstag um 11:00 Uhr vormittags (Brüsseler Ortszeit) auf der Bildschirmseite angegeben wird zuzüglich 1,92% (die **Marge**). Der jeweils anwendbare Variable Zinssatz wird durch die Berechnungsstelle (§ 8(1)) ermittelt.

**Zinsfestsetzungstag** bezeichnet den zweiten Geschäftstag, der dem Beginn der maßgeblichen Variablen Zinsperiode vorangeht.

**Bildschirmseite** bezeichnet Moneyline Telerate Page 248, die "EURIBOR Bildschirmseite" (oder eine Moneyline Telerate Bildschirmseite bzw. andere Bildschirmseite, die zum Zwecke der Anzeige solcher Angebotssätze als Nachfolger von Moneyline Telerate Page 248 eingesetzt wurde).

Sollte die maßgebliche Bildschirmseite nicht zur Verfügung stehen, wird die Berechnungsstelle von jeder der von ihr bestimmten fünf Referenzbanken deren jeweilige Angebotssätze (jeweils als Prozentsatz per annum ausgedrückt) für Dreimonatseinlagen in Euro für die betreffende Variable Zinsperiode gegenüber führenden Banken im Interbanken-Markt der Euro-Zone um ca. 11.00 Uhr (Brüsseler Ortszeit) am Zinsfestsetzungstag anfordern. Falls zwei oder mehr Referenzbanken der Berechnungsstelle (§ 8(1)) solche Angebotssätze nennen, ist der Zinssatz für die betreffende Zinsperiode das arithmetische Mittel (falls erforderlich, auf- oder abgerundet auf das nächste ein

30 June, 30 September and 30 December in each year. If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Interest Payment Date shall be the immediately preceding Business Day. In these Terms and Conditions, **Business Day** means a day on which all relevant parts of the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system are operational. Each period from and including 30 June 2015 to but excluding the first Floating Interest Payment Date and thereafter from and including each Floating Interest Payment Date to but excluding the next following Floating Interest Payment Date is a **Floating Interest Period**.

- (c) **Floating Rate Interest.** The rate of interest (the **Rate of Interest**) for each Floating Interest Period will be the offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro for that Floating Interest Period which appears on the Screen Page as of 11:00 a.m. (Brussels time) on the Interest Determination Date plus 1.92% (the **Margin**). The respective Rate of Interest shall be determined by the Calculation Agent (§ 8(1)).

**Interest Determination Date** means the second Business Day prior to the commencement of the relevant Floating Interest Period.

**Screen Page** means Moneyline Telerate Page 248, "EURIBOR Screen Page" (or such other screen page of Moneyline Telerate or such other information service, which has been designated as the successor to Moneyline Telerate Page 248 for the purpose of displaying such rates).

If the Screen Page is not available the Calculation Agent shall request each of the five Reference Banks selected by it to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro for the relevant Floating Interest Period to leading banks in the interbank market of the Euro-Zone at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date. As long as two or more of the selected Reference Banks provide the Calculation Agent (§ 8(1)) with such offered quotations, the Rate of Interest for such Floating Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the

Tausendstel Prozent, wobei 0,0005 aufgerundet wird) dieser Angebotssätze zuzüglich der Marge. Falls der Variable Zinssatz nicht gemäß der oben definierten Bestimmungen ermittelt werden kann, ist der Zinssatz der Angebotssatz bzw. das arithmetische Mittel der Angebotssätze auf der Bildschirmseite an dem letzten Tag vor dem Zinsfestsetzungstag, an dem diese Angebotssätze angezeigt wurden, zusätzlich der Marge.

In diesem Absatz bezeichnen **Referenzbanken** diejenigen Banken, deren Angebotssätze zur Ermittlung des maßgeblichen Angebotssatzes zu dem Zeitpunkt benutzt wurden, als solch ein Angebot letztmals auf der maßgeblichen Bildschirmseite angezeigt wurde.

Die Berechnungsstelle (§ 8(1)) wird zu oder baldmöglichst nach jedem Zeitpunkt, an dem der Variable Zinssatz zu bestimmen ist, den auf die Schuldverschreibungen fälligen Zinsbetrag (der **Zinsbetrag**) für die entsprechende Variable Zinsperiode berechnen. Der Zinsbetrag wird ermittelt, indem der Variable Zinssatz und der Zinstagequotient auf den Gesamtnennbetrag der Schuldverschreibungen angewendet werden, wobei der resultierende Betrag auf den nächstliegenden Cent auf- oder abgerundet wird (wobei 0,5 solcher Einheiten aufgerundet werden). **Zinstagequotient** bezeichnet im Hinblick auf die Berechnung des Zinsbetrages für eine beliebige Variable Zinsperiode oder einen Teil davon (der **Zinsberechnungszeitraum**) die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum dividiert durch 360.

Die Berechnungsstelle (§ 8(1)) wird veranlassen, dass der Variable Zinssatz, der Zinsbetrag für die jeweilige Variable Zinsperiode, die jeweilige Variable Zinsperiode und der relevante Variable Zinszahlungstag der Emittentin und, sofern dies von der Luxemburger Wertpapierbörse oder einer anderen Wertpapierbörse, an der die Schuldverschreibungen notiert sind, vorgesehen ist, der Luxemburger Wertpapierbörse und einer solchen anderen Wertpapierbörse sowie den Anleihegläubigern durch Bekanntmachung gemäß § 10 baldmöglichst nach ihrer Feststellung, aber keinesfalls später als am ersten Tag der maßgeblichen nächstfolgenden Variablen Zinsperiode, bekannt gemacht wird. Im Fall einer Verlängerung oder Verkürzung der Variablen Zinsperiode kann der mitgeteilte Zinsbetrag und Variable Zinszahlungstag ohne Vorankündigung nachträglich angepasst (oder andere geeignete Anpassungsregelungen getroffen) werden. Jede solche Anpassung wird umgehend allen Wertpapierbörsen, an denen die Schuldverschreibungen zu diesem Zeitpunkt notiert sind, sowie den Anleihegläubigern gemäß § 10 bekannt gemacht.

Alle Bescheinigungen, Mitteilungen, Gutachten, Festsetzungen, Berechnungen, Quotierungen und Entscheidungen, die von der Berechnungsstelle für

nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) plus the Margin. If the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page on the last day preceding the Interest Determination Date on which such quotations were displayed, plus the Margin.

As used herein, **Reference Banks** means those banks whose offered rates were used to determine the relevant offered quotation when such quotation last appeared on the Screen Page.

The Calculation Agent (§ 8(1)) will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, calculate the amount of interest (the **Interest Amount**) payable on the Notes for the relevant Floating Interest Period. The Interest Amount shall be calculated by applying the Rate of Interest and the Day Count Fraction to the aggregate principal amount of the Notes and rounding the resultant figure to the nearest cent, with 0.5 or more of a cent being rounded upwards. **Day Count Fraction** means, in respect of the calculation of the Interest Amount for any Floating Interest Period or part thereof (the **Calculation Period**), the actual number of days in the Calculation Period divided by 360.

The Calculation Agent (§ 8(1)) will cause the Rate of Interest, each Interest Amount for each Floating Interest Period, each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Issuer and, if required by the rules of the Luxembourg Stock Exchange or any other stock exchange on which the Notes are from time to time listed, to the Luxembourg Stock Exchange and such other stock exchange, and to the Noteholders by notice in accordance with § 10 as soon as possible after their determination, but in no event later than on the first day of the next relevant Floating Interest Period thereafter. Each Interest Amount and Floating Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements may be made by way of adjustment) without prior notice in the event of an extension or shortening of the Floating Interest Period. Any such amendment will be promptly notified to any stock exchange on which the Notes are then listed and to the Noteholders in accordance with § 10.

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes

die Zwecke dieses § 4 gemacht, abgegeben, getroffen oder eingeholt werden, sind (sofern nicht ein offensichtlicher Irrtum vorliegt) für die Emittentin, die Hauptzahlstelle, die Zahlstellen (§ 8(1)) und die Anleihegläubiger bindend.

**(3) Zinsrückstände.**

**(a) Aussetzung der Fälligkeit.**

- (i) Die Emittentin ist berechtigt, die Fälligkeit einer Zinszahlung durch eine unwiderrufliche Bekanntmachung gemäß § 10 innerhalb einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen vor dem jeweiligen Festzinszahlungstag oder Variablen Zinszahlungstag (jeweils ein **Zinszahlungstag**) auszusetzen, wenn weder auf der ordentlichen Hauptversammlung der Garantin unmittelbar vor diesem Zinszahlungstag noch seit dieser ordentlichen Hauptversammlung der Garantin für irgendeine Aktiengattung der Garantin eine Dividende, andere Ausschüttung oder Zahlung festgesetzt wurde.
- (ii) Ist die Garantin am maßgeblichen Zinszahlungstag keine Publikumsgesellschaft (wie nachstehend definiert), darf eine Aussetzung der Fälligkeit einer Zinszahlung gemäß § 3(3)(a)(i) nur unter der weiteren Voraussetzung erfolgen, dass der jeweils jüngste veröffentlichte und nach den anwendbaren Rechnungslegungsstandards (wie nachstehend definiert) erstellte und geprüfte Konzernabschluss für ein Geschäftsjahr der Garantin keinen Jahresüberschuss ausweist.

Die Garantin gilt für die Zwecke dieser Bedingungen als **Publikumsgesellschaft**, wenn Aktien der Garantin, die nicht weniger als 25% ihres Grundkapitals repräsentieren, an einer Wertpapierbörse notiert sind und sich im Streubesitz befinden.

**Anwendbare Rechnungslegungsvorschriften** bezeichnet entweder International Financial Reporting Standards (IFRS) oder die in den Vereinigten Staaten von Amerika allgemein anerkannten Grundsätze ordnungsgemäßer Rechnungslegung (US GAAP), je nachdem, welche dieser Rechnungslegungsvorschriften die Garantin zur Erstellung ihres Konzernabschlusses für das jeweilige Geschäftsjahr anwendet.

of the provisions of this § 4 by the Calculation Agent (§ 8(1)) shall (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the Paying Agents (§ 8(1)) and the Noteholders.

**(3) Arrears of Interest.**

**(a) Suspension of Payment.**

- (i) The Issuer may elect by giving not less than 10 nor more than 15 Business Days' notice to the Noteholders in accordance with § 10 (which notice will be irrevocable) before any Fixed Interest Payment Date or any Floating Interest Payment Date (each an **Interest Payment Date**) to suspend a payment of interest if no dividend, distribution or other payment has been declared in respect of any class of shares of the Guarantor at the ordinary general meeting (*ordentliche Hauptversammlung*) of the Guarantor immediately preceding such Interest Payment Date or since that ordinary general meeting of the Guarantor.
- (ii) Provided that the Guarantor is not a Public Company (as defined below) on the relevant Interest Payment Date, the Issuer may elect to suspend a payment of interest pursuant to § 3(3)(a)(i) only under the additional condition that the most recently published audited annual consolidated financial statements of the Guarantor, prepared in accordance with Applicable Accounting Standards (as defined below), do not show an annual profit (*Jahresüberschuss*).

The Guarantor shall be deemed to be a **Public Company** for the purposes of these Conditions if shares which represent not less than 25% of its stated share capital are listed on a stock exchange and are broadly distributed (free float).

**Applicable Accounting Standards** means either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States of America (US GAAP), whichever of these accounting standards are applied by the Guarantor for the drawing up of its consolidated financial statements for the relevant financial year.

- (iii) Auf eine demgemäß ausgesetzte Zinszahlung (ein **Zinsrückstand**) werden keine Zinsen geschuldet. Die Emittentin ist jedoch nicht berechtigt, eine Zinszahlung auszusetzen, sofern der Vorstand der Garantin seit der letzten ordentlichen Hauptversammlung der Garantin eine Ermächtigung zum Kauf eigener Aktien ausgenutzt hat.
- (b) **Fakultative Zahlung von Zinsrückständen.** Die Emittentin kann ausstehende Zinsrückstände jederzeit ganz oder teilweise nach Bekanntmachung an die Anleihegläubiger gemäß § 10 bei Einhaltung einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen zahlen (wobei eine solche Bekanntmachung unwiderruflich ist und die Emittentin verpflichtet ist, die jeweiligen Zinsrückstände an dem in dieser Bekanntmachung genannten Zahlungstag zu zahlen).
- (c) **Obligatorische Zahlung von Zinsrückständen.** Die Emittentin hat ausstehende Zinsrückstände (vollständig, jedoch nicht teilweise) an dem zuerst eintretenden der folgenden Tage zu zahlen:
- (i) am nächsten Zinszahlungstag, an dem die in § 3 (3) (a)(i) bzw. eine der in § 3 (3) (a)(ii) genannten Voraussetzungen nicht mehr vorliegt;
  - (ii) am Fälligkeitstag (§ 4(1));
  - (iii) an dem Tag, an dem eine Verfügung zur Abwicklung, Liquidation oder Auflösung der Emittentin oder der Garantin ergeht (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. der die Emittentin bzw. die Garantin noch zahlungsfähig sind und bei dem bzw. der die fortführende Gesellschaft im Wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin bzw. der Garantin übernimmt); und
  - (iv) an dem Tag, an dem die Emittentin oder die Garantin entweder Zinsen auf Gleichrangige Wertpapiere oder Zinsen oder Aufgeschobene Zinsen auf Nachrangige Wertpapiere zahlt oder Gleichrangige Wertpapiere oder Nachrangige Wertpapiere vor deren Fälligkeit zurückkaufen, wobei:
- (iii) The Issuer shall not have any obligation to pay interest on any payment so suspended (an **Arrear of Interest**). However, the Issuer may not defer a payment of interest if the Management Board (Vorstand) of the Guarantor has used an authorisation to buy own shares since the date of the last preceding ordinary general meeting (*ordentliche Hauptversammlung*) of the Guarantor.
- (b) **Optional Payment of Arrears of Interest.** The Issuer may pay outstanding Arrears of Interest (in whole or in part) at any time on giving not less than 10 nor more than 15 Business Days' notice to the Noteholders in accordance with § 10 (which notice will be irrevocable and will oblige the Issuer to pay the relevant Arrears of Interest on the payment date specified in that notice).
- (c) **Mandatory Payment of Arrears of Interest.** The Issuer must pay outstanding Arrears of Interest (in whole but not in part) on the earlier of:
- (i) the next Interest Payment Date on which either the condition set forth in § 3 (3) (a)(i) or either of the conditions set forth in § 3 (3) (a)(ii) is no longer satisfied;
  - (ii) the Maturity Date (§ 4(1));
  - (iii) the date on which an order is made for the winding up, liquidation or dissolution of the Issuer or the Guarantor (other than for the purposes of or pursuant to an amalgamation, reorganization or restructuring whilst solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer or the Guarantor, as the case may be); and
  - (iv) the date on which the Issuer or the Guarantor makes any payment of interest on any Parity Securities or makes any payment of interest or Deferred Interest on any Junior Securities or repurchases Parity Securities or Junior Securities prior to their maturity; where:

**Gleichrangige Wertpapiere** eine Wertpapieremission bezeichnet, die (x) die Emittentin begeben hat und die im gleichen Rang mit den Schuldverschreibungen steht, oder (y) die Garantin oder eine ihrer Tochtergesellschaften unter einer Garantie oder sonstigen Haftungsübernahme der Garantin begeben hat, soweit die Wertpapieremission bzw. die Garantie oder sonstige Haftungsübernahme im gleichen Rang mit der Garantie gemäß § 2(3) stehen;

**Nachrangige Wertpapiere** eine Wertpapieremission bezeichnet, die (x) die Emittentin begeben hat und die im Rang nach den Schuldverschreibungen steht, oder (y) die Garantin oder eine ihrer Tochtergesellschaften unter einer Garantie oder sonstigen Haftungsübernahme der Garantin begeben hat, soweit die Wertpapieremission bzw. die Garantie oder sonstige Haftungsübernahme im Rang nach der Garantie gemäß § 2(3) stehen;

**Aufgeschobene Zinsen** sämtliche Zinsen oder Dividenden sind, die für Gleichrangige Wertpapiere oder Nachrangige Wertpapiere an einem vorgesehenen Zins bzw. Dividendenzahlungstag solcher Gleichrangigen bzw. Nachrangigen Wertpapiere vertragsgemäß nicht bezahlt worden sind;

(d) **Zinszahlungen auf Gleichrangige Wertpapiere.** Wenn die Emittentin oder die Garantin Aufgeschobene Zinsen auf Gleichrangige Wertpapiere ganz oder teilweise nachzahlt, hat die Emittentin Zinsrückstände an dem Zinszahlungstag nach einer solchen Nachzahlung zu dem Bruchteil nachzuzahlen, der dem Quotienten des gezahlten Teilbetrags und dem ausstehenden Betrag an Aufgeschobenen Zinsen entspricht.

(4) **Ende der Verzinsung und Verzugzinsen.** Die Verzinsung der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden, oder, sollte die Emittentin eine Zahlung aus diesen Schuldverschreibungen bei Fälligkeit nicht leisten, mit Beginn des Tages der tatsächlichen Zahlung. Der jeweils anzuwendende Zinssatz wird gemäß diesem § 3 bestimmt.

#### § 4

#### RÜCKZAHLUNG UND RÜCKKAUF

(1) **Rückzahlung bei Endfälligkeit.** Die Schuldverschreibungen werden, sofern keine vorzeitige Rückzahlung gemäß § 4 (3) oder (4) und kein Rückkauf gemäß § 4 (2) erfolgt, am 30. Juni 2025 (der **Fälligkeitstag**) zum Nennbetrag zurückgezahlt.

**Parity Securities** means any securities issued (x) by the Issuer and ranking *pari passu* with the Notes; or (y) by the Guarantor or any of its subsidiaries under a guarantee or other assumption of liability by the Guarantor, provided the securities, the guarantee or the other assumption of liability ranks *pari passu* with the Guarantee pursuant to § 2(3) hereof;

**Junior Securities** means any securities issued (x) by the Issuer and ranking junior to the Notes; or (y) by the Guarantor or any of its subsidiaries under a guarantee or other assumption of liability by the Guarantor, provided the securities, the guarantee or the other assumption of liability rank junior to the Guarantee pursuant to § 2(3) hereof;

**Deferred Interest** means any interest or dividends deferred pursuant to its terms on any Parity Securities or Junior Securities on any scheduled interest payment date or dividend payment date, as the case may be, of such Parity Securities or Junior Securities;

(d) **Payments on Parity Securities.** If the Issuer or the Guarantor makes any payment of Deferred Interest on any Parity Securities, the Issuer shall on the Interest Payment Date immediately following such payment pay Arrears of Interest at such fractional amount equal to the amount resulting from the division of the amount of Deferred Interest actually paid by the amount of Deferred Interest outstanding.

(4) **End of interest bearing period and default interest.** The Notes shall cease to bear interest from the beginning of the day they are due for redemption, or, in case the Issuer fails to make any payment under the Notes when due, from the beginning of the day on which such payment is made. The respective rate of interest shall be determined pursuant to this § 3.

#### § 4

#### REDEMPTION AND PURCHASE

(1) **Redemption at Maturity.** Unless previously redeemed in accordance with § 4 (3) or (4) or repurchased pursuant to § 4 (2) the Notes will be redeemed at their principal amount on 30 June 2025 (the **Maturity Date**).

- (2) **Rückkauf.** Vorbehaltlich der Regelungen des § 4 (7) können die Emittentin, die Garantin oder jede ihrer jeweiligen Tochtergesellschaften jederzeit Schuldverschreibungen auf dem freien Markt oder anderweitig sowie zu jedem beliebigen Preis kaufen und wieder veräußern.
- (3) **Vorzeitige Rückzahlung nach Wahl der Emittentin.** Die Emittentin kann die Schuldverschreibungen (insgesamt und nicht nur teilweise) am 30. Juni 2015 und an jedem Variablen Zinszahlungstag durch Erklärung gemäß § 4 (6) zum Nennbetrag zuzüglich der bis zu diesem Tag (ausschließlich) aufgelaufener Zinsen sowie zuzüglich aller ausstehender Zinsrückstände (der *Rückzahlungsbetrag*) zurückzahlen.
- (4) **Vorzeitige Rückzahlung nach Eintritt eines Gross-up Ereignisses, eines Steuerereignisses oder eines Aufsichtsrechtlichen Ereignisses.** Die Emittentin ist bis zum 30. Juni 2015 (ausschließlich) berechtigt, durch Erklärung gemäß § 4 (6) und nach Maßgabe von § 4 (7) die Schuldverschreibungen nach Eintritt eines Gross-Up Ereignisses zum Rückzahlungsbetrag und nach Eintritt eines Steuerereignisses oder eines Aufsichtsrechtlichen Ereignisses zum Vorzeitigen Rückzahlungsbetrag (insgesamt und nicht nur teilweise) zurückzuzahlen.
- (a) **Gross-up-Ereignis.** Ein *Gross-up-Ereignis* liegt vor, wenn die Emittentin oder die Garantin aufgrund einer Gesetzesänderung (oder einer Änderung von darunter erlassenen Bestimmungen und Vorschriften) des Großherzogtums Luxemburg oder der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze, Bestimmungen oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht oder eine Behörde verpflichtet ist oder verpflichtet sein wird, (im Fall der Emittentin) Zusätzliche Beträge gemäß § 6 zu zahlen bzw. (im Fall der Garantin) Zusätzliche Beträge im Hinblick auf ihre Zahlungsverpflichtungen unter der Garantie zu zahlen, und die Emittentin bzw. die Garantin diese Verpflichtung nicht durch das Ergreifen zumutbarer Maßnahmen abwenden kann.
- (2) **Repurchase.** Subject to § 4 (7), the Issuer, the Guarantor or any of their respective subsidiaries may at any time purchase Notes in the open market or otherwise and at any price and may resell Notes so purchased.
- (3) **Early Redemption at the Option of the Issuer.** The Issuer may upon giving notice in accordance with § 4 (6) redeem the Notes (in whole but not in part only) on 30 June 2015 and on any Floating Interest Payment Date at their principal amount plus any interest accrued until such date (exclusive) and all outstanding Arrears of Interest to the date of redemption (the *Redemption Amount*).
- (4) **Early Redemption following a Gross-up Event, a Tax Event or a Regulatory Event.** Until 30 June 2015 (exclusive) the Issuer may upon giving notice in accordance with § 4 (6) and subject to § 4 (7) redeem the Notes (in whole but not in part only) following a Gross-Up Event at the Redemption Amount and following a Tax Event or a Regulatory Event at the Early Redemption Amount.
- (a) **Gross-up Event.** A *Gross-up Event* shall occur if the Issuer has or will become obliged by a legislative body, a court or any authority to pay Additional Amounts pursuant to § 6 or the Guarantor has or will become obliged to pay Additional Amounts in respect of payments under the Guarantee as a result of any change in or amendment to the laws (or any rules or regulations thereunder) of the Grand-Duchy of Luxembourg or the Federal Republic of Germany or any political subdivision or any authority of or in the Grand-Duchy of Luxembourg or the Federal Republic of Germany, or any change in or amendment to any official interpretation or application of those laws or rules or regulations, and that obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures.

Die Rückzahlungsbekanntmachung darf nicht früher als 90 Tage vor dem Tag erfolgen, an dem die Emittentin bzw. die Garantin erstmals verpflichtet wäre, Zusätzliche Beträge gemäß § 6 bzw. unter der Garantie zu zahlen.

No such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be for the first time obliged to pay the Additional Amounts pursuant to § 6 or pursuant to the Guarantee.

- (b) **Steuerereignis.** Ein *Steuerereignis* liegt vor, wenn aufgrund einer Gesetzesänderung (oder einer Änderung von darunter erlassenen Bestimmungen und Vorschriften) des Großherzogtums Luxemburg oder der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder einer ihrer Steuerbehörden, oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung solcher Gesetze, Bestimmungen oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Regierungsstelle oder eine Aufsichtsbehörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen), Zinsen, die von der Emittentin auf die Schuldverschreibungen zu zahlen sind oder Beträge, die von der Garantin aus der Garantie zu zahlen sind, von der Emittentin und/oder der Garantin nicht mehr für die Zwecke der luxemburgischen und/oder deutschen Ertragsteuer voll abzugsfähig sind und die Emittentin und/oder die Garantin dieses Risiko nicht durch das Ergreifen zumutbarer Maßnahmen abwenden kann.
- (c) **Aufsichtsrechtliches Ereignis.** Ein *Aufsichtsrechtliches Ereignis* liegt vor, wenn die Bundesanstalt für Finanzdienstleistungsaufsicht (oder ein Funktionsnachfolger) schriftlich gegenüber der Garantin feststellt, dass die Schuldverschreibungen (ganz oder teilweise) nicht länger die Anforderungen an Eigenmittel für Zwecke der Ermittlung der Gruppensolvabilität oder der Einzelsolvabilität der Garantin oder der Unternehmensgruppe, zu der die Garantin gehört, erfüllen. Dies gilt nur, wenn die Schuldverschreibungen diese Anforderungen zu einem Zeitpunkt vor dieser Feststellung erfüllt haben.
- (5) **Vorzeitiger Rückzahlungsbetrag.** Der *Vorzeitige Rückzahlungsbetrag* ist der Aufrechnungsbetrag, mindestens jedoch der Rückzahlungsbetrag (wie von der Berechnungsstelle (§ 8(1)) bestimmt).
- (b) **Tax Event.** A *Tax Event* shall occur if as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Grand-Duchy of Luxembourg or the Federal Republic of Germany or any political subdivision or any taxing authority thereof or therein, or as a result of any amendment to, or change in, an official interpretation or application of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), interest payable by the Issuer in respect of the Notes or any amount payable by the Guarantor under the Guarantee is no longer fully deductible by the Issuer and/or the Guarantor for Luxembourg and/or German income tax purposes, and that risk cannot be avoided by the Issuer and/or the Guarantor taking reasonable measures.
- (c) **Regulatory Event.** A *Regulatory Event* shall occur if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) states in writing to the Guarantor that the Notes (in whole or in part) no longer fulfil the requirements for own funds for group solvency or solo solvency purposes of the Guarantor or the group of companies the Guarantor is a member of. This applies only if at any time prior to such statement the Notes did fulfil such requirements.
- (5) **Early Redemption Amount.** The *Early Redemption Amount* will be the greater of the Redemption Amount and Make-Whole Amount (as determined by the Calculation Agent (§ 8(1))).

Der *Aufrechnungsbetrag* wird durch die Berechnungsstelle (§ 8(1)) bestimmt und entspricht der Summe aus den Aktuellen Werten (i) des Nennbetrags der Schuldverschreibungen und (ii) der verbleibenden vorgesehenen Zinszahlungen auf die Schuldverschreibungen bis zum 30. Juni 2015 (ausschließlich) am Tag der Rückzahlung.

Die Berechnungsstelle (§ 8(1)) ermittelt die *Aktuellen Werte* durch die Abzinsung pro Jahr des Nennbetrags der Schuldverschreibungen und

The *Make-Whole Amount* will be calculated by the Calculation Agent (§ 8(1)), and will equal the sum of the Present Values on the date of redemption of (i) the principal amount of the Notes and (ii) the remaining scheduled payments of interest on the Notes to 30 June 2015 (exclusive).

The *Present Values* will be calculated by the Calculation Agent (§ 8(1)) by discounting the principal amount of the Notes and the remaining

der verbleibenden berechneten Zinszahlungen bis zum 30. Juni 2015; dabei gilt als Berechnungsgrundlage ein Jahr von 360 Tagen mit zwölf Monaten zu je 30 Tagen unter der Verwendung der Angepassten Vergleichsrendite zuzüglich 0,375%.

Die *Angepasste Vergleichsrendite* ist die Rendite, die am Tag der Rückzahlung für ein Wertpapier mit Euro-Referenzzinssatz zu zahlen wäre, das die Festlegungsstelle (§ 8(1)) unter Berücksichtigung einer vergleichbaren Laufzeit mit der Restlaufzeit der Schuldverschreibungen bis zum 30. Juni 2015 bestimmt hat und welches zum Zeitpunkt der Bestimmung als Berechnungsgrundlage für die Preisgebung neuer Anleihen mit vergleichbarer Laufzeit bis 30. Juni 2015 dienen könnte.

**(6) Bekanntmachung der Vorzeitigen Rückzahlung.** Die Emittentin kann ein Recht zur vorzeitigen Rückzahlung gemäß § 4 (3) oder (4) durch eine Bekanntmachung an die Anleihegläubiger gemäß § 10 unter Einhaltung einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen ausüben. Die Emittentin wird die Hauptzahlstelle (§ 8(1)) vor dieser Bekanntmachung von der vorzeitigen Rückzahlung informieren. Die Bekanntmachung und die Information der Hauptzahlstelle sollen in den Fällen des § 4 (4) diejenigen Tatsachen enthalten, auf welche die Emittentin ihr Kündigungsrecht stützt.

**(7) Aufsichtsrechtliche Einschränkungen.**

**(a) Rückkauf und Rückzahlung vor dem 30. Juni 2015.** Vor dem 30. Juni 2015 steht der Emittentin das Recht zum Rückkauf gemäß § 4 (2) und zur Rückzahlung nach Eintritt eines Gross-up-Ereignisses oder eines Steuerereignisses gemäß § 4 (4) nur zu, wenn der zurückzuzahlende Nennbetrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist oder die Bundesanstalt für Finanzdienstleistungsaufsicht (oder ein Funktionsnachfolger) dem Rückkauf bzw. der Rückzahlung ohne eine solche Ersetzung zuvor zugestimmt hat (sofern eine solche Ersetzung für die Anerkennung der Schuldverschreibungen als aufsichtsrechtliche Eigenmittel noch erforderlich ist).

**(b) Rückkauf und Rückzahlung am oder nach dem 30. Juni 2015.** Sofern die Emittentin und/oder die Garantin am oder nach dem 30. Juni 2015 weiterhin eine Anerkennung der Schuldverschreibungen in Höhe ihres Nennbetrags als aufsichtsrechtliche Eigenmittel anstrebt, wird die Emittentin das Recht zum Rückkauf gemäß § 4 (2) oder zur Rückzahlung gemäß § 4 (3)

interest payments to 30 June 2015 on an annual basis, assuming a 360-day year consisting of twelve 30-day months and using the Adjusted Comparable Yield plus 0.375%.

The *Adjusted Comparable Yield* will be the yield at the date of redemption on the euro benchmark security selected by the Determination Agent (§ 8(1)) as having a maturity comparable to the remaining term of the Notes to 30 June 2015 that would be utilised at the time of selection in pricing new issues of corporate debt securities of comparable maturity to 30 June 2015.

**(6) Notification of Early Redemption.** The Issuer shall give not less than 30 nor more than 60 days' notice to the Noteholders in accordance with § 10 of any Early Redemption pursuant to § 4 (3) or (4). The Issuer shall give notice to the Principal Paying Agent (§ 8(1)) about such Early Redemption before notifying the Noteholders. In the case of § 4 (4) such notices shall set forth the underlying facts of the Issuer's right to Early Redemption.

**(7) Regulatory Limitations.**

**(a) Repurchase and Redemption before 30 June 2015.** Prior to 30 June 2015 the Issuer may only repurchase the Notes as set forth in § 4 (2) and may only redeem the Notes following a Gross up Event or a Tax Event as set forth in § 4 (4) if the principal amount of the Notes to be repaid has been replaced by other, at least equivalent own funds (*Eigenmittel*) or if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) has given its prior consent to the repurchase or redemption of the Notes without such replacement (to the extent this is still required for the recognition as regulatory capital).

**(b) Repurchase and Redemption on or after 30 June 2015.** If the Issuer and/or the Guarantor wishes the principal amount of the Notes to continue to be recognised as regulatory capital by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) on or after 30 June 2015, the Issuer will only

nur ausüben, wenn der zurückzuzahlende Nennbetrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist oder die Bundesanstalt für Finanzdienstleistungsaufsicht (oder ein Funktionsnachfolger) dem Rückkauf bzw. der Rückzahlung ohne eine solche Ersetzung zuvor zugestimmt hat (sofern eine solche Ersetzung für die Anerkennung der Schuldverschreibungen als aufsichtsrechtliche Eigenmittel noch erforderlich ist).

- (c) **Rückkauf und Rückzahlung durch Tochtergesellschaften.** Die in § 4 (7) (a) und (b) genannten Einschränkungen gelten nicht für Rückkäufe, soweit Tochterunternehmen der Emittentin oder der Garantin die Schuldverschreibungen für fremde Rechnung oder für Sondervermögen (im Sinne des § 2 Abs. 2 und § 30 Investmentgesetz) erwerben, es sei denn, Anteile an diesen Sondervermögen werden mehrheitlich von der Emittentin, der Garantin oder einer ihrer Tochtergesellschaften gehalten.

## § 5 ZAHLUNGEN

- (1) Die Emittentin verpflichtet sich, Kapital und Zinsen auf die Schuldverschreibungen bei Fälligkeit in Euro zu zahlen. Die Zahlung von Kapital und Zinsen erfolgt, vorbehaltlich geltender steuerrechtlicher und sonstiger gesetzlicher Regelungen und Vorschriften, über die Hauptzahlstelle (§ 8(1)) zur Weiterleitung an das Clearing-System oder nach dessen Weisung zur Gutschrift für die jeweiligen Kontoinhaber. Die Zahlung an das Clearing-System oder nach dessen Weisung befreit die Emittentin in Höhe der geleisteten Zahlung von ihren entsprechenden Verbindlichkeiten aus den Schuldverschreibungen. Eine Bezugnahme in diesen Anleihebedingungen auf Kapital oder Zinsen der Schuldverschreibungen schließt jegliche Zusätzlichen Beträge gemäß § 6 ein.
- (2) Falls ein Fälligkeitstag für die Zahlung von Kapital und/oder Zinsen kein Geschäftstag ist, erfolgt die Zahlung erst am nächstfolgenden Geschäftstag (außer im Fall von § 3 (2) (b)); die Anleihegläubiger sind nicht berechtigt, Zinsen oder eine andere Entschädigung wegen eines solchen Zahlungsaufschubs zu verlangen.

## § 6 BESTEUERUNG

Sämtliche Zahlungen von Kapital und Zinsen in Bezug auf die Schuldverschreibungen (einschließlich

repurchase the Notes as set forth in § 4 (2) or redeem the Notes as set forth in § 4 (3) if the principal amount of the Notes to be repaid has been replaced by other, at least equivalent own funds (*Eigenmittel*) or if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) has given its prior consent to the repurchase or redemption of the Notes without such replacement (to the extent this is still required for the recognition as regulatory capital).

- (c) **Repurchase and Redemption by Subsidiaries.** The restrictions set forth in § 4 (7) (a) und (b) do not apply for purchases made by subsidiaries of the Issuer or the Guarantor for the account of a third party or funds (as defined for the purposes of § 2 para. 2 and § 30 Investment Act (*Investmentgesetz*)), unless the majority of the shares in the relevant fund are held by the Issuer, the Guarantor or one of its subsidiaries.

## § 5 PAYMENTS

- (1) The Issuer undertakes to pay, as and when due, principal and interest on the Notes in euro. Payment of principal and interest on the Notes shall be made, subject to applicable fiscal and other laws and regulations, through the Principal Paying Agent (§ 8(1)) for on-payment to the Clearing System or to its order for credit to the respective account holders. Payments to the Clearing System or to its order shall to the extent of amounts so paid constitute the discharge of the Issuer from its corresponding liabilities under the Notes. Any reference in these Terms and Conditions of the Notes to principal or interest will be deemed to include any Additional Amounts as set forth in § 6.
- (2) If the due date for any payment of principal and/or interest is not a Business Day, payment shall be effected only on the next Business Day (except as provided in § 3 (2) (b)). The Noteholders shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

## § 6 TAXATION

All payments of principal and interest in respect of the Notes (including payments by the Guarantor

Zahlungen der Garantin unter der Garantie) werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren jedweder Art (*Steuern*) geleistet, die von dem Großherzogtum Luxemburg oder der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Emittentin zusätzliche Beträge zahlen (die *Zusätzlichen Beträge*), so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Solche Zusätzlichen Beträge sind jedoch nicht zahlbar wegen solcher Steuern:

- (a) denen ein Anleihegläubiger wegen einer anderen Beziehung zu dem Großherzogtum Luxemburg oder der Bundesrepublik Deutschland unterliegt als der bloßen Tatsache, dass er der Inhaber der betreffenden Schuldverschreibungen ist; oder
- (b) deren Einbehalt oder Abzug auf eine Zahlung an eine natürliche Person erfolgt und zwar auf der Grundlage der Richtlinie 2003/48/EC der Europäischen Union oder einer anderen Richtlinie der Europäischen Union zur Besteuerung privater Zinserträge, die die Beschlüsse der ECOFIN-Versammlung vom 26. bis 27. November 2000 umsetzt oder aufgrund eines Gesetzes, das aufgrund solcher Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder
- (c) denen der Anleihegläubiger nicht unterläge, wenn er seine Schuldverschreibungen binnen 30 Tagen nach Fälligkeit bzw., falls die notwendigen Beträge der Hauptzahlstelle bei Fälligkeit nicht zur Verfügung gestellt worden sind, nach dem Tag, an dem diese Mittel der Hauptzahlstelle (§ 8(1)) zur Verfügung gestellt worden sind und dies gemäß § 10 bekannt gemacht wurde, zur Zahlung vorgelegt hätte.

#### § 7

#### VORLEGUNGSFRIST UND VERJÄHRUNG

Die Vorlegungsfrist der Schuldverschreibungen wird auf zehn Jahre reduziert. Erfolgt die Vorlegung während der Vorlegungsfrist, so verjährt der Anspruch aus der Schuldverschreibung in zwei Jahren von dem Ende der Vorlegungsfrist an.

under the Guarantee) will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (*Taxes*) imposed, levied, collected, withheld or assessed by the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) or any political subdivision or any authority of the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) that has power to tax, unless that withholding or deduction is required by law. In that event, the Issuer or the Guarantor (as the case may be) will pay such additional amounts (the *Additional Amounts*) as will result in receipt by the Noteholders of the same amounts as they would have received if no such withholding or deduction had been required. However, no such Additional Amounts shall be payable with respect to such Taxes:

- (a) to which a Noteholder is liable because of a relationship with the Grand-Duchy of Luxembourg or the Federal Republic of Germany other than the mere fact of his being the holder of the relevant Notes; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) to which the Noteholder would not be subject if he had presented his Notes for payment within 30 days from the due date for payment, or, if the necessary funds have not been provided to the Principal Paying Agent when due, from the date on which such funds have been provided to the Principal Paying Agent (§ 8(1)), and a notice to that effect has been published in accordance with § 10.

#### § 7

#### PRESENTATION PERIOD AND STATUTE OF LIMITATION

The period for presentation of the Notes will be reduced to 10 years. Following such presentation during the presentation period, the limitation period with regard to any claim arising under the Notes will be two years from the expiry of the presentation period.

§ 8  
ZAHLSTELLEN UND  
BERECHNUNGSSTELLEN

- (1) **Bestellung.** Die Emittentin hat Citibank, N.A., 5 Carmelite Street, London EC4Y OPA, Vereinigtes Königreich, als Hauptzahlstelle und Berechnungsstelle (die *Hauptzahlstelle* oder *Berechnungsstelle*) und Dexia Banque Internationale à Luxembourg, 69, route d'Esch, L-2953 Luxembourg, Großherzogtum Luxemburg, als Zahlstelle (die *Zahlstelle*, gemeinsam mit der Hauptzahlstelle, die *Zahlstellen*) und Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, Vereinigtes Königreich, als Festlegungsstelle (die Festlegungsstelle) bestellt.
- (2) **Änderung oder Beendigung der Bestellung.** Die Emittentin behält sich das Recht vor, jederzeit die Benennung einer Zahlstelle, Berechnungsstelle oder Festlegungsstelle zu verändern oder zu beenden und Nachfolger bzw. zusätzliche Zahlstellen zu ernennen. Dabei ist jedoch zu gewährleisten, dass die Emittentin jederzeit eine Zahlstelle (die auch Hauptzahlstelle sein kann) in Luxemburg unterhält. Den Anleihegläubigern werden Änderungen in bezug auf die Zahlstellen, deren angegebene Geschäftsstellen oder die Berechnungsstelle umgehend gemäß § 10 bekannt gemacht.
- (3) **Status der beauftragten Stellen.** Die Zahlstellen, die Berechnungsstelle und die Festlegungsstelle handeln ausschließlich als Vertreter der Emittentin und übernehmen keine Verpflichtungen gegenüber den Anleihegläubigern; es wird kein Vertrags-, Auftrags- oder Treuhandverhältnis zwischen ihnen und den Anleihegläubigern begründet. Die Zahlstellen sind von den Beschränkungen des § 181 des Bürgerlichen Gesetzbuchs (BGB) befreit.

§ 9  
WEITERE EMISSIONEN

Die Emittentin kann ohne Zustimmung der Anleihegläubiger weitere Schuldverschreibungen begeben, die in jeder Hinsicht (oder in jeder Hinsicht mit Ausnahme der ersten Zinszahlung) die gleichen Bedingungen wie die Schuldverschreibungen dieser Anleihe haben und die zusammen mit den Schuldverschreibungen dieser Anleihe eine einzige Anleihe bilden.

§ 10  
BEKANNTMACHUNGEN

- (1) **Bekanntmachung in Tageszeitung.** Sämtliche Bekanntmachungen an die Anleihegläubiger gelten als ordnungsgemäß bekannt gemacht,

§ 8  
PAYING AND  
CALCULATION AGENTS

- (1) **Appointment.** The Issuer has appointed Citibank, N.A., 5 Carmelite Street, London EC4Y OPA, United Kingdom, as principal paying agent and calculation agent (the *Principal Paying Agent or Calculation Agent*) and Dexia Banque Internationale à Luxembourg, 69, route d'Esch, L-2953 Luxembourg, Grand-Duchy of Luxembourg, as paying agent (the *Paying Agent*, together with the Principal Paying Agent, the *Paying Agents*) and Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, as determination agent (the *Determination Agent*).
- (2) **Variation or Termination of Appointment.** The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent, Calculation Agent or Determination Agent and to appoint successor or additional Paying Agents, provided that the Issuer will at all times maintain a Paying Agent (which may be the Principal Paying Agent) in Luxembourg. Notice of any change in the Paying Agents or in the specified office of any Paying Agent or in the Calculation Agent will promptly be given to the Noteholders pursuant to § 10.
- (3) **Status of the Agents.** The Paying Agents, Calculation Agent and Determination Agent act solely as agents of the Issuer and do not assume any obligations towards or relationship of contract, agency or trust for or with any of the Noteholders. The Paying Agents are exempt from the restrictions of § 181 of the German Civil Code (*Bürgerliches Gesetzbuch*).

§ 9  
FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

§ 10  
NOTICES

- (1) **Notices in Newspaper.** Notices to the Noteholders will be valid if published in a leading newspaper having general circulation in

wenn sie in einer führenden Tageszeitung mit allgemeiner Verbreitung in Luxemburg (voraussichtlich das *Tageblatt* (Luxemburg)), veröffentlicht werden. Jede derartige Bekanntmachung gilt mit dem Tage der ersten Veröffentlichung als wirksam erfolgt.

- (2) **Bekanntmachung an das Clearing System.** Die Emittentin ist berechtigt, eine Zeitungsveröffentlichung nach § 10 (1) durch eine Bekanntmachung an das Clearing System zur Weiterleitung an die Anleihegläubiger zu ersetzen, vorausgesetzt, dass in Fällen, in denen die Schuldverschreibungen an einer Börse notiert sind, die Regeln dieser Börse diese Form der Bekanntmachung zulassen. Jede derartige Bekanntmachung gilt am siebten Tag nach dem Tag der Bekanntmachung an das Clearing System als den Anleihegläubigern mitgeteilt.

## § 11 ERSETZUNG

- (1) **Ersetzung.** Die Garantin ist jederzeit berechtigt, ohne Zustimmung der Anleihegläubiger sich selbst oder eine andere Gesellschaft (soweit es sich bei dieser Gesellschaft nicht um ein Versicherungsunternehmen handelt), die direkt oder indirekt von der Garantin kontrolliert wird, als neue Emittentin für alle sich aus oder im Zusammenhang mit den Schuldverschreibungen ergebenden Verpflichtungen mit schuldbefreiender Wirkung für die Emittentin an die Stelle der Emittentin zu setzen (die *Neue Emittentin*), sofern
- (a) die Neue Emittentin sämtliche Verpflichtungen der Emittentin aus oder im Zusammenhang mit den Schuldverschreibungen übernimmt;
  - (b) die Neue Emittentin sämtliche für die Schuldnerersetzung und die Erfüllung der Verpflichtungen aus oder im Zusammenhang mit den Schuldverschreibungen erforderlichen Genehmigungen erhalten hat;
  - (c) die Neue Emittentin in der Lage ist, sämtliche zur Erfüllung der aufgrund der Schuldverschreibungen bestehenden Zahlungsverpflichtungen erforderlichen Beträge in Euro an die Hauptzahlstelle oder die Clearing-Systeme zu zahlen, und zwar ohne Abzug oder Einbehalt von Steuern oder sonstigen Abgaben jedweder Art, die von dem Land (oder den Ländern), in dem (in denen) die Neue Emittentin ihren Sitz oder Steuersitz hat, auferlegt, erhoben oder eingezogen werden; und
  - (d) für den Fall, dass die Neue Emittentin nicht die Garantin ist, die Bestimmungen des Absatzes 5 der Garantie, wonach sich die

Luxembourg (which is expected to be the *Tageblatt* (Luxembourg)). Any notice so given will be deemed to have been validly given on the date of first such publication.

- (2) **Notice to the Clearing System.** The Issuer may, in lieu of publication in the newspapers set forth in § 10 (1) above, deliver the relevant notice to the Clearing System, for communication by the Clearing System to the Noteholders, provided that, so long as any Notes are listed on any stock exchange, the rules of such stock exchange permit such form of notice. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was given to the Clearing System.

## § 11 SUBSTITUTION

- (1) **Substitution.** The Guarantor may at any time, without the consent of the Noteholders, substitute for the Issuer either itself or any other company (other than an insurance undertaking) which is directly or indirectly controlled by the Guarantor, as new issuer (the *New Issuer*) in respect of all obligations arising under or in connection with the Notes, with the effect of releasing the Issuer of all such obligations, if:
- (a) the New Issuer assumes all obligations of the Issuer arising under or in connection with the Notes;
  - (b) the New Issuer has obtained all authorisations and approvals necessary for the substitution and the fulfilment of the obligations arising under or in connection with the Notes;
  - (c) the New Issuer is in the position to pay to the Clearing Systems or to the Principal Paying Agent in euro and without deducting or withholding any taxes or other duties of whatever nature imposed, levied or deducted by the country (or countries) in which the New Issuer has its domicile or tax residence all amounts required for the performance of the payment obligations arising from or in connection with the Notes; and
  - (d) in the event that the New Issuer is not the Guarantor, the provisions of paragraph 5 of the Guarantee, pursuant to which the

Garantie auf die von der Neuen Emittentin gemäß den Anleihebedingungen zahlbaren Beträge erstreckt, in vollem Umfang Bestand haben.

- (2) **Bezugnahmen.** Im Fall einer Schuldnerersetzung gemäß Absatz (1) gilt jede Bezugnahme in diesen Anleihebedingungen auf die Emittentin als eine solche auf die Neue Emittentin und jede Bezugnahme auf das Großherzogtum Luxemburg als eine solche auf den Staat, in welchem die Neue Emittentin steuerlich ansässig ist.
- (3) **Bekanntmachung und Wirksamwerden der Ersetzung.** Die Ersetzung der Emittentin ist gemäß § 10 bekannt zu machen. Mit der Bekanntmachung der Ersetzung wird die Ersetzung wirksam und die Emittentin und im Falle einer wiederholten Anwendung dieses § 11 jede frühere Neue Emittentin von ihren sämtlichen Verpflichtungen aus den Schuldverschreibungen frei. Im Falle einer solchen Ersetzung werden die Wertpapierbörsen informiert, an denen die Schuldverschreibungen notiert sind, und es wird, soweit erforderlich, eine Ergänzung zu dem Information Memorandum mit einer Beschreibung der Neuen Emittentin erstellt.

## § 12 SCHLUSSBESTIMMUNGEN

- (1) **Anzuwendendes Recht.** Mit Ausnahme von § 2(1), der Luxemburger Recht unterliegt, bestimmen sich die durch diese Schuldverschreibungen begründeten Rechtsverhältnisse nach dem Recht der Bundesrepublik Deutschland. Die Bestimmungen der §§ 86 - 94-8 des Luxemburger Gesetzes vom 10. August 1915 bezüglich Handelsunternehmen in der jeweils gültigen Fassung sind auf diese Schuldverschreibungen nicht anwendbar.
- (2) **Gerichtsstand.** Ausschließlicher Gerichtsstand für alle Rechtsstreitigkeiten aus den in diesen Anleihebedingungen geregelten Angelegenheiten ist, soweit gesetzlich zulässig, Frankfurt am Main, Bundesrepublik Deutschland. Die Emittentin verzichtet unwiderruflich darauf, gegenwärtig oder zukünftig gegen die Gerichte in Frankfurt am Main als Forum für Rechtsstreitigkeiten Einwände zu erheben, und versichert, keines der Gerichte in Frankfurt am Main als ungelegenes oder unangemessenes Forum zu bezeichnen.
- (3) **Erfüllungsort.** Erfüllungsort ist Hannover, Bundesrepublik Deutschland.

Guarantee shall extend to any and all amounts expressed to be payable by the New Issuer pursuant to these Terms and Conditions of the Notes, shall be in full force and effect.

- (2) **References.** In the event of a substitution pursuant to subsection (1), any reference in these Terms and Conditions of the Notes to the Issuer shall be a reference to the New Issuer and any reference to the Grand Duchy of Luxembourg shall be a reference to the New Issuer's country of domicile for tax purposes.
- (3) **Notice and Effectiveness of Substitution.** Notice of any substitution of the Issuer shall be given by publication in accordance with § 10. Upon such publication, the substitution shall become effective, and the Issuer, and in the event of a repeated application of this § 11, any previous New Issuer, shall be discharged from any and all obligations under the Notes. In case of such substitution, the stock exchange(s), if any, on which the Notes are then listed will be notified and a supplemental information memorandum describing the New Issuer will be prepared, if required.

## § 12 FINAL PROVISIONS

- (1) **Applicable Law.** With the exception of § 2(1) which is subject to Luxembourg law, any and all legal relationships established under the Notes shall be governed by the laws of the Federal Republic of Germany. The provisions of articles 86 to 94-8 of the Luxembourg act dated 10 August 1915 concerning commercial companies, as amended, shall not apply to the Notes.
- (2) **Place of Jurisdiction.** To the extent legally permissible, exclusive place of jurisdiction for all proceedings arising from matters provided for in these Terms and Conditions shall be Frankfurt am Main, Federal Republic of Germany. The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of Frankfurt am Main being nominated as the forum to hear and determine any proceedings and to settle any disputes, and agrees not to claim that any of those courts is not a convenient or appropriate forum.
- (3) **Place of Performance.** Place of performance shall be Hanover, Federal Republic of Germany.

- (4) **Zustellungsbevollmächtigter.** Für etwaige Rechtsstreitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Bundesrepublik Deutschland, zum Zustellungsbevollmächtigten.
- (5) **Geltendmachung von Rechten.** Jeder Anleihegläubiger kann in Rechtsstreitigkeiten gegen die Emittentin oder die Garantin im eigenen Namen seine Rechte aus den ihm zustehenden Schuldverschreibungen geltend machen unter Vorlage der folgenden Dokumente: (a) einer Bescheinigung seiner Depotbank, die (i) den vollen Namen und die volle Anschrift des Anleihegläubigers bezeichnet, (ii) den Gesamtnennbetrag der Schuldverschreibungen angibt, die am Ausstellungstag dieser Bescheinigung dem bei dieser Depotbank bestehenden Depot dieses Anleihegläubigers gutgeschrieben sind, und (iii) bestätigt, dass die Depotbank dem Clearing System und der Hauptzahlstelle eine schriftliche Mitteilung zugeleitet hat, die die Angaben gemäß (i) und (ii) enthält und Bestätigungsvermerke des Clearing Systems sowie des jeweiligen Clearing System-Kontoinhabers trägt, sowie (b) einer von einem Vertretungsberechtigten des Clearing Systems oder der Hauptzahlstelle beglaubigten Ablichtung der Globalurkunde.
- (4) **Agent for the Service of Process.** For any legal disputes or other proceedings before German courts, the Issuer appoints Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Federal Republic of Germany, as authorised agent for accepting Services of process.
- (5) **Enforcement of Rights.** Any Noteholder may in any proceedings against the Issuer or the Guarantor protect and enforce in its own name its rights arising under its Notes by submitting the following documents: (a) a certificate issued by its Depository Bank (i) stating the full name and address of the Noteholder, (ii) specifying the aggregate principal amount of Notes credited on the date of such certificate to such Noteholder's securities account maintained with such Depository Bank and (iii) confirming that the Depository Bank has given a written notice to the Clearing System as well as to the Principal Paying Agent containing the information pursuant to (i) and (ii) and bearing acknowledgements of the Clearing System and the relevant Clearing System accountholder as well as (b) a copy of the Global Note certified by a duly authorised officer of the Clearing System or the Principal Paying Agent as being a true copy.

### § 13 SPRACHE

Diese Anleihebedingungen sind in deutscher Sprache abgefasst und mit einer Übersetzung in die englische Sprache versehen. Der deutsche Wortlaut ist allein rechtsverbindlich. Die englische Übersetzung dient nur zur Information.

### § 13 LANGUAGE

These Terms and Conditions are written in the German language and provided with an English language translation. The German text shall be the only legally binding version. The English language translation is provided for convenience only.

## GUARANTEE

### NACHRANGIGE GARANTIE

der

Talanx Aktiengesellschaft  
Hannover, Bundesrepublik Deutschland

zugunsten der Anleihegläubiger der  
€ 350.000.000

4,5% nachrangigen fest bzw. variabel verzinslichen  
Schuldverschreibungen  
fällig 2025

Talanx Finanz (Luxemburg) S.A.,  
Luxemburg, Großherzogtum Luxemburg  
(die *Schuldverschreibungen*)

Die Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Bundesrepublik Deutschland (die *Garantin*) garantiert hiermit gegenüber jeweiligen Inhabern der Schuldverschreibungen (die *Anleihegläubiger*) unbeding und unwiderruflich, aber auf nachrangiger Basis, die ordnungsgemäße und fristgerechte Zahlung von Kapital, Zinsen und sonstigen aus den Schuldverschreibungen zu zahlenden Beträgen, die von der Talanx Finanz (Luxemburg) S.A. (die *Emittentin*) auf die Schuldverschreibungen zahlbar sind.

Die Verpflichtungen der Garantin aus dieser nachrangigen Garantie sind nachrangig gegenüber allen nicht nachrangigen Forderungen sämtlicher sonstiger Gläubiger der Garantin und wenigstens gleichrangig mit allen anderen nachrangigen Forderungen gegen die Garantin. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens stehen Verbindlichkeiten der Garantin aus der Garantie nicht nachrangigen Ansprüchen aller anderen Gläubiger der Garantin im Rang nach, so dass Zahlungen auf die Garantie erst erfolgen, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten vollständig befriedigt sind.

Kein Anleihegläubiger ist berechtigt, Forderungen aus der Garantie mit möglichen Forderungen der Garantin gegen ihn aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber einem Anleihegläubiger gegen ihre Verpflichtungen aus der Garantie aufzurechnen.

Für die Rechte der Anleihegläubiger aus dieser nachrangigen Garantie ist diesen keine Sicherheit durch die Garantin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden. Nachträglich können weder der Nachrang dieser Garantie beschränkt, noch die Laufzeit der Garantie verkürzt werden. Eine vorzeitige Zahlung ist der Garantin ohne Rücksicht auf entgegenstehende Vereinbarungen zurückzugewähren, sofern die Garantin nicht aufgelöst wurde oder sofern nicht der Betrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist.

### SUBORDINATED GUARANTEE

of

Talanx Aktiengesellschaft  
Hanover, Federal Republic of Germany

for the benefit of the Noteholders of the  
€ 350,000,000

4.5% Subordinated Fixed to Floating Rate Notes  
due 2025 issued by

Talanx Finanz (Luxemburg) S.A.,  
Luxembourg, Grand-Duchy of Luxembourg  
(the *Notes*)

Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Federal Republic of Germany (the *Guarantor*) hereby guarantees to the holders from time to time of the Notes (the *Noteholders*) unconditionally and irrevocably, but on a subordinated basis, the due and timely payment of principal, interest and any other amounts payable by Talanx Finanz (Luxemburg) S.A. (the *Issuer*) on the Notes.

The obligations of the Guarantor under this subordinated Guarantee shall be subordinated to the claims of all other creditors of the Guarantor which are not subordinated and shall rank at least *pari passu* with all other subordinated obligations of the Guarantor. In the event of the dissolution, liquidation, insolvency or any proceedings for the avoidance of the Guarantor's insolvency, obligations of the Guarantor under the Guarantee will be subordinated to the claims of all unsubordinated creditors of the Guarantor so that in any such event no amounts shall be payable under the Notes until the claims against the Guarantor arising from unsubordinated obligations shall first have been satisfied in full.

No Noteholder shall be entitled to set off any claims arising under the Guarantee against any claims that the Guarantor may have against it. The Guarantor shall not be entitled to set off any claims which it may have against any Noteholder against any of its obligations under the Guarantee.

No security of whatever kind is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Noteholders under the subordinated Guarantee. No subsequent agreement may limit the subordination of this Guarantee or shorten the term of this Guarantee. If payments on the Guarantee are made prematurely, such payments must be repaid to the Guarantor irrespective of any agreement to the contrary unless the Guarantor has been dissolved or the amounts paid have been replaced by other at least equivalent capital (*Eigenmittel*) of at least equal status.

Es ist Sinn und Zweck dieser nachrangigen Garantie sicherzustellen, dass die Anleihegläubiger unter allen Umständen, ob rechtlicher oder tatsächlicher Natur, und unabhängig von der Wirksamkeit oder Durchsetzbarkeit der Verpflichtungen der Emittentin oder der Gesellschaft (außer der Garantin), die gegebenenfalls die Emittentin gemäß § 11 der Bedingungen der Schuldverschreibung (die **Anleihebedingungen**) ersetzt hat (die **Neue Emittentin**), und unabhängig von sonstigen Gründen, aufgrund derer eine Zahlung durch die Emittentin oder die Neue Emittentin unterbleiben mag, die zahlbaren Kapitalbeträge, Zinsen und sonstigen aufgrund der Anleihebedingungen an die Anleihegläubiger zahlbaren Beträge zu den Fälligkeitsterminen erhalten, die in den Anleihebedingungen festgesetzt sind.

Sämtliche Zahlungen unter dieser nachrangigen Garantie werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren jedweder Art (**Steuern**) geleistet, die von dem Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Garantin zusätzliche Beträge zahlen (die **Zusätzlichen Beträge**), so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Solche zusätzlichen Beträge sind jedoch nicht zahlbar wegen solcher Steuern:

- (i) denen ein Anleihegläubiger wegen einer anderen Beziehung zum Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland unterliegt als der bloßen Tatsache, dass er der Inhaber der betreffenden Schuldverschreibungen ist; oder
- (ii) deren Einbehalt oder Abzug auf eine Zahlung an eine natürliche Person erfolgt und zwar auf der Grundlage der Richtlinie 2003/48/EC der Europäischen Union oder einer anderen Richtlinie der Europäischen Union zur Besteuerung privater Zinserträge, die die Beschlüsse der ECOFIN-Versammlung vom 26. bis 27. November 2000 umsetzt oder aufgrund eines Gesetzes, das aufgrund solcher Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder
- (iii) denen der Anleihegläubiger nicht unterläge, wenn er seine Schuldverschreibungen binnen 30 Tagen nach Fälligkeit bzw., falls die notwendigen Beträge der Hauptzahlstelle bei Fälligkeit nicht zur Verfügung gestellt worden sind, nach dem Tag, an dem diese Mittel der Hauptzahlstelle zur Verfügung gestellt worden sind und dies gemäß § 10 der Anleihebedingungen bekannt gemacht wurde, zur Zahlung vorgelegt hätte.

The intent and purpose of this subordinated Guarantee is to ensure that the Noteholders shall, under all circumstances, whether factual or legal, and regardless of the validity and enforceability of the obligations of the Issuer or the company (other than the Guarantor) which may have been substituted for the same (the **Substitute Issuer**) pursuant to § 11 of the terms and conditions of the Notes (the **Conditions**), or of any other grounds on the basis of which the Issuer or the Substitute Issuer may fail to effect payment, receive the amounts payable as principal, interest and other amounts payable to the Noteholders pursuant to the Conditions on the due dates therefore provided for in the Conditions.

All payments under this subordinated Guarantee will be made free and clear of, and without withholding of or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by the Grand Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) or any political subdivision or any authority of or in the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) that has power to tax, unless that withholding or deduction is required by law. In that event, the Guarantor will pay such additional amounts (the **Additional Amounts**) as will result in receipt by the Noteholders of the same amounts as they would have received if no such withholding or deduction had been required. However, no such Additional Amounts shall be payable with respect to such Taxes:

- (i) to which a Noteholder is liable because of a relationship with the Grand-Duchy of Luxembourg or the Federal Republic of Germany other than the mere fact of his being the holder of the relevant Notes; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iii) to which the Noteholder would not be subject if he had presented his Notes for payment within 30 days from the due date for payment, or, if the necessary funds have not been provided to the Principal Paying Agent when due, from the date at which such funds have been provided to the Principal Paying Agent, and a notice to that effect has been published in accordance with § 10 of the Conditions.

Die Garantin verpflichtet sich ferner gegenüber jedem Anleihegläubiger, solange wie die Schuldverschreibungen nicht vollständig zurückgezahlt sind und die Garantin nicht gesetzlich zur Aufstellung und Veröffentlichung von Konzernabschlüssen verpflichtet ist, konsolidierte Jahresabschlüsse nach Maßgabe entweder (nach Wahl der Garantin) der International Financial Reporting Standards (IFRS) oder den in den Vereinigten Staaten von Amerika allgemein anerkannten Grundsätzen ordnungsgemäßer Rechnungslegung (US GAAP) in der Weise zu erstellen und zu veröffentlichen, als finde die jeweils geltende gesetzliche Verpflichtung hierfür auf sie Anwendung.

Diese nachrangige Garantie ist ein Vertrag zugunsten der jeweiligen Anleihegläubiger als begünstigte Dritte gemäß § 328 Abs. 1 BGB, der jedem Anleihegläubiger das Recht gibt, Erfüllung der hierin übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

Die Garantin erklärt, dass für den Fall von Zahlungen der Emittentin an die Anleihegläubiger, die nach erfolgter Zahlung insgesamt oder zum Teil für unwirksam, missbräuchlich oder anfechtbar erklärt werden und/oder an die Emittentin, die Insolvenzmasse, den Insolvenzverwalter oder an eine andere Partei aufgrund irgendeines Insolvenzrechts oder dessen Auslegung zurückgezahlt werden, diese Garantie in vollem Umfang wie vor dem Zeitpunkt der ersten Zahlung, Abgeltung oder Befriedigung fortbesteht.

Begriffe, die in den Anleihebedingungen definiert sind, haben in dieser nachrangigen Garantie die gleiche Bedeutung wie in den Anleihebedingungen, soweit sie in dieser nachrangigen Garantie nicht anderweitig definiert sind.

Die diese nachrangige Garantie annehmende Citibank, N.A. handelt nicht als Treuhänderin oder in ähnlicher Funktion für die Anleihegläubiger. Die Citibank, N.A. verpflichtet sich, das Original dieser nachrangigen Garantie bis zur Erfüllung sämtlicher Verpflichtungen aus den Schuldverschreibungen und dieser nachrangigen Garantie zu verwahren.

Die Rechte und Pflichten aus dieser nachrangigen Garantie bestimmen sich ausschließlich nach deutschem Recht. Gerichtsstand ist Frankfurt am Main, Bundesrepublik Deutschland.

Die deutsche Fassung dieser nachrangigen Garantie ist allein rechtsverbindlich. Die englische Übersetzung dient nur zur Information.

For as long as any of the Notes remain outstanding and the Guarantor is not required by law to draw up and publish consolidated financial statements, the Guarantor undertakes to each noteholder from time to time to draw up and publish consolidated annual financial statements complying either (at the election of the Guarantor) with International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States of America (US GAAP) in such manner as if the legal requirement to do so applicable from time to time were applicable to the Guarantor.

The Subordinated Guarantee constitutes a contract in favour of the Noteholders from time to time as third party beneficiaries pursuant to § 328 paragraph 1 of the German Civil Code (*Bürgerliches Gesetzbuch*) giving rise to the right of each Noteholder to require performance of the obligations undertaken herein directly from the Guarantor and to enforce such obligations directly against the Guarantor.

The Guarantor further agrees that to the extent that the Issuer makes a payment or payments to the Noteholders, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, and/or required to be repaid to the Issuer or its estate, trustee, receiver, or any other party under any bankruptcy law, or officially binding interpretation thereof, then to the extent of such payment or repayment, this Guarantee continues in full force and effect as of the date such initial payment, reduction, or satisfaction occurred.

Unless otherwise defined herein, terms used herein and defined in the Conditions shall in this subordinated Guarantee have the meaning attributed to them in the Conditions.

Citibank, N.A. which accepts this subordinated Guarantee does not act in a fiduciary or similar capacity for the Noteholders. Citibank, N.A. agrees to hold the original copy of this subordinated Guarantee in custody until all obligations under the Notes and the subordinated Guarantee have been fulfilled.

The rights and obligations arising from this Subordinated Guarantee shall in all respects be determined in accordance with German law. The place of jurisdiction shall be Frankfurt/Main, Federal Republic of Germany.

The German version of this Subordinate Guarantee shall be the only legally binding version. The English translation is for convenience only.

Hannover,  
Februar 2005

Hanover,  
February 2005

Talanx Aktiengesellschaft

---

Wir nehmen die obenstehenden Erklärungen an.

London,  
Februar 2005

London,  
February 2005

Citibank, N.A.

## USE OF PROCEEDS

The net proceeds from the issue of the Notes, amounting to approx. € 347,753,000 will be used by the Issuer to make one or more capital loans to the Guarantor (hereinafter together with all of its affiliated companies within the meaning of Section 17 of the German Stock Corporation Act (*Aktiengesetz*) the “Talanx Group” or the “Group”) or one or several wholly-owned subsidiaries within the Talanx Group pursuant to the relevant capital loan agreement or agreements. Any net proceeds of the issuance of the Notes not advanced to the Guarantor or one or several wholly-owned subsidiaries within the Group will remain with the Issuer.

The aforementioned borrower or borrowers – in addition to strengthening the capital base of the Group – intend to use such net proceeds for their general insurance operations in accordance with their articles of association and intend to further pursue appropriate M&A related investments, the possibility of which the Group is regularly examining. Such investments might be of a substantial nature and might exceed the scope of M&A transactions carried out in the past. The Talanx Group is in particular seeking to significantly enhance its primary insurance activities in Europe through appropriate M&A investments. Any M&A investment, in particular investments that are large in scope, might have an effect – detrimental or not, as the case may be – on the Group’s rating and/or the rating of individual companies within the Group.

## DESCRIPTION OF THE ISSUER

### Incorporation, Corporate Seat, Duration and Objects

Talanx Finanz (Luxemburg) S.A. (the "Issuer") was incorporated as a public company limited by shares (*société anonyme*) for an unlimited duration on 13 May 2002 in Luxembourg. It has its registered office at 25A, Boulevard Royal, L-2449 Luxembourg.

The Issuer is registered with the trade and companies register at the district court of Luxembourg under number B 87.351 and its articles of incorporation have been published in the Mémorial C, Recueil des Sociétés et Associations of Luxembourg on 25 July 2002 (no.1124).

Pursuant to the articles of association of the Issuer, the object of the Issuer is the holding of participations, in any form whatsoever, directly or indirectly, in Luxembourg or in foreign companies, the acquisition by purchase, subscription or in any other way of stocks, bonds, notes, debentures or other securities of any kind; the securitisation of loans as well as the transfer by sale, exchange or otherwise and the holding, development and management of these securities. The Issuer may also hold participations in partnerships.

The Issuer may enter into loans of any nature, issue debt securities and enter into any other type of secured liabilities. The Issuer may grant loans to its subsidiaries or to any other companies of the HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit ("HDI V.a.G.") Group (note: HDI V.a.G. is the sole shareholder of the Guarantor and the ultimate parent of the Issuer). The Issuer may also extend surety for its subsidiaries or any other companies of the HDI V.a.G. Group vis-à-vis third parties. The Issuer may conclude currency swap contracts and/or interest rate swaps, and enter into contracts on derivative instruments, currency hedging and/or similar contracts.

In general, the Issuer may avail itself of all and any investment methods which are in the interest of the development of the Issuer, in particular methods aiming at protecting the Issuer from risks linked to currencies, interest rate losses or similar risks.

The Issuer may also take all controlling measures and carry out all transactions which it may deem useful in the accomplishment and development of its corporate object.

The annual general meeting of the shareholders of the Issuer takes place on the second Wednesday of June at 11.00 a. m.

### Share Capital and Ownership

The issued paid-up capital of Talanx Finanz (Luxemburg) S.A. of € 2,000,000 consists of 2,000 registered shares with par value of € 1,000 per share. Of the 2,000 shares, 1,999 shares are held by the Guarantor and one share is held by Dietmar Stenzel, who is one of the four directors of the Issuer.

### Capitalisation

The following table sets forth the actual (unaudited and unreviewed) capitalisation of the Issuer as of 31 December 2004\* and the pro forma capitalisation of the Issuer adjusted to reflect the issuance of the Notes and the application of the proceeds thereof:

	31 December 2004	
	Actual (unaudited and unreviewed)	Pro forma as adjusted to reflect the issue of the notes
	(€ thousand)	
Common stock	2,000.00	2,000.00
Additional paid-in capital	3,000.00	3,000.00
Statutory reserve	8.98	8.98
Retained earnings	158.00	158.00
Notes to be issued	–	350,000.00
Other liabilities	3.36	3.36
	<u>5,170.34</u>	<u>355,170.34</u>

### Significant Other Financial Particulars

Significant other financial particulars are financial assets, i.e. a claim in an amount of € 5,000,000 against the Guarantor (part of a bond issued by the Guarantor) as of December 31, 2004.

\* Save as disclosed above, there has been no material change to the capitalisation of the Issuer since that date.

## Balance Sheet

The following table contains the unconsolidated audited balance sheet of the Issuer for the financial years ended 31 December 2003 and 2002:

	31 December 2003 (€)	31 December 2002 (€)
<b>Assets</b>		
<b>Fixed assets</b>		
Financial assets (investments)		
Receivables from affiliated companies	5,000,000.00	0.00
<b>Current assets</b>		
Receivables		
Other Receivables	130,721.83	0.00
Bank deposit	142,341.64	5,104,769.89
	<u>273,063.47</u>	<u>5,104,769.89</u>
	<u>5,273,063.47</u>	<u>5,104,769.89</u>
<b>Liabilities</b>		
<b>Shareholders' equity</b>		
Common stock	2,000,000.00	2,000,000.00
Additional paid-in capital	3,000,000.00	3,000,000.00
Statutory reserve	3,371.20	0.00
Retained earnings	64,000.00	0.00
	<u>5,067,371.20</u>	<u>5,000,000.00</u>
<b>Provisions</b>		
Provision for deferred taxes	104,398.69	29,398.69
Other provisions	0.00	8,000.00
	<u>104,398.69</u>	<u>37,398.69</u>
<b>Liabilities</b>		
Other liabilities	1,680.00	0.00
Balance sheet profit	99,613.58	67,371.20
	<u>5,273,063.47</u>	<u>5,104,769.89</u>

## Statement of Income

The following shows the statement of income for the Issuer for the period started 1 January 2003 and ended 31 December 2003 and started 13 May 2002 and ended 31 December 2002:

	1 January 2003 – 31 December 2003 (€)	13 May 2002 – 31 December 2002 (€)
Administration costs	-28,886.46	-8,157.39
Other operating income	3,000.00	0.00
Other interest and similar income	200,500.04	104,927.28
thereof from affiliates	130,557.38	0.00
Operating profit	174,613.58	96,769.89
Taxes on operating profit	-50,000.00	-29,398.69
Other taxes	-25,000.00	0.00
Balance sheet profit	<u>99,613.58</u>	<u>67,371.20</u>

## Financial Year

The financial year of the Issuer is the calendar year.

## Board of Directors

The Issuer has a Board of Directors (Verwaltungsrat) consisting of four directors:

Name	Position/Responsibilities within Board of Directors	Principal (Outside) Activity
Herbert K. Haas	Member	Member of the Boards of Management of Talanx AG HDI Industrie Versicherung AG HDI Privat Versicherung AG HDI Service AG HDI Haftpflichtverband der Deutschen Industrie V.a.G
Götz Hartmann	Member	Executive General Manager ( <i>Generalbevollmächtigter</i> ) of Talanx AG; head of tax and accounting department of Talanx AG
Dr. Martin Wienke	Member	Executive General Manager ( <i>Generalbevollmächtigter</i> ) of Talanx AG; head of group legal department of Talanx AG
Dietmar Stenzel	Member/Daily Management Operations	Executive Member of the Boards of Directors of Euro International Reinsurance S.A., Luxembourg and Hannover Finance (Luxembourg) S.A.

The Issuer has no employees and has entered into a service agreement with a service provider for administrative services.

## Auditors

KPMG Audit, 31, Alleé Scheffer, L-2520 Luxembourg, has been appointed to act as statutory auditor (*Rechnungskommissar*) of the Issuer. They have audited the financial statements for the years ending 31 December 2002 and 31 December 2003 and each of them received an unqualified auditors' certificate.

## Interim Financial Statements

The Issuer currently does not, and does not intend to, publish interim financial statements.

## Recent Developments

Since its incorporation, the Issuer has not engaged in any business activities save that, in July 2003, it has purchased from the Guarantor in the principal amount of € 5,000,000 a fixed interest bearing bond (*Inhaberschuldverschreibung*) issued by the Guarantor. The Issuer continues to hold such bond as a capital investment.

## DESCRIPTION OF THE GUARANTOR

### Incorporation, Corporate Seat, Duration and Purpose

Talanx Aktiengesellschaft (“Talanx AG” or the “Guarantor” and, together with its subsidiaries, the “Talanx Group”) was incorporated as a stock corporation on 22 August 1991, in Hannover, Germany, under the name “HDI Lebensversicherung AG”. Later, it became a holding company and was renamed “HDI Beteiligung Aktiengesellschaft”. In 1998, the Guarantor received its current name. The registered office of Talanx AG is at Riethorst 2, 30659 Hannover, Germany. The Guarantor is registered with the Commercial Register of the Local Court (*Amtsgericht*) Hannover under registration number HRB 52546.

The duration of the Guarantor is unlimited.

The corporate object of the Guarantor, as laid out in the articles of association, is to lead a group of domestic and foreign insurance companies, asset management firms and other enterprises. The Guarantor may also conduct investment activities, reinsurance and service business. In pursuing such object, the Guarantor may establish or acquire other companies or participate in such companies. It is furthermore entitled to effect all transactions and take all measures that appear appropriate in order to further the object of the Guarantor as well as to take out loans and issue bonds within the scope of the object of the Guarantor.

Announcements of the Guarantor are published in the electronic Federal Gazette of Germany (*elektronischer Bundesanzeiger*).

### Share Capital, Shares and Dividends

Since 8 September 2003, the issued share capital of the Guarantor amounts to € 260,000,000, consisting of 260,000 registered shares without par value (*Stückaktien*). The shares are fully paid up. They are not listed to be traded on any stock exchange. There is no authorised or conditional capital. Shares may only be transferred with the consent of the Guarantor which may only be declined for reasons that the Guarantor deems compelling. HDI V.a.G is the sole shareholder of Talanx AG.

### Capitalisation

The following table shows the estimated (unaudited and unreviewed) capitalisation of the Guarantor as of 31 December 2004\*.

	(€ thousand)
<b>Capitalisation</b>	
Common stock	260,000
Additional paid-in capital	629,529
Retained earnings	1,890,272
Balance sheet profit	96,300
Total shareholders' equity	<u>2,876,101</u>
<b>Liabilities</b>	
Bonds	175,000
Short-term bank loans	74,900
Short-term loans to affiliated companies	545,422
Other liabilities	9,814
Total debt and capitalisation	<u>3,681,237</u>

### Balance Sheet Profit after Tax of Talanx Group

The following table provides an overview of the consolidated US-GAAP net income for the fiscal years 2001, 2002 (before as-if-pooling method\*\*) and 2003:

Year	Balance Sheet Profit after Tax (€ thousand)
2003	337,667
2002	165,775
2001	115,548

\* Save as disclosed above, there has been no material change to the capitalisation of the Guarantor since that date.

\*\* As to the as-if-pooling method, please refer to the Consolidated Financial Statements of 2003, “Consolidation Principles”.

## **Business of the Talanx Group**

The Guarantor is the central holding company within the Talanx Group (formerly “HDI Group”, both hereinafter referred to as the “Talanx Group”) and is wholly owned by HDI V.a.G., a mutual company founded in 1903 as a self-help organisation by German industry. Talanx AG is the only material participation of HDI V.a.G, the ultimate parent whose practically only function is – after restructuring and transferring all of its private and industrial insurance business into HDI Privat Versicherung AG and HDI Industrie Versicherung AG in 2001 and 2003, respectively – the holding of the Talanx Group. Measured by gross written premiums of approximately € 14.8 billion in 2003, the Talanx Group is the third largest insurance group in Germany. The Talanx Group consists of Talanx AG which holds all of the Talanx Group’s operating subsidiaries (see Group chart below). The Group has consistently held and continues to hold a strong position in industrial insurance and other areas of property and casualty insurance, as well as in the reinsurance business through Hannover Rückversicherung AG (“Hannover Re”).

Since the early 1990s, one of the Talanx Group’s main strategic focus has been to build up and develop its life and other personal lines businesses and to expand its life and direct insurance operations internationally. This is in part due to the Talanx Group’s desire to strengthen its activities outside of the highly competitive non-life insurance market in Germany and to balance the risk profile inherent in the Talanx Group’s domestic business.

In order to finance its growth, the Talanx Group sold a part of its holding in Hannover Re in 1994 in the course of an initial public offering and another part in 2004 in the course of a secondary public offering. Talanx AG holds a participation of 51.2% in Hannover Re.

In 1995, the Talanx Group acquired Citibank’s insurance operations consisting of CiV Lebensversicherung AG and CiV Versicherung AG, and additionally other life insurance activities, which are today part of ASPECTA Lebensversicherung AG (“ASPECTA Leben”).

In 1998, the Talanx Group further increased its bank insurance activities by entering into an exclusive long-term cooperation agreement with Deutsche Postbank AG. In 2002, another long-term cooperation agreement was concluded with the Hungarian postal service, Magyar Posta Rt. In the course of such cooperation, a life insurance company and a property/casualty insurance company were established in Budapest, Hungary. These companies market their products through the sales and marketing channels of the Hungarian postal service. The majority of shares (67%) of these companies are held by different companies of the Talanx Group. The remaining 33% are held by Magyar Posta Rt.

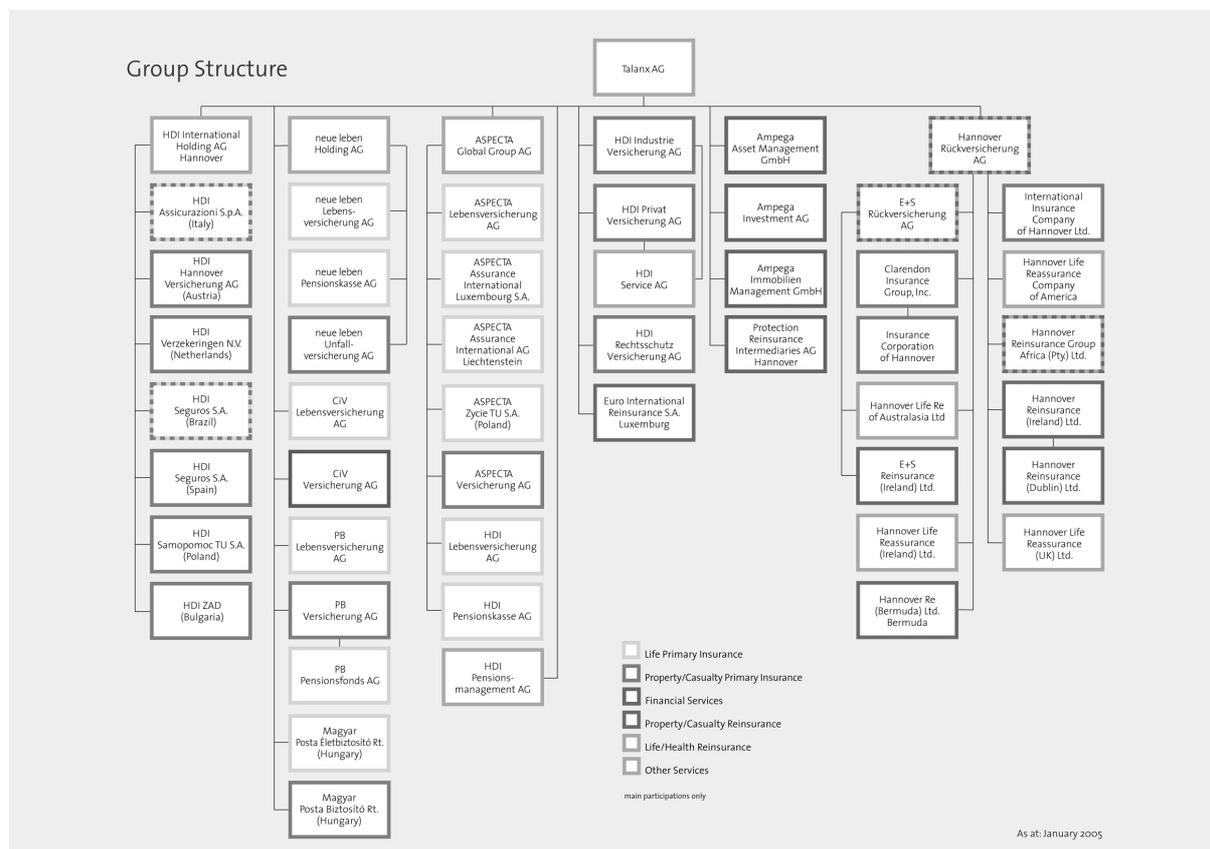
In 2004, the Talanx Group acquired 60% less one share of neue leben Holding AG (“neue leben”), an insurance group that operates in the life and personal accident segment and mainly sells its products via German saving banks.

The Guarantor is responsible for supporting the Talanx Group’s business strategy by managing its participations and providing access to the capital markets. The Guarantor typically uses profits generated from its subsidiary holdings to finance the subsidiaries’ capital needs and to acquire additional companies.

## **The Guarantor’s Business Segments**

The activities of the Talanx AG subsidiaries are organised in five business segments: two Reinsurance segments, i.e. the Life/Health Reinsurance segment and the Property/Casualty Reinsurance segment as well as Primary Property and Casualty Insurance, Primary Life Insurance and Financial Services.

The following chart provides an overview of the organisational structure of the Talanx Group as of 1 January 2005 including its major subsidiaries\*:



In 2003, the Reinsurance segments accounted for 55% of the Guarantor's business volume measured by gross written premiums. The remaining 45% consisted of Primary Property and Casualty Insurance (38%) and Primary Life Insurance (7%).

Please note that the unconsolidated figures per subsidiary mentioned in the text with the exception of the section Hannover Re Group are local GAAP figures of the country of the subsidiary described. The Talanx Group figures and the figures for Hannover Re Group are based on US-GAAP. The figures for 2002 are presented before as-if-pooling method\*\*.

## Reinsurance business

Talanx Group's reinsurance business is mainly written by Hannover Re. The Reinsurance business is represented worldwide by Hannover Re and its subsidiaries (together the "Hannover Re Group"). The main company in this business segment is Hannover Re in which the Guarantor holds a participation of 51.2%. Hannover Re conducts its own reinsurance business and also operates as a holding company performing management and control functions within the Hannover Re Group.

## Hannover Re Group

With gross written premiums (including the Clarendon Insurance Group Inc.'s ("Clarendon") program business) in excess of € 11.3 billion in 2003 (2002: € 12.5 billion), under US-GAAP the Hannover Re Group is one of the five largest professional reinsurance groups in the world (measured by such gross written premiums; source: A.M. Best). It transacts all lines of property and casualty, life and health and financial reinsurance as well as program business. The Hannover Re Group's worldwide network consists of more than 100 subsidiaries, branches and representative offices in 18 countries. The Hannover Re Group's German business is conducted by its subsidiary E+S Rückversicherung AG. The rating agencies Standard & Poor's and A.M. Best have assigned each of Hannover Re's and E+S Rückversicherung AG's ratings of AA- (Standard & Poor's; Very Strong) and A (A.M. Best; Excellent).

\* The chart does not include Tryg Polska as closing of such acquisition has not yet taken place (see "Description of the Issuer" – "The Guarantor's Business Segments" – "Foreign Primary Property and Casualty Insurance") or the Issuer as Talanx Finanz (Luxemburg) S.A. has not been active since its incorporation (see "Description of Issuer" – "Recent Developments").

\*\* As to the as-if-pooling method, please refer to the Consolidated Financial Statements of 2003, "Consolidation Principles".

Under US-GAAP, Hannover Re Group's net income increased from € 267.2 million in 2002 to € 354.8 million in 2003.

The Hannover Re Group has established four business segments: property and casualty reinsurance, which in 2003 contributed 42% (2002: 48%) to the Hannover Re Group's gross written premiums, life and health reinsurance (2003: 20%; 2002: 20%), financial reinsurance (2003: 15%; 2002: 10%) and program business (2003: 23%; 2002: 22%).

In 2003, Hannover Re Group generated 55% of its gross written premiums in the U.S., 16% in Germany, 20% in the rest of Europe and the remaining 9% in Australia, Asia, Africa and Latin America.

In traditional property and casualty reinsurance the Hannover Re Group still prefers to write non-proportional business in which – unlike with proportional business – it retains complete control over the pricing of the business. In 2003, the proportion of the total property and casualty reinsurance portfolio accounted by non-proportional treaties increased to 81% (2002: 69.8%) across all lines and regions.

The Hannover Re Group has been pursuing a diversification strategy in recent years, as a result of which the business activities have increasingly been focussed on life and health reinsurance. This segment is deemed particularly attractive by Hannover Re for several reasons. In contrast to property and casualty reinsurance, life and health reinsurance has seen sustained growth as a consequence of both the progressive ageing of the population and the continued reduction of government health and pension benefits in the developed world. Moreover, due to its less volatile nature, life and health reinsurance requires a lower capital allocation than property and casualty reinsurance, whilst offering a more stable earnings stream.

While increasing its presence in the life and health reinsurance business segment, the Hannover Re Group has enacted increasingly stringent and uniform underwriting guidelines in property and casualty reinsurance in order to reduce its exposure to competitive business lines. However, the Hannover Re Group continues to seek to increase its presence in areas of property and casualty reinsurance, where these offer innovative and profitable growth opportunities.

Due to the increasing saturation and declining profitability of the German non-life reinsurance market, the Hannover Re Group has been reducing its presence in this domestic market and has been increasing its international activities. Reflecting the importance assigned to the U.S. market, in 1999 the Hannover Re Group completed the acquisition of Clarendon, a leading U.S. writer of program business. Clarendon significantly expanded Hannover Re's presence in the U.S. market. While program business technically speaking is considered part of primary property and casualty insurance, it is heavily reinsured via quota share agreements. Hannover Re retains only a residual risk in this business segment and cedes typically over 50% of total gross written premiums. Within the Talanx Group, Clarendon's program business is included under primary property and casualty insurance.

### **Property and Casualty Reinsurance**

The major companies in this segment are Hannover Re, E+S Rückversicherung AG, Hannover Reinsurance (Ireland) Ltd., Hannover Reinsurance (Dublin) Ltd., Hannover Re (Bermuda) Ltd. and Hannover Reinsurance Group Africa Ltd. The Talanx Group includes financial reinsurance within the property and casualty segment. This business also predominantly belongs to the Hannover Re Group.

In 2003, Talanx Group generated gross written premiums of € 7.5 billion in this segment (2002: € 8.0 billion). EBIT amounted to € 567.2 million (2002: € 398.9 million).

### ***Life/Health Reinsurance***

Talanx Group's Life/Health reinsurance business is mainly written through Hannover Re, E+S Rückversicherung AG, Hannover Life Reassurance (UK) Ltd., Hannover Life Reassurance (Ireland) Ltd., Hannover Life Re of Australia and Hannover Life Reassurance Company of America.

In 2003, gross written premiums in this segment amounted to € 2.3 billion (2002: € 2.6 billion). The decrease is mainly due to the substantial devaluation of certain foreign currencies - especially the US Dollar against the Euro – which offsets the premium growth of 2.2% in original currency. EBIT increased by 48.7% to € 70.7 million (2002: € 47.6 million).

### ***Primary Property and Casualty Insurance***

The Primary Property and Casualty Insurance business segment consists of the following domestic companies of the Talanx Group: HDI Privat Versicherung AG, HDI Industrie Versicherung AG, HDI Rechtsschutz Versicherung AG, CiV Versicherung AG, ASPECTA Versicherung AG, neue leben Unfallversicherung AG and PB Versicherung AG.

This business segment operates via the following major companies in foreign countries: Clarendon Insurance Group Inc in New York., International Insurance Company of Hannover Ltd London, HDI Hannover International España, Cia de Seguros y Reaseguros S.A. in Madrid, HDI Assicurazioni S.p.A. in Rome, HDI Verzekeringen N.V. in Rotterdam, HDI Hannover Versicherung AG in Vienna, HDI Samopomoc TU S.A. in Warsaw, HDI Seguros S.A. in Sao Paulo and Magyar Posta Biztosito Rt. in Budapest.

In 2003, the Talanx Group generated US-GAAP gross written premiums of € 5.6 billion (2002: € 5.5 billion) in this segment. EBIT amounted to € 409 million (2002: € 209 million).

### ***Domestic Primary Property and Casualty Insurance***

#### *HDI Privat Versicherung AG*

HDI Privat Versicherung AG (“HDI Privat”) is 100% owned by the Guarantor. HDI Privat writes personal lines business mainly in Germany through various distribution channels. HDI Privat is known as a low price and low cost provider of insurance products and offers a broad range of personal lines business products to its clients.

The company has increased its gross written premiums from € 621.5 million in 2002 to € 641.6 million in 2003. This increase was mainly based on motor third party liability and motor physical damage business. Whereas the gross loss ratio decreased by 1.3% to 78.4%, the net loss ratio increased due to a favourable loss development and the corresponding negative result from ceded reinsurance. The net combined ratio amounted to 97.6% in 2003 (2002: 87.5%).

The company reported EBIT of € 189.0 million in 2003 (2002: € 61.8 million). This result was impacted by the realised gain of € 155.7 million resulting from a group internal sale of HDI Reinsurance (Ireland) Ltd.

#### *HDI Industrie Versicherung AG*

HDI Industrie Versicherung AG (“HDI Industrie”) is a 100% subsidiary of the Guarantor. HDI Industrie is one of the major providers of commercial lines insurance in Germany. The company believes it enjoys an outstanding reputation in the market for commercial insurance products.

HDI Industrie has increased its gross written premiums significantly from € 1,004.8 million in 2002 to € 1,300.0 million in 2003. This development concerns all lines of business. The most significant increase can be ascribed to fire insurance with growth rates exceeding 50%. The number of existing contracts remained almost unchanged. In comparison to the previous year, the amount of net claims decreased, resulting in a significantly decreased net loss ratio of 74.9% (2002: 99.7%) and a combined ratio of 90.3% (2002: 106.3%) before equalisation reserve. Due to the fact that – based on the highly profitable results – an increase in the equalisation reserve (only German GAAP) of € 85.9 million was necessary, the underwriting result for German GAAP was negative. For US-GAAP purposes, the increase of the equalisation reserve was eliminated.

The general business result could not compensate for the technical underwriting loss after allocation to the equalisation reserve resulting in a loss from ordinary operations of € 12.6 million in 2003 compared to a profit of € 21.8 million in 2002. In addition, deferred tax assets were released leading to a net loss after tax of € 66.6 million. Due to the existing profit and loss transfer agreement, the loss was transferred to the Guarantor.

#### *HDI Rechtsschutz Versicherung AG*

HDI Rechtsschutz Versicherung AG, Hannover, a 100% subsidiary of the Guarantor, primarily conducts legal expenses insurance. In 2003, the company achieved gross written premiums of € 29.0 million (2002: € 27.6 million).

EBIT amounted to € 7 million in 2003 (2002: € 2.2 million).

#### *CiV Versicherung AG*

CiV Versicherung AG, Hilden, is a 100% owned subsidiary of the Guarantor. The company cross-sells its products to the customer base of Citibank Privatkunden AG, offering personal accident insurance and unemployment insurance policies.

In 2003, gross written premiums decreased to € 111.1 million (2002: € 126.9 million). This decrease can be attributed to lower gross written premiums in the unemployment insurance business line (€ -34 million). The company’s EBIT increased significantly by 46% to € 13.9 million in 2003 (2002: € 9.5 million).

### *ASPECTA Versicherung AG*

ASPECTA Versicherung AG, Hamburg, is a 100% owned subsidiary of ASPECTA Global Group AG, which, in turn, is a 100% subsidiary of the Guarantor. The company provides personal accident, personal liability, household content, legal expenses and pecuniary loss insurance coverage. In 2003, gross written premiums totalled € 13.5 million (2002: € 8.5). EBIT amounted to € 0.3 million (2002: € -1.7 million).

### *PB Versicherung AG*

PB Versicherung AG, Hilden, a 50/50 joint venture with Deutsche Postbank AG, started its business operations in April 1999. The company also distributes its products through the branch networks of Deutsche Post AG and Deutsche Postbank AG. In 2003, the company had increased gross written premiums by 48% to € 9.1 million (2002: € 6.1 million). Primarily due to start-up expenses, the company suffered a loss of € 4.2 million (2002: loss of € 5.3 million).

### *neue leben Unfallversicherung AG*

In 2004, Talanx AG acquired 60% less one share of neue leben, which is the 100% owner of neue leben Unfallversicherung AG. neue leben Unfallversicherung AG generated € 16.5 million of gross written premiums in 2003 with a net combined ratio of 76.1%. The company sells its products mainly via German saving banks. The company will be fully consolidated in 2004 in the Talanx AG consolidated statements.

### ***Foreign Primary Property and Casualty Insurance***

The Clarendon Insurance Group Inc. in New York transacts program business as a primary insurer and is the market leader in this sector in the USA. The company is 100% owned by Hannover Re. Program business is a specialty form of primary insurance which concentrates on closely defined, homogeneous portfolios of niche risks that are not normally offered or adequately covered by traditional insurers.

In 2003, Clarendon generated gross written premiums of USD 2.9 billion (2002: USD 3.0 billion) and EBIT of USD 53.3 million (2002: USD 63 million).

The International Insurance Company of Hannover Ltd London (“Inter Hannover”) is also 100% owned by Hannover Re. Inter Hannover transacts insurance and reinsurance business from its headquarters in the United Kingdom as well as through its Swedish branch office. Its activities in traditional insurance have been dominated in recent years by property, liability and aviation insurance.

Inter Hannover showed gross written premiums of GBP 361 million in 2003 (2002: GBP 277.9 million). EBIT amounted to GBP 7.7 million (2002: GBP 0.9 million).

The remaining part of the foreign Primary Property and Casualty Insurance business is combined under HDI International Holding AG, Hannover, which currently holds participations of main subsidiaries in Italy (100%), The Netherlands (100%), Austria (99,76%), Belgium (100%), Brazil (99,99%), Spain (100%) and Poland (99,22%).

In Spain, HDI Hannover International España, Cia de Seguros y Reaseguros S.A. increased gross written premiums by 10.2% to € 203.4 million in 2003 (2002: € 184.5 million). The company reported EBIT of € 4.1 million compared to € 2.2 million in 2002.

The Italian subsidiary, HDI Assicurazioni S.p.A., reported increased gross written premiums by 10.2% to € 188 million in 2003. EBIT remained positive at € 5.1 million (2002: € 2.9 million).

HDI Verzekeringen N.V. in The Netherlands showed a premium increase of 19.5% to € 196.1 million in 2003 (2002: € 164.1 million). EBIT improved by 27% to € 7 million in 2003 (2002: € 5.5 million).

The Austrian market is covered by HDI Hannover Versicherung AG, Wien. In 2003, this company reported gross written premiums of € 124.6 million, i.e. plus 18.5% (2002: € 105.2 million), and EBIT of € 1.6 million (2002: € 0.5 million).

In Poland, Talanx Group is represented by HDI Samopomoc TU S.A. In 2003, the gross written premium income amounted to PLN 379.9 million, i.e. plus 5.9% (2002: PLN 358.6 million), with EBIT of PLN 5.6 million (2002: PLN 9.3 million) In order to further improve its market presence in the Polish market, Talanx AG acquired 100% of the shares of Tryg Polska in December 2004. Closing is scheduled to take place in 2005 depending on the approval of the insurance authorities and the anti monopoly notification.

The Brazilian subsidiary, HDI Seguros S.A., reported gross written premiums of BRL 255.4 million in 2003, i.e. plus 7.2% (2002: BRL 238.2 million), and EBIT of BRL 13.1 million (2002: BRL 7.3 million).

### ***Primary Life Insurance***

The Primary Life Insurance business segment is mainly comprised of the following life insurance companies: ASPECTA Leben, ASPECTA Assurance International AG, ASPECTA Assurance International Luxemburg S.A., HDI Lebensversicherung AG, CiV Lebensversicherung AG, neue leben Lebensversicherung AG, Magyar Posta Eletbiztosito Rt. and PB Lebensversicherung AG. In addition to that, further companies representing this business segment exist in Italy, Poland and Brazil.

In the growing market of company's pension schemes the Talanx Group is represented via its consultancy company HDI Pensionsmanagement AG as well as via HDI Pensionskasse AG and PB Pensionsfonds AG as product providers.

These companies each cover specifically defined market segments with tailored distribution concepts and product ranges.

In 2003, the Talanx Group generated gross written premiums of € 1.0 billion (2002: € 0.9 billion) in this segment. EBIT amounted to € 45.0 million (2002: € 37.5 million).

#### *ASPECTA Lebensversicherung AG*

ASPECTA Leben, Hamburg, is a 100% owned subsidiary of ASPECTA Global Group AG ("ASPECTA Global Group"). ASPECTA Global Group is a 100% owned subsidiary of the Guarantor. ASPECTA Leben offers a complete range of life insurance products, with specific focus in unit-linked life insurance, which it distributes primarily through independent brokers and multi-tied agents in both Germany and Austria.

In 2003, the company had gross written premiums of € 378.3 million (2002: € 352.3 million). The total sum insured amounted to 16.2 billion (2002: € 15.4 billion). The company posted a net loss of € 5.3 million (2002: profit of € 0.1 million) which was transferred to ASPECTA Global Group on the basis of a profit and loss transfer agreement. EBIT amounted to € -3.5 million in 2003 (2002: € 0.5 million).

#### *ASPECTA Assurance International AG*

ASPECTA Assurance International AG is a 100% owned subsidiary of ASPECTA Global Group and is located in Liechtenstein. Its major market is Switzerland. In 2003, the company had gross written premiums of € 42.5 million (2002: € 36.6 million) and EBIT of € -1.5 million (2002: € 0.1 million) which was heavily impacted by extraordinary restructuring expenses.

#### *ASPECTA Assurance International Luxemburg S.A.*

ASPECTA Assurance International Luxemburg S.A. is also a 100% owned subsidiary of ASPECTA Global Group. The company offers its products through branches in Italy and Spain as well as in Belgium and France. The company showed gross written premiums of € 27.9 million in 2003 (2002: € 25.6 million) and EBIT of € 0.3 million (2002: € 0.1 million).

#### *HDI Lebensversicherung AG*

HDI Lebensversicherung AG, Hamburg, is a 100% owned subsidiary of ASPECTA Global Group. The company is a direct insurer focussed on private retirement provision, term cover and whole life insurance, as well as innovative forms of corporate pension plans.

In 2003, the company had gross written premiums of € 86.0 million (2002: € 79.8 million). The total sum insured in 2003 amounted to € 6.0 billion (2002: € 5.6 billion). The company posted EBIT of € 0.8 million (2002: € 0.1 million).

#### *CiV Lebensversicherung AG*

CiV Lebensversicherung AG, Hilden, is a 100% owned subsidiary of the Guarantor. The company cross-sells insurance products to the customer base of Citibank Privatkunden AG. Policies are offered primarily for term insurance, endowments and annuities. The majority of term insurance policies written are linked to consumer credits (credit life insurance).

In 2003 the company had gross written premiums of € 637.4 million (2002: € 634.8 million). The total sum insured amounted to € 18.7 billion (2002: € 17.3 billion). EBIT amounted to € 31.2 million in 2003 (2002: € 29.6 million).

#### *PB Lebensversicherung AG*

PB Lebensversicherung AG, Hilden, a 50/50 joint venture between Talanx AG and Deutsche Postbank AG, started its business operations concurrently with PB Versicherung AG. Its products are distributed through the branch networks of Deutsche Post AG and Deutsche Postbank AG. The company offers annuity insurance,

endowment life insurance and term life products which are marketed as part of the financial services offered by Deutsche Post AG and Deutsche Postbank AG.

Gross written premiums were € 58.7 million in 2003 (2002: € 48.9 million). The total sum insured amounted to € 2.1 billion (2002: € 1.8 billion). The company suffered a loss of € 5.9 million due primarily to start-up expenses. 50% of such loss was assumed by the Guarantor on the basis of a profit and loss transfer agreement.

#### *Magyar Posta Eletbiztosito Rt.*

Magyar Posta Life Insurance of Budapest, Hungary, is a joint venture between the Guarantor and the Hungarian Post Magyar Posta Rt. that was established in 2002. The company started to write business in 2003. Its products are distributed through the branch networks of Magyar Posta Rt. in Hungary.

While gross written premiums were € 16.8 million in 2003 (2002: € 0), the company suffered a loss of € 2.3 million due primarily to start-up expenses.

#### *neue leben Lebensversicherung AG*

In 2004, Talanx AG acquired 60% less one share of neue leben, which is the 100% owner of neue leben Lebensversicherung AG. Neue leben Lebensversicherung AG generated € 677.0 million of gross written premiums in 2003 (2002: € 644.2 million). The company sells its products mainly via German savings banks. The company will be fully consolidated in 2004 in the Talanx Group consolidated statements.

#### **Financial Services**

The Financial Services business segment is focussed on the development of asset management activities for both the Guarantor and its subsidiaries, as well as third parties. The business segment consists of Ampega Asset Management GmbH, Ampega Investment AG, Ampega Immobilien Management GmbH (together the “Ampega companies”) and Protection Reinsurance Intermediaries AG.

#### **Ampega Asset Management GmbH**

Ampega Asset Management GmbH manages all investments of the Talanx Group. It is a 100% subsidiary of the Guarantor. Its objective is to explore synergies in asset management between the investment activities of the entities within the Talanx Group. Furthermore, Ampega Asset Management GmbH provides financial services to the group companies. The managed investment volume increased to € 20.9 billion in 2003 from € 18.5 billion in 2002.

EBIT amounted to € 11.6 million in 2003 (2002: € 8.3 million).

#### *Ampega Investment AG*

Ampega Investment AG was established on 17 November 1999 and is licensed as an investment company (*Kapitalanlagegesellschaft*) by the German Federal Supervisory Authority for Financial Services (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “BaFin”). Ampega Investment AG is a joint venture between the Guarantor (70%) and Putnam Investments, LLC (30%). Operating activities commenced at the end of April 2000. The joint venture markets its products such as special funds, mutual funds but also discretionary accounts including special administration services (i.e. outsourcing services for insurance companies) to institutional and retail clients. The company reported EBIT of € -2.9 million in 2003 primarily due to start-up expenses (2002: € -2.6 million).

#### *Ampega Immobilien Management GmbH*

Ampega Immobilien Management GmbH manages the Talanx Group’s buildings and real property.

#### *Protection Reinsurance Intermediaries AG*

Since 2003, Protection Reinsurance Intermediaries AG is responsible for purchasing all of the non-life reinsurance protection for the primary insurance companies (except for Clarendon and Inter Hannover) within the Talanx Group.

#### **Recent Developments – Forecast financial information as of 31 December 2004 prepared on the basis of the information available in October 2004**

*Talanx Group’s forecast consolidated financial information as per 31 December 2004 contained in this section has been prepared by the Guarantor on the basis of the information available in October 2004 and projected to 31 December 2004. The forecast consolidated financial figures set out below are not the final annual consolidated financial statements for the year ending 31 December 2004 and have not yet been*

*reviewed by Talanx AG's auditors nor approved by Talanx AG's supervisory board. Therefore, such figures should not be relied upon as final. It cannot be excluded that the figures which will be contained in the audited consolidated 2004 financial statements may deviate from the figures contained in this section. Talanx Group's reporting is in compliance with US-GAAP. The financial information in this section is based on an assumed average US dollar exchange rate of 1.23 Euros for the full financial year 2004.*

#### **Notable major events for 2004**

The Talanx Group believes that the following major events had the most significant impact on the business development of the Group in 2004:

- Initial consolidation of the newly acquired neue leben group with an increase of gross written premiums of approximately € 688 million and an increase of EBIT of approximately € 13 million.
- Secondary public offering ("SPO") of Hannover Re with an increase of group EBIT by € 185 million.
- Effect of the unusually high frequency of severe hurricanes in the southern part of the United States of America with a total net loss before tax of approximately € 300 million.
- Effect of continuing decrease of the U.S. Dollar.

More detailed information can be found in the following.

#### **Projected year-end financial figures for 2004**

##### *Talanx Group overall*

With an expected increase of 20% in EBIT to € 990 million the Talanx Group is set to surpass the record result of the previous year. In addition to the favourable development of the Group segments Reinsurance (Property and Casualty as well as Life and Health), Life Primary Insurance and Financial Services, the income from the SPO of Hannover Re shares in February 2004 had a noticeable impact on the result of Talanx Group. Under the SPO, the Guarantor reduced its participation in Hannover Re from 71.8% to its current participation of 51.2%. The most notable adverse impact on the result derived from the claims experience in the Property and Casualty Primary Insurance segment. The unusually high frequency of severe hurricanes in the southern United States had a considerable effect on profitability in this segment. The total net loss before tax from these loss events amounted to roughly € 300 million. Talanx Group's overall net return on premium is expected to climb to 9.3% (2003: 7.9%). As of today, the flooding in Asia caused by the earthquake and tsunami at the end of 2004 is not expected to have any material impact on projected net income.

Talanx Group's consolidated gross premium income is expected to be slightly lower than in the previous year at € 14.4 billion (2003: 14.8 billion). This decline of 2.7% is attributable to two factors: firstly, it reflects strategic decisions taken in the reinsurance business segments, including for example the so-called "more from less" initiative, a selective underwriting policy geared to enhancing profitability. Secondly, the continuing decrease of the U.S. dollar again played a role in the reduced premium volume: at constant U.S. dollar exchange rates year-on-year consolidated gross premiums would have been slightly higher in 2004. The initial consolidation of neue leben, which was acquired in the course of 2004, however, had a favourable effect on premium income.

Net premiums earned are expected to be 2.0% higher than in 2003 at € 10.6 billion (2003: 10.4 billion). This is due in part to the increase in the level of retained premiums – most notably at HDI Industrie and HDI Privat. A higher retention in attractive market phases reflects Talanx Group's cyclically oriented underwriting policy.

Net investment income of € 1.8 billion (2003: € 1.4 billion) is expected to surpass the previous year's figure by 31.2%, influenced in large measure by the SPO of Hannover Re shares and consolidation of neue leben. With neue leben the increase in ordinary investment income is approximately 17.3% (the Hannover Re SPO is included in extraordinary investment income). Excluding the neue leben effect and excluding other extraordinary effects on the ordinary income the increase amounts to 4.4%. The investment expenses of € 158 million (2003: € 261 million) are expected to be almost 40% lower than in the previous year due to reduced write-offs and losses on disposals. The volume of assets is expected to grow by 38.8% to € 30.2 billion (2003: € 21.8 billion). Without the effect of the initial consolidation of neue leben the asset portfolio would have grown by 13.5%.

The total direct insurance portfolio of the Talanx Group (without Clarendon and Inter Hannover), in 2004 is expected to surpass 10 million policies for the first time in the history of the Talanx Group. The

number of policies has climbed by approximately 10.4% to 11.3 million from 2003 to 2004. Therefore, even without the addition of neue leben to the Group's business, the Group would have exceeded the 10 million mark by almost 600,000 policies in 2004.

#### *Property/Casualty Reinsurance*

Premium income in the Property/Casualty Reinsurance segment is forecast to decline to € 6,191 million (2003: € 7,464 million), i.e. a decline of 17.1% compared to 2003. A restrictive underwriting policy geared purely to profitability has resulted in reduced premium volume. Further factors here are the reorganisation of reinsurance relationships within the Talanx Group, the continuing emphasis on non-proportional business with a lower premium volume but higher profitability and the progressive decrease of the U.S. dollar (exchange-rate effect of approximately minus 3.2%).

On the claims side, the segment was dominated by the hurricanes in the USA and typhoons in Asia. Due to further improvement in the profitability of non-catastrophe related business, however, the combined ratio including other technical income and expenses and interest on deposits in financial reinsurance for the segment is nevertheless expected to decrease to 95.4% in 2004 (2003: 97.1%). EBIT is expected to grow by 7.7% to € 611 million (2003: € 567 million).

#### *Life/Health Reinsurance*

All in all, the result of the Life/Health Reinsurance segment developed favourably in the 2004 financial year. Premiums in this segment are expected to decrease by 12.2% compared to 2003, primarily on account of two factors: the weakness of the U.S. dollar (with an influence of estimated roughly 2.1%) and the discontinuation of a major reinsurance treaty. Net premiums earned will decline by an expected 5.7% owing to the increased level of retained premiums. However, due to sharply higher net investment income the expected EBIT of € 86 million (2003: € 71 million) will surpass the previous year's figures by 22.3%, causing the net return on premium to rise from 3.5% to 4.6%.

#### *Primary Property/Casualty business*

Total premium income in the Property and Casualty Primary Insurance segment is expected to record modest growth of 0.9% to reach € 5,659 million (2003: € 5,611 million). This is based on varying, sometimes offsetting developments, at the individual companies. The foreign companies operated together under HDI International Holding AG achieved premium growth of approximately 9.2%, with the companies in Italy and Poland having generated the strongest growth rates. The recently acquired company Tryg Polska T.U. S.A., Warsaw, is not reflected in the figures presented here since closing has not yet taken place and the target will not be consolidated until next year. Following growth of almost 30% in the previous year, HDI Industrie anticipates a further increase in 2004. After factoring out the effect of the branches in France, the Czech Republic and Switzerland that were transferred from HDI in 2004 to HDI Industrie, premium income is expected to rise by 5.4%. The premium volume booked by the Clarendon Insurance Group is expected to decrease by 8.7% owing to a more restrictive underwriting policy and the decrease of the U.S. dollar.

The underwriting result is expected to deteriorate sharply to minus € 14 million (from € 128 million in 2003), largely due to the heavy impact of the windstorm losses in the southern United States on Clarendon. This will also have implications for EBIT, which at an expected level of € 154 million (2003: € 409 million) is substantially lower than in the previous year. The reduction of EBIT was also influenced by the extraordinary gain achieved in the previous year by the sale of HDI Reinsurance (Ireland) Ltd. The combined ratio including other technical income and expenses for the segment has been similarly affected by this development, rising to 100.6% (2003: 93.7%).

#### *Primary Life business*

Premium income in the Life Primary Insurance segment is expected to be 72.7% higher than in 2003 at € 1.8 billion (2003: € 1.0 billion). The Talanx Group thus, measured by premium income, ranks among the ten largest life insurance groups in Germany. The increase is in large measure attributable to the initial consolidation of the neue leben Group. Without such acquisition, premium income for 2004 would have amounted to € 1.1 billion. Organic growth, which is expected to be at 7.1%, should therefore lie well above the growth rate for the entire German life insurance industry, which in 2004 is expected to stand at 3.5%.

The primary driver of growth in the Group segment of Life Primary Insurance is the bank assurance sector: CiV Lebensversicherung AG has boosted its premium income by an expected 9.3% and PB Lebensversicherung AG is expected to increase its premium income by as much as 30%.

New business is experiencing a particularly vigorous surge associated with a change in the taxation of various life insurance products written after 31 December 2004. The segment as a whole expects the total

premium from new business taken up to increase by 48.3% for the full financial year. The impact of this development on premium income will mainly be felt in 2005. The number of new policies taken out in Germany is expected to rise by 52% to 644,000 (2004: 423,000 policies).

The domestic companies operating in the segment have enlarged the overall in-force portfolio by an expected 26% to 3.5 million policies from 2003 to 2004; without *neue Leben* the German portfolio would have been expected to have grown by 3.2%. The segment's in-force portfolio in domestic and foreign business combined is expected to expand by approximately 27.5% to 3.8 million policies.

Net investment income – also heavily influenced by the addition of *neue Leben* – is forecast to triple to € 415 million (2003: € 147 million), while EBIT is expected to increase by 8.6% to € 49 million (2003: € 45 million).

#### *Financial Services*

Financial Services, the Group's smallest segment, is expected to close the financial year 2004 with some notable successes. The most notable feature in 2004 was the marketing of a competitive product portfolio for institutional third-party clients. In this area Ampega was able to assume all asset management functions for two health insurance companies, an insurance group and a legal protection insurer – with a total volume of these contracts being in the range of € 1.2 billion.

The segment is considered to have enjoyed a positive year on the results side in 2004 with operating profit expected to more than double from € 9 to € 22 million.

#### *Outlook for 2005*

In 2005 the Group intends to further improve profitability through pursuing its profit-oriented underwriting policy in all segments.

To generate further growth in its primary property and casualty business, Talanx Group regularly investigates possibilities to undertake M&A related investments in this area (see "Use of Proceeds").

In the following years an additional strategic goal may be an IPO of Talanx AG, depending on various issues such as market conditions at the time.

#### **Litigation and Arbitration Proceedings**

The companies of the Talanx Group participate in judicial and extra-judicial proceedings in Germany and abroad both as plaintiffs or petitioners and as defendants or respondents. The outcome of these proceedings is more or less uncertain. Please note that the proceedings described below do not include disputes related to insurance contracts written by the companies of the Talanx Group in the ordinary course of business and that only those proceedings deemed to be of material interest in the context of this Information Memorandum are explicitly mentioned.

#### *Litigation in relation to the Acquisition of Lion Holding, Inc. (Clarendon Group) in 1999*

In February 1999, Hannover Re purchased all shares in Lion Holding, Inc., the parent company of the Clarendon Group, through which the Hannover Re Group conducts parts of its North American business.

\$100m of the purchase price was paid into two escrow accounts. The first escrow account (\$50m) was to satisfy general indemnity obligations of the sellers as a result of various representations and warranties in the stock purchase agreement. In addition to the \$50m in escrow, Hannover Re has the right to offset any indemnity claims from any incentive compensation payable to the former owners (see below) up to a maximum of \$120m (including the escrow funds). The second escrow account (\$50m) was set up to secure obligations in relation to a specific book of business known as "LMX".

In 2001, in order to comply with a two year limitation period in the stock purchase agreement, Hannover Re gave the former owners notice of potential indemnity claims and gave instructions not to pay out the funds in the first escrow account. In response, the former owners commenced proceedings in the New York State Supreme Court seeking release of the funds in the first escrow. This litigation has proceeded slowly mainly due to the fact that the lawsuit was commenced too early; the majority of indemnity claims had not been liquidated at that time.

In respect of LMX, the former owners have recently commenced a lawsuit in the New York State Court in Brooklyn, seeking release of the LMX Escrow account. In this instance it appears likely that the former owners will be entitled to some release of the remaining funds, however the amount of those funds is not yet known.

Following the purchase of Clarendon, two former owners of Clarendon remained as the management of Clarendon and were offered incentive compensation (split between additional purchase price and bonus) for the period 1999-2001. The maximum amount of incentive compensation was \$100m contingent upon Clarendon achieving certain combined ratio targets in the financial years 1999-2001. These targets were not attained.

In 2002, the two former owners commenced proceedings in Federal Court seeking payment of the full \$100m, alleging that Hannover Re had manipulated the accounts of Clarendon to increase the combined ratio and frustrate their claim for incentive compensation. Hannover Re is of the view that the maximum amount payable is \$25m and provision has been made for this sum. The Federal Court litigation is currently in the discovery stage. A trial is expected in 2005. In the event that incentive compensation is payable, this may be offset against indemnity obligations (see above.)

Although Hannover Re expects that the cases described above will be resolved in its favour, the outcome of the cases is not foreseeable with absolute certainty at the present time.

#### *Lloyd's New Central Fund Suit*

The International Insurance Company of Hannover (hereinafter, "IICH"), together with five other insurers (IICH and the five insurers hereinafter referred to as "the insurers"), issued a policy in the first half of 1999 for the New Central Fund of the Society of Lloyd's (hereinafter, "Lloyd's") for the years 1999-2003. The policy has a limit of £ 500 million over the entire term, of which 15% was underwritten by IICH. Lloyd's has asserted damages in the amount of around £ 420 million under this policy through November 2004. IICH has already paid £ 29.2 million, without acknowledging a legal duty to do so, and reserving its right to request repayment.

After careful examination, the insurers are of the opinion that the payments from the New Central Fund asserted by Lloyd's, for which insurance cover has been requested, are not covered by the policy and are not in accordance with the existing practice at Lloyd's for utilization of the New Central Fund, which was explained to the insurers before the policy was issued.

In June 2003, Lloyd's initiated arbitration proceedings in this matter against the insurers, requesting payment of the asserted damages. The insurers rejected this in a brief in August 2003, and, alternatively, requested cancellation of the policy and repayment of the payments previously made because Lloyd's provided erroneous and misleading information in relation to the placement of the policy. The case underwent the first hearing phase before the arbitration tribunal in September 2004 and is currently being prepared for the second phase of the hearing scheduled for February 2005. An interim award is expected before the second hearing phase. Even though Hannover Re assumes that the Lloyd's claim is unjustified, the outcome of the proceedings is uncertain at the moment.

#### *Collapse of the HIH Insurance Group in Australia*

The HIH Insurance Group, one of the largest insurance companies in Australia, collapsed in 2001 due to over-indebtedness. A "Royal Commission" was established to investigate the specific circumstances of the collapse, submitting its final "Royal Commission Report" in April 2003. Among the matters investigated were two insurance contracts concluded between members of the Hannover Re Group and the HIH Insurance Group. Members of the management of the Hannover Re Group companies were interrogated by the Royal Commission. The Royal Commission Report made no findings which justify direct action against members of the Hannover Re Group, and made no recommendations for measures in supervisory law against members of the Hannover Re Group.

Independent of the Royal Commission's investigation, shareholders and investors in the HIH Insurance Group filed a class action with the Federal Court of New South Wales in April 2002 against a total of 14 defendants in connection with the collapse of the HIH Insurance Group. Among the defendants are Hannover Re and its subsidiaries Hannover Reinsurance (Ireland) Ltd. and E+S Reinsurance (Ireland) Ltd. In this class action, the plaintiffs are suing for damages for losses due to the collapse of the HIH group. The amount in dispute cannot be determined at this time, since the precise number of shareholders taking part in the class action is not yet certain. The essence of the plaintiffs' argument is that the management of the HIH group issued inaccurate and misleading press releases, business reports and other information, which allegedly misled investors to purchase shares in the HIH group. The defendants are collectively accused of creating the false impression, through their actions, that the HIH group was adequately capitalized, profitable and liquid.

In November 2004, the court dismissed the present applications and ordered the plaintiffs to pay the defendants' costs in respect of the applications, but granted leave to plaintiffs to re-plead the case. Any potential re-pleading has to be filed with the court on or before 18 February 2005 with further hearings to follow.

Since the corporate bodies of the Hannover Re Group had no knowledge of the actions taken by the management of the HIH group or of any errors made by the independent auditing companies involved, Hannover Re assumes that the court eventually will not find against the defendant companies of the Hannover Re Group in this matter. However, the outcome of the proceedings is not yet certain. In the event of a negative result, Hannover Re and its subsidiaries Hannover Reinsurance (Ireland) Ltd. and E+S Reinsurance (Ireland) Ltd. may have to make substantial payments and reimburse considerable costs and expenses, which could have a negative impact on the financial, earnings and liquidity position of the Hannover Re Group.

#### *Legal Disputes of Hannover Finance Inc. with Insurers*

Hannover Finance Inc. and its subsidiaries are currently engaged in legal disputes with various insurers, e.g. Gerling and the John Hancock Mutual Life Insurance Company. The outcome of these cases is uncertain at this time, so that the result could be disadvantageous for Hannover Finance Inc. and its subsidiaries.

#### *The collapse of Frontier Insurance*

In the past, the Clarendon Group reinsured some of its business with Frontier Insurance. The Clarendon Group's claims against Frontier Insurance are secured through a deposit of securities. After the collapse of Frontier Insurance, its insolvency administrator requested the Clarendon Group to agree to release a part of the securities deposit, contending that the Clarendon Group was oversecured. The Clarendon Group is currently not prepared to agree to a release. An agreement to suspend the running of the limitation period is being entered into with the New York administrator.

In the assessment of Talanx AG, the above described legal proceedings do not have a material adverse effect on the ability of the Issuer or Talanx AG to satisfy their respective obligations under the Notes and the Subordinated Guarantee, respectively.

### **Board of Management**

Current members of the Board of Management are:

<b>Name</b>	<b>Position/Responsibilities within Board of Management</b>
Wolf-Dieter Baumgartl	Chairman; Public Relations, Internal Auditing, Legal Affairs
Werner Dettmer	Information Technology; Human Resources; Arbeitsdirektor in the meaning of § 33 MitbestG
Herbert K. Haas	Group Finance, Accounting, Taxation, Controlling, Real Estate, Investor Relations
Dr. Christian Hinsch	Property and Casualty Insurance (Germany and abroad)
Norbert Kox	Post-/Bancassurance for life and non life assurance (Germany and abroad)
Dr. Hans Löffler	Life Insurance (Germany and abroad)
Harry Ploemacher	Financial Services
Wilhelm Zeller	Reinsurance

Their business address is Riethorst 2, 30659 Hannover, Germany.

### **Supervisory Board**

The Supervisory Board consists of twelve members. At present, it is made up as follows:

<b>Name</b>	<b>Position within Supervisory Board</b>	<b>Principal (Outside) Activity</b>
Dr. Hans-Joachim Fonk	Chairman	Attorney
Johannes Funck*	Deputy Chairman	–
Prof. Dr.-Ing. Eckhard Rohkamm	Deputy Chairman	Chairman of the Executive Board of ThyssenKrupp Technologies AG, Essen (retd.) Member of the Executive Board of ThyssenKrupp AG (retd.)
Sonja Brüggemeier*	Member	–
Götz Hartmann*	Member	–
Gerald Herrmann*	Member	–

Name	Position within Supervisory Board	Principal (Outside) Activity
Dr. Thomas Lindner	Member	Chairman of the Board of Management of Groz-Beckert KG, Albstadt
Otto Müller*	Member	–
Dr. Michael Rogowski	Member	Chairman of the Supervisory Board of Voith AG, Heidenheim
Dr. Eberhard Schipporeit	Member	Member of the Board of Management of E.ON AG, Düsseldorf
Barbara Schulze*	Member	–
Eggert Voscherau	Member	Deputy Chairman of the Board of Management of BASF Aktiengesellschaft, Ludwigshafen

\* employee representative

### Employees

The Guarantor has 43 employees as of 31 December 2004.

### Financial Year and Annual General Meeting

The financial year of the Guarantor runs from 1 January to 31 December. In accordance with the articles of association of the Guarantor, the next following annual general meeting of the Guarantor takes place within the first eight months after the conclusion of the 2004 financial year. Each share gives one right to vote.

### Auditors

The auditors of the Guarantor are KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (“KPMG”), Osterstrasse 40, D-30159 Hannover. The consolidated annual financial statements of the Guarantor as of 31 December 2003 and 31 December 2002 and the unconsolidated annual financial statements of the Guarantor as of 31 December 2003 and 31 December 2002, were audited by KPMG and each received an unqualified auditors’ certificate.

### Interim Financial Statements

The Guarantor currently does not publish interim financial statements.

### Rating

The Talanx Group is currently rated by Standard & Poor’s and A.M. Best.

Standard & Poor’s assigned a long-term counterparty credit rating and an insurer financial strength ratings of “AA-, outlook stable” to the core operating entities of the Talanx Group; the rating of A.M. Best is currently at “A, outlook stable”.

The Standard & Poor’s long-term counterparty credit rating of Talanx AG is rated “A-, outlook stable” following Standard and Poor’s general approach to rate holding companies three notches below their operating units.

## REGULATION OF INSURANCE COMPANIES IN GERMANY

Since 1973, the EU has adopted a series of insurance directives on life insurance and direct insurance other than life insurance. These directives have been implemented in Germany. Under the directives, the regulation of insurance companies, including insurance operations outside their respective home countries (whether direct or through branches) is the primary responsibility of the home country insurance regulatory authority, which is, in particular, responsible for monitoring compliance with applicable regulations, the solvency and actuarial reserves of insurers and the assets supporting those reserves. The EU insurance directives generally permit an insurance company licensed in any jurisdiction of the EU to conduct insurance activities, directly or through branches, in all other jurisdictions of the EU, without being subject to additional licensing requirements. Additionally, on 21 April 2004 the Commission of the European Communities presented a proposal for a directive on reinsurance (COM (2004) 273 final). The proposal of the Commission provides for, *inter alia*, a supervisory approach for reinsurance companies based on harmonisation and mutual recognition, a mandatory licensing system and solvency margin requirements in line with those of direct insurance.

The supervision of insurance companies in Germany is governed by the Insurance Supervisory Act (*Versicherungsaufsichtsgesetz* – the “VAG”), newly adopted on 17 December 1992 and subsequently amended, *inter alia*, as a result of the implementation of various EU insurance directives. The latest amendment that has become effective on 16 December 2004, implemented a reinsurance supervision regime that has been influenced by the proposal of the Commission for a directive on reinsurance. Additionally, regulatory requirements regarding insurance holding companies have been introduced.

Under the VAG, insurance companies are subject to detailed requirements with respect to the administration of their assets and liabilities. In general, the actuarial and claims reserves of each insurer must be adequate to allow the insurer to fulfil its contractual commitments to pay upon receipt of claims. In order to ensure that their liabilities under insurance contracts can be permanently fulfilled, German insurance companies are obliged, by virtue of section 53c of the VAG, to hold free uncommitted own funds (*freie unbelastete Eigenmittel*) in an amount not less than a prescribed solvency margin (*Solvabilitätsspanne*), which depends on the total volume of business. Different rules apply for the calculation of the solvency margin to non-life and life insurance companies. One third of the solvency margin is defined as the guarantee fund (*Garantiefonds*).

Regulatory own funds include in particular, (i) the insurance company’s paid-in share capital less the amount of own shares, (ii) capital reserves, (iii) profit reserves, (iv) retained profits after distribution of dividends, and (v), with the approval of the regulator, 50% of the not yet paid-in share capital, certain hidden reserves in invested assets and, in case of life insurance companies, some further components. Additionally, payments received by the insurance company as consideration for the issuance of profit participation rights (*Genussscheine*) and the incurrence of subordinated obligations (*nachrangige Verbindlichkeiten*), will count as own funds, provided that certain ratios are observed (considered up to a maximum of 25% of the funds described under (i), (ii) and (iii) of this paragraph, and of 50% of required solvency margin), and if certain other conditions are met (e.g. with respect to repayment).

Since 2001, solvency requirements have to be met not only on a single company basis but also on a group basis. In case an insurance company is a subsidiary of a parent insurance holding company (or reinsurance company), for purposes of calculating the group solvency, the parent insurance holding company (or reinsurance company) is treated as if it were an insurance company.

The VAG also limits the proportion of assets which German insurers may invest in certain categories of investments and imposes restrictions with respect to particular investments.

All private direct insurance companies with their seat in Germany or, to some extent, carrying on insurance business in Germany are subject to the control of the BaFin. Subsequent to deregulation of the insurance industry in 1994, a principal task of the BaFin has been solvency control and financial monitoring. Insurance companies are required to submit quarterly interim reports, audited annual accounts and statutory annual returns to the BaFin. The BaFin may appoint special representatives to protect the interests of policy holders and issue orders relating to the insurers’ conduct of business. For insurance companies registered in another EU member state, some exemptions exist.

New insurance products and policies may be offered in Germany without prior approval of the BaFin. Insurers are obliged to file a description of new products and policies and the BaFin may require the modification of terms and conditions or the withdrawal from the market or modification of any contract that does not comply with applicable laws and regulation.

According to the VAG, life and health insurance must be transacted by separate companies from those writing non-life insurance. The combination of composite and life business in one company is not allowed in Germany, although this is permitted for different companies within the same group. However, according to the EU non-life insurance directive, employers are permitted to use the same insurance company for health and other insurance. Insurance companies are not allowed to carry out non-insurance business, but primary insurers may write reinsurance – subject to the respective regulations concerning reinsurance. The terms, *inter alia*, of all health and life insurance policies are also subject to German consumer protection and other legislation.

German life insurance companies are obliged to hold funds in an industry-wide insurance guarantee scheme (*Sicherungsfonds*). The funds of the insurance guarantee scheme for life insurance companies may not be less than 0.1% of the amount of the actuarial reserves of all participating insurance companies. Life insurance companies have to make an annual contribution to their respective insurance guarantee scheme which is calculated in relation to their actuarial reserves.

Companies which are exclusively involved in the reinsurance business, are, from December 2004 on, subject to reinsurance supervision by the BaFin. In particular, new reinsurance companies need a license which is subject to similar requirements as those applying for direct insurance companies. Existing reinsurance companies have to comply in particular with certain solvency requirements yet to be established, certain provisions with respect to the investment of its assets, and the provisions on the qualification and control of its management as well as of important shareholders.

Since December 2004, the VAG provides also for a limited supervision of insurance holding companies. In particular, the provisions of the VAG on the qualification and control of the management and important shareholders of an insurance company are applicable also to insurance holding companies. Initially, this will result in certain information obligations. If certain qualification requirements with respect to the management or important shareholders are not met or the applicable provisions are not observed, the BaFin is authorised, in particular, (i) to request the removal of a manager, (ii) to transfer the powers of the management or any other body of the insurance holding company to a special representative, or (iii) to request the transfer of certain rights with respect to a participation in a German-licensed insurance company to a trustee, or the disposal of such participation, at all.

## TAXATION

### **Luxembourg**

The following is a summary of certain material Luxembourg tax consequences of purchasing, owning and disposing of the Notes. It is not intended as tax advice and does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or deposit the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the applicable tax consequences of the purchase, ownership and/or disposal of the Notes, based on their particular circumstances. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect on the date of this Information Memorandum and is subject to any amendments in law later introduced, whether or not on a retroactive basis.

### **Tax Residency**

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

### **Taxation of the Noteholders**

#### *Withholding Tax*

Under Luxembourg tax law currently in effect (see, however, the section relating to the EU Savings Directive hereunder), there is no withholding tax for Luxembourg residents and non-residents on payments of interest (including accrued but unpaid interest) in respect of the Notes, nor is any Luxembourg withholding tax payable on payments received upon redemption, repayment of the principal or upon an exchange of the Notes.

#### *Taxation of Luxembourg Non-residents*

Noteholders who are non-residents of Luxembourg and who do not hold the Notes through a permanent establishment or a permanent representative in Luxembourg are not liable to any Luxembourg income tax, whether they receive payments of interest (including accrued but unpaid interest), or payments upon redemption, repayment of principal or exchange of the Notes, or realise capital gains on the sale of any Note.

#### *Taxation of Luxembourg Residents – General*

Noteholders who are residents of Luxembourg or non-residents who have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected or to which the Notes are attributable, must for income tax purposes include any interest received in their taxable income. These holders will not be liable to any Luxembourg income tax on repayment of principal of the Notes.

#### *Luxembourg Resident Individuals*

Luxembourg resident individual Noteholders who do not hold Notes as business assets are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes, or the Notes are disposed of within six months of the date of their acquisition. Upon a repurchase, redemption or exchange of the Notes, individual Luxembourg resident Noteholders must however include the portion of the repurchase, redemption or exchange price corresponding to accrued but unpaid interest in their taxable income. Luxembourg resident individual holders of Notes who hold the Notes as business assets are subject to tax as described below under “Fully taxable Luxembourg Resident Companies”.

#### *Fully taxable Luxembourg Resident Companies*

Luxembourg resident companies (sociétés de capitaux) holding Notes, Noteholders or foreign entities of the same type which have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must include in their taxable income the difference between the sale, repurchase, redemption or exchange price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold, repurchased, redeemed, exchanged or deemed realised.

#### *Luxembourg Resident Companies with Special Tax Regime*

Luxembourg resident Noteholders who are holding companies subject to the law of 31 July 1929 or undertakings for collective investment subject to the laws of 30 March 1988, 19 July 1991 and 20 December 2002 are not subject to any Luxembourg tax on income received or accrued on the Notes or gains realized upon their sale or disposal.

### *Net Wealth Tax*

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is an individual Luxembourg resident or (ii) such Notes are connected with or attributable to an enterprise or part thereof which is carried on in Luxembourg or through a permanent establishment or a permanent representative of a non-resident company in Luxembourg. In such a case, the Noteholder must take the Notes into account for the purposes of Luxembourg wealth tax, except if the Noteholder is governed by any of the following: (i) the law of 31 July 1929 on pure holding companies; (ii) the laws of 30 March 1988, 19 July 1991 and of 20 December 2002 on undertakings for collective investment; (iii) the law of 22 March 2004 on securitization; and (iv) the law of 15 June 2004 on the investment company in risk capital.

### **Other Tax Consequences**

#### *Stamp Taxes and Transfer Taxes*

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes.

#### *Gift Taxes*

No estate or inheritance tax is levied on the transfer of Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and no gift tax is levied upon a gift of Notes if the gift is not passed in front of a Luxembourg notary or recorded in a deed registered in Luxembourg. Where a Noteholder is a resident for tax purposes of Luxembourg at the time of his death, the Notes are included in its taxable estate for inheritance tax or estate tax purposes.

### **Taxation in the Federal Republic of Germany**

The following is a general discussion of the material German tax consequences for your investment in and ownership and disposition of the Notes. This discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to your decision to purchase the Notes. In particular, this discussion does not consider any specific facts or circumstances which may apply to a particular purchaser. This summary is based on the current laws of Germany, as in effect and applied on the date of this Information Memorandum. These laws are subject to change, possibly with retroactive effect.

**Prospective purchasers of Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws in Germany and in each country of which they are residents.**

### **Tax Residents**

#### *Interest Payments*

Interest paid to a Noteholder resident in Germany (a person whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany) is subject to German personal or corporate income tax. On the basis of the assessed personal or corporate income tax, solidarity surcharge (*Solidaritätszuschlag*) of 5.5% is levied. In addition, if Notes are held as assets of a German commercial business, any interest is subject to trade tax. Accrued interest (*Stückzinsen*) paid by an individual upon the acquisition of Notes may give rise to negative income and may, therefore, reduce a Noteholder's personal tax liability.

If Notes are held in a custodial account which the Noteholder maintains with a bank or financial services institution in Germany, including branches of foreign banks or financial services institutions in Germany (the "Disbursing Agent" – *inländische Zahlstelle*), such Disbursing Agent will withhold tax (*Zinsabschlag*) at a rate of 30% of the gross amount of all interest payments to the Noteholder plus 5.5% solidarity surcharge (*Solidaritätszuschlag*) thereon. As a result, 31.65% of the gross amount of interest paid to a Noteholder will be withheld by the Disbursing Agent.

The tax withheld by the Disbursing Agent will be credited against the Noteholder's total annual tax burden for German personal or corporate income tax purposes. No tax is withheld by the Disbursing Agent, if the Noteholder is an individual who has filed a certificate of exemption (*Freistellungsauftrag*) with the Disbursing Agent and the Notes held by such individual are not part of a German commercial business property or generate income from the letting and leasing of property. However, this exemption applies only to the extent that the aggregate interest income derived from the Note after deduction of accrued interest paid upon the acquisition of the Notes together with an individual's other investment income administered by the

Disbursing Agent does not exceed the maximum annual exemption amount shown on the certificate of exemption (up to € 1,370 for individuals and € 2,740 for married couples filing jointly) plus the flat deductible expense allowance (€ 51 for individuals and € 102 for married couples filing jointly). Further, no withholding obligation exists, if the Noteholder submits a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office to the Disbursing Agent.

#### *Sale or Redemption of Notes*

According to guidance issued by the German tax authorities the Notes should qualify as a financial innovation (*Finanzinnovation*) within the meaning of § 20 para. 2 sentence 1 no. 4 of the German Income Tax Act (*Einkommensteuergesetz*), in which case the following tax implications should apply. Should, however, the Notes not qualify as financial innovation, a different tax treatment – as further outlined below – may apply.

Gains from the sale or redemption of Notes are considered as interest and are subject to personal or corporate income tax as well as solidarity surcharge at a rate of 5.5% thereon. If Notes are held as assets of a German commercial business, such gains are subject to trade tax also. In the absence of a yield to maturity (*Emissionsrendite*) of the Notes attributable to the period over which the holder has held such Note, the taxable gain from the sale or redemption of Notes would be calculated as the difference between the proceeds from the sale or redemption and the purchase price of the Notes (*Marktrendite*).

If Notes are held in a custodial account maintained with a Disbursing Agent since the acquisition of the Notes, tax is deducted at a rate of 30% (plus solidarity surcharge of 5.5% thereon) from the excess of the proceeds arising from the sale or redemption over the purchase price paid for the Notes. If custody has changed since the acquisition of the Notes, tax is withheld from the amount equal to 30% of the proceeds arising from the sale or redemption of the Notes. In computing the tax to be withheld, the Disbursing Agent may deduct any accrued interest paid by the Noteholder to the Disbursing Agent during the calendar year of the taxable gain from the basis of assessment. The tax withheld will be credited against the Noteholder's annual tax liability for personal or corporate income tax purposes. No tax will be withheld to the extent that the interest income derived from the Notes together with other investment income does not exceed the maximum exemption amount shown on the certificate of exemption (*Freistellungsauftrag*) filed by the Noteholder with the Disbursing Agent plus the flat deductible expense allowance (see "Taxation in the Federal Republic of Germany-Tax Residents-Interest Payments" above for further details), unless the Noteholder's Notes are part of a German business property or give rise to income from the letting and leasing of property. The same applies, if the Noteholder submits a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office to the Disbursing Agent.

Should the Notes not qualify as financial innovation, gains from the sale or redemption of the Notes (other than accrued interest and certain other amounts) are only taxable if the Notes are held by private investors not for more than one year. It is assumed that the Notes acquired first will be sold first. If the shareholder's aggregate amount of private capital gains for the year is less than € 512, such capital gains are not subject to tax. The deductibility of losses would be restricted.

#### **Non-Residents**

Interest paid to a Noteholder and capital gains realized by a Noteholder not resident in Germany will generally not be taxable in Germany and no tax will be withheld (even if the Notes are kept with a Disbursing Agent). Exemptions apply, for example, if (i) the Notes are held as a business asset of a German permanent establishment or by a permanent representative of the non-resident Noteholder, if (ii) the interest income of such Notes does otherwise constitute German source income (such as income from the letting and leasing of certain German situs property) and if (iii) the non-resident Noteholder does not comply with the procedural rules to prove his status as a non-tax resident. In these cases, the Noteholder not resident in Germany will be subject to a tax regime similar to that described above under "Taxation in the Federal Republic of Germany – Tax Residents."

#### *Inheritance and Gift Tax*

The transfer of Notes in case of succession upon death, or by way of a gift among living persons is subject to German inheritance and/or gift tax, if the deceased, donor and/or the recipient is a German resident. German inheritance and gift tax is also triggered, if neither the deceased, the donor nor the recipient of the Notes are German residents, if the Notes are attributable to German business activities and if for such business activities a German permanent establishment is maintained or a permanent representative is appointed in Germany. In specific situations, German expatriates that were tax resident in Germany may be subject to inheritance and gift tax. Double taxation treaties may provide for exceptions to the domestic inheritance and gift tax regulations.

#### *Other taxes*

No stamp, issue, registration or similar direct or indirect taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax is not levied in Germany.

#### *European Union Directive on the Taxation of Savings Income*

The Council of the European Union approved, on June 3, 2003, Council Directive 2003/48/EC regarding the taxation of savings income. Under the Directive, if a paying agent for interest on a debt claim is resident in one member state of the European Union and an individual who is the beneficial owner of the interest is a resident of another member state, then the former member state will be required to provide information (including the identity of the beneficial owner) to authorities of the latter member state. "Paying agent" is defined broadly for this purpose and generally includes any agent of either the payor or payee. This requirement is subject to the right of Belgium, Luxembourg and Austria to opt instead to withhold tax on the interest during a transitional period (initially at a rate of 15% but rising in steps to 35% after six years). Such transitional period will end once the countries referred to below and the United States of America have agreed to the mutual exchange of information.

The Council agreed on July 19, 2004, in Council Directive 2004/587/EC, that the 2003 Directive will become effective on July 1, 2005. However, this effective date is contingent on certain non-members of the European Union (Switzerland, Liechtenstein, Andorra, Monaco and San Marino), as well as dependent and associated territories in the United Kingdom and the Netherlands, adopting equivalent measures, including the option to apply withholding taxes, effective on the same date. There is no assurance that all such non-members and territories will satisfy this condition. As a result, the effective date of the 2003 Directive may be delayed, and no assurance can be given concerning whether or on what date the 2003 Directive will become effective.

## SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 4 February 2005 (the “Subscription Agreement”) among Talanx AG, Talanx Finanz (Luxemburg) S.A. and Citigroup Global Markets Limited (the “Lead Manager”), Talanx Finanz (Luxemburg) S.A. has agreed to sell to the Lead Manager and the Lead Manager has agreed, subject to certain customary closing conditions, to purchase the Notes at a price of 99.358 per cent of their principal amount (equivalent to € 993.58 per Note) (the “Issue Price”). Proceeds to the Issuer will be net of any selling, management and/or underwriting commissions payable to the Lead Manager. The Issuer has furthermore agreed to reimburse the Lead Manager for certain of its expenses in connection with the issue of the Notes.

The Subscription Agreement will provide that the Lead Manager is entitled, under certain circumstances, to terminate the Subscription Agreement. In such event, no Notes will be delivered to investors. Furthermore, each of Talanx AG and Talanx Finanz (Luxemburg) S.A. has agreed to indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Notes.

The Lead Manager or its affiliates have provided from time to time, and expect to provide in the future, investment services to Talanx AG and its affiliates, for which the Lead Manager or its affiliates have received or will receive customary fees and commissions.

### Selling Restrictions

#### *United States of America and its Territories*

The Notes have not been and will not be registered under the Securities Act and may not be offered, or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act. The Lead Manager has represented and agreed that it has offered and sold the Notes, and will offer and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all the Notes only in accordance with Rule 903 of the Regulation S under the Securities Act. Neither the Lead Manager, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirements of Regulation S under the Securities Act. The Lead Manager has also agreed that at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the restricted period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the Securities Act) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the Lead Manager, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them in Regulation S under the Securities Act.”

Terms used in the preceding paragraphs have the meaning given to them by Regulation S under the Securities Act.

In addition, the Lead Manager has represented and agreed that:

- (a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5 (c)(2)(i)(D) (the TEFRA D Rules), (i) it has not offered or sold, and during the restricted period will not offer or sell, directly or indirectly, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and will not deliver, directly or indirectly, within the United States or its possessions definitive Notes in bearer form that are sold during the restriction period;
- (b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United State person, except as permitted by a TEFRA D Rules;
- (c) if it was considered a United States person, that is acquiring the Notes for purposes of resale in connection with their original issuance and agrees that if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of TEFRA D Rules; and
- (d) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period that it will either (i) repeat and confirm the representations and agreements contained in sub-clauses (a), (b) and (c); or (ii) obtain from

such affiliate for the benefit of the Issuer the representations and agreements contained in sub-clauses (a), (b) and (c).

Terms used in the preceding paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the TEFRA D Rules.

#### *United Kingdom*

The Lead Manager has represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (United Kingdom), as amended from time to time, or any successor legislation;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended from time to time, or any successor legislation, (the FSMA) received by it in connection with the issue of sale or any Notes in circumstances in which Section 21(1) of the FSMA does not apply to Talanx AG or Talanx Finanz (Luxemburg) S.A.; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

#### *Federal Republic of Germany*

The Notes have not been and will not be publicly offered in Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Notes in Germany in accordance with the Securities Sales Prospectus Act of 9 September 1998, as amended (the “Prospectus Act” – *Verkaufsprospektgesetz*), has been or will be published or circulated in the Federal Republic of Germany. The Lead Manager has represented and agreed that it has only offered and sold and will only offer and sell the Notes in the Federal Republic of Germany in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Notes in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the offer and sale of the Notes in the Federal Republic of Germany.

#### *Luxembourg*

The Lead Manager has represented and warranted to the Issuer that it has not made any public offerings of the Notes in or from Luxembourg unless the requirements of Luxembourg concerning public offerings of securities have been complied with. No advertisement or document or other material has or will be distributed to the public or published in Luxembourg. A listing of any of the Notes on the Luxembourg Stock Exchange does not imply that a public offering of any of the Notes in Luxembourg has been authorised.

#### *France*

In France, the Notes may not be directly or indirectly offered or sold to the public, and offers and sales of the Notes will only be made in France to qualified investors provided that such investors act on their own accounts, in accordance with Article L 411-2 of the Code Monétaire et Financier, as amended, and Décret No. 98-880 dated 1 October 1998, as amended. Accordingly, this Information Memorandum has not been submitted to the Autorité des Marchés Financiers. Neither this Information Memorandum nor any other offering material may be distributed to the public in France. In the event that the Notes purchased by investors are directly or indirectly offered or sold to the public in France, the conditions set forth in Articles L-412-1 and L-621-8 of the Code Monétaire et Financier must be complied with.

#### *Italy*

The offering of the Notes has not been and will not be registered pursuant to the Italian securities legislation and, accordingly, the Lead Manager has represented that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

The Lead Manager has represented that it will not offer, sell or deliver any Notes or distribute copies of the Information Memorandum or any other document relating to the Notes in the Republic of Italy except to “Professional Investors”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 (“Regulation No. 11522”), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998, as amended (“Decree No. 58”), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999, as amended, applies, provided however, that any such offer, sale or delivery of Notes or distribution of copies of the Information Memorandum or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993, as amended (“Decree No. 385”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy (*Istruzioni di vigilanza della Banca d'Italia*), pursuant to which the issue, offer or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the aggregate amount of the securities issued, offered or placed in Italy and their characteristics, applies; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

#### *The Netherlands*

The Notes may not be offered, sold, transferred or delivered in or from the Netherlands, as part of their initial distribution, or at any time thereafter, directly or indirectly, other than to individuals or legal entities who or which trade or invest in securities in the conduct of a profession or trade within the meaning of section 2 of the exemption regulation to the Netherlands Securities Market Supervision Act 1995, as amended from time to time, (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), which includes banks, securities firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which are regularly active in the financial markets in a professional manner.

#### *General*

In addition to the specific restrictions set out above, the Lead Manager agrees that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer Notes or distribute any offering material.

## GENERAL INFORMATION

- (1) The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 21 January 2005. The giving of the Guarantee of the Notes has been authorised by resolutions of the Management Board (*Vorstand*) of the Guarantor dated 13 January and 3 February 2005 and resolutions of the Supervisory Board (*Aufsichtsrat*) of the Guarantor dated 30 November 2004 and 24 January 2005.
- (2) Save as disclosed in this Information Memorandum, there are no litigation or arbitration proceedings against or affecting the Issuer, the Guarantor or any of its subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which (in either case) are or might be material in the context of the issue of the Notes. For further information, please see “Description of the Guarantor – Litigation and Arbitration Proceedings”.
- (3) Save as disclosed in this Information Memorandum, there has been no material adverse change, or any development reasonably likely to involve a material adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2003 or in the condition (financial or otherwise) or general affairs of the Guarantor since 31 December 2003 that is material in the context of the issue of Notes.
- (4) For so long as any Note is outstanding, copies of the following documents may be inspected during normal business hours at the specified office of each Paying Agent and as long as the Notes are listed on the Luxembourg Stock Exchange the documents set out under (d), (e) and (h) below will be available (free of charge) at the head office of the listing agent in Luxembourg:
  - (a) the Agency Agreement;
  - (b) the Guarantee;
  - (c) the articles of association (*Satzung*) of the Issuer;
  - (d) the articles of association (*Satzung*) of the Guarantor;
  - (e) the Information Memorandum;
  - (f) the confirmation of the authorisation of the issue of the Notes by the Issuer;
  - (g) the confirmation of the authorisation of the giving of the Guarantee of the Notes by the Guarantor; and
  - (h) documents incorporated by reference.
- (5) For so long as any of the Notes are outstanding, a copy of the latest audited financial statements of the Issuer for each period since the financial year ended 31 December 2003 may be obtained free of charge during normal business hours at the specified office of each Paying Agent. The Issuer does not publish interim financial statements.
- (6) For so long as any of the Notes are outstanding, a copy of the latest audited unconsolidated financial statements and audited consolidated financial statements of the Guarantor for each period since the financial year ended 31 December 2003 may be obtained during normal business hours at the specified office of each Paying Agent. The Guarantor does not publish interim financial statements.
- (7) In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the constitutional documents of the Issuer have been deposited with the Register of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*) where such documents may be examined and copies obtained.
- (8) For as long as any of the Notes are listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange will be informed by the Issuer of all notifications regarding payments.

Payments and transfers of the Notes will be settled through Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme, Luxembourg.

For so long as any of the Notes are listed on the Luxembourg Stock Exchange, all notices to the Noteholders regarding the Notes will be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Tageblatt (Luxembourg)*).
- (9) The Issuer has appointed Citibank, N.A., London, United Kingdom as the initial Principal Paying Agent and Dexia Banque Internationale à Luxembourg, Luxembourg, Grand-Duchy of Luxembourg as the

initial Luxembourg Paying Agent. For so long as any Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying agent in the city of Luxembourg.

- (10) The Temporary Global Note and the Permanent Global Note will each bear the following legend:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”
- (11) The Notes have been accepted for clearance by Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank N.V./S.A., as operator of the Euroclear System. The Common Code for the Notes is 021242098, the ISIN is XS0212420987 and the German Security Code (*WKN*) is A0DYHV.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF TALANX GROUP**

## Consolidated balance sheet as at 31 December 2003

	Note	31.12.2003	As-if- pooling method 31.12.2002	Figures published in previous year 31.12.2002
<b>Assets</b>				
Figures in EUR thousand				
Fixed-income securities – held to maturity	1	491,222	496,105	496,105
Fixed-income securities – available for sale	2	16,422,002	14,208,971	13,660,969
Fixed-income securities – trading	3	1,850	—	—
Equity securities – available for sale	2	1,237,110	1,243,139	1,035,966
Equity securities – trading	3	2,321	10,645	10,645
Real estate	4	411,837	469,481	416,980
Shares in affiliated companies and participating interests	5	265,859	262,975	261,505
Loans	6	191,649	188,689	178,865
Other invested assets	7	2,003,633	2,154,041	1,834,992
<b>Total investments without cash</b>		<b>21,027,483</b>	<b>19,034,046</b>	<b>17,896,027</b>
Cash		759,654	984,643	941,548
<b>Total investments and cash</b>		<b>21,787,137</b>	<b>20,018,689</b>	<b>18,837,575</b>
<b>Investments for the account and risk of holders of life insurance policies</b>		<b>584,692</b>	<b>318,594</b>	<b>318,594</b>
Prepaid reinsurance premiums	14	651,111	759,471	769,321
Reinsurance recoverables on benefit reserve	13	308,453	470,238	470,238
Reinsurance recoverables on unpaid claims	12	4,908,326	6,316,773	6,373,375
Reinsurance recoverables on the provision for contingent commission		30,070	49,765	49,765
Reinsurance recoverables on other technical provisions	15	4,356	7,285	7,280
Reinsurers' share of technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders		43,163	195,629	195,629
<b>Reinsurers' share of technical provisions</b>		<b>5,945,479</b>	<b>7,799,161</b>	<b>7,865,608</b>
Deferred acquisition costs	8	1,987,902	1,547,006	1,546,555
Accounts receivable		2,641,129	2,866,449	2,792,145
Funds held by ceding companies		7,722,420	8,147,057	8,136,307
Accounts receivable on direct written insurance business		1,090,947	1,411,679	1,155,740
thereof: from policyholders		382,737	346,885	189,341
thereof: from intermediaries		708,210	1,064,794	966,399
Intangible assets		262,921	277,671	272,241
thereof: goodwill	9	190,368	205,938	203,830
thereof: other intangible assets	10	72,553	71,733	68,411
Other assets	11	760,558	619,433	531,035
Accrued interest and rent		296,225	295,105	278,192
Deferred taxes	19	204,142	181,591	143,266
<b>Total other assets</b>		<b>14,966,244</b>	<b>15,345,991</b>	<b>14,855,481</b>
<b>Total assets</b>		<b>43,283,552</b>	<b>43,482,435</b>	<b>41,877,258</b>

Liabilities	Note	Figures in EUR thousand		
		31.12.2003	As-if- pooling method 31.12.2002	Figures published in previous year 31.12.2002
Loss and loss adjustment expense reserve	12	21,508,794	22,227,899	21,321,163
Policy benefits for life and health contracts	13	6,045,053	6,216,511	6,213,054
Unearned premium reserve	14	3,385,281	3,636,352	3,599,960
Provision for contingent commission		134,474	149,387	149,387
Other technical provisions	15	20,063	32,515	28,603
Reinsurance payable		1,326,768	1,583,933	1,540,036
Funds held under reinsurance treaties		1,046,919	1,505,306	1,561,809
Contract deposits		687,382	351,380	351,380
Provision for premium refunds	15	351,457	339,513	338,068
<b>Technical liabilities</b>		<b>34,506,191</b>	<b>36,042,796</b>	<b>35,103,460</b>
<b>Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders</b>		<b>1,130,222</b>	<b>637,232</b>	<b>637,232</b>
Minorities	16	1,119,991	764,333	771,819
Provision for pensions	17	257,303	251,262	92,956
Liabilities from direct written insurance business		498,028	498,444	349,463
thereof: to policyholders		266,800	255,205	185,149
thereof: to intermediaries		231,228	243,239	164,314
Other liabilities	18	891,803	953,612	915,757
Taxes		277,337	234,000	233,930
Provision for deferred taxes	19	1,105,943	1,056,907	982,458
Notes payable and loans	20	841,328	873,792	873,792
Surplus debenture	20	117,597	105,372	112,530
<b>Total other liabilities</b>		<b>5,109,330</b>	<b>4,737,722</b>	<b>4,332,705</b>
Stockholders' equity				
Common stock		260,000	253,222	200,000
Additional paid-in capital		629,529	615,356	509,196
Cumulative comprehensive income	21			
Unrealized appreciation/depreciation of investments, net of deferred taxes		148,546	-1,082	41,671
Cumulative foreign currency conversion adjustment, net of deferred taxes		-260,529	-167,507	-153,257
Other changes in cumulative comprehensive income		-32,004	-87,739	-87,739
Total comprehensive income		-143,987	-256,328	-199,325
Retained earnings				
Beginning of period	21	1,452,435	1,098,295	1,098,295
Net income		337,667	185,336	165,775
Other changes		2,165	168,804	29,920
		1,792,267	1,452,435	1,293,990
<b>Total stockholders' equity</b>		<b>2,537,809</b>	<b>2,064,685</b>	<b>1,803,861</b>
<b>Total liabilities</b>		<b>43,283,552</b>	<b>43,482,435</b>	<b>41,877,258</b>

## Consolidated statement of income for the 2003 financial year

	Note	31.12.2003	As-if- pooling method 31.12.2002	Figures published in previous year 31.12.2002
Figures in EUR thousand				
Gross premiums written		14,824,150	14,945,102	14,543,669
Ceded premiums written		3,944,823	4,480,674	4,461,454
Net premiums written		10,879,327	10,464,428	10,082,215
Change in gross unearned premiums		-312,204	-667,365	-640,678
Change in ceded gross unearned premiums		-150,687	60,419	58,133
<b>Net premiums earned</b>		<b>10,416,436</b>	<b>9,857,482</b>	<b>9,499,670</b>
Ordinary investment income	22	1,451,485	1,491,716	1,444,770
Realized gains on investments	22	404,239	377,155	346,055
Realized losses on investments	22	225,207	284,918	255,488
Unrealized gains and losses on investments	22	18,660	-17,712	-17,712
Other investment expenses/depreciations	22	260,934	380,483	358,892
Net investment income	22	1,388,243	1,185,758	1,158,733
Other technical income		19,342	19,183	10,423
<b>Total revenues</b>		<b>11,824,021</b>	<b>11,062,423</b>	<b>10,668,826</b>
Claims and claims expenses (net)	23	8,329,714	7,591,512	7,313,181
Change in policy benefits for life and health contracts (net)	24	-202,940	-640,999	-639,174
Commission and brokerage	25	1,308,370	1,035,363	1,088,603
Other acquisition costs (net)		172,106	193,771	159,628
Other technical expenses (net)		334,655	326,730	299,394
Administrative expenses		391,794	432,557	385,226
<b>Total technical expenses (net)</b>		<b>10,739,579</b>	<b>10,220,932</b>	<b>9,885,206</b>
Other income and expenses	26	-259,416	-349,176	-335,810
<b>Operating profit (EBIT)</b>		<b>825,026</b>	<b>492,315</b>	<b>447,810</b>
Interest on hybrid capital		54,793	57,284	57,622
<b>Net income before taxes</b>		<b>770,233</b>	<b>435,031</b>	<b>390,188</b>
Taxes	19	297,830	168,366	137,087
Minority interest		134,736	81,329	87,326
<b>Net income</b>		<b>337,667</b>	<b>185,336</b>	<b>165,775</b>

## Cash flow statement for the 2003 financial year

1.1.-31.12.2003 1.1.-31.12.2002

	Figures in EUR thousand	
<b>I. Cash flows from operating activities</b>		
Consolidated net income (after tax)	337,667	185,336
Appreciation/depreciation	205,072	379,026
Net realized gains and losses on investments	-179,033	-92,305
Amortization of investments	-10,220	-15,530
Minority interest	134,736	81,329
Changes in funds held	212,019	-731,449
Changes in prepaid reinsurance premiums (net)	-148,463	607,851
Changes in tax assets / provisions for taxes incl. deferred taxes	183,623	28,537
Changes in benefit reserves (net)	1,728	702,945
Changes in claims reserves (net)	655,206	1,084,297
Changes in deferred acquisition costs	-441,148	-320,847
Changes in pension provisions	11,926	19,403
Changes in other technical provisions	657,439	112,141
Changes in clearing balances	-44,218	-184,717
Changes in other assets and liabilities (net)	233,506	309,506
<b>Cash flows from operating activities</b>	<b>1,809,840</b>	<b>2,165,523</b>
<b>II. Cash flows from investing activities</b>		
Fixed-income securities – held to maturity		
Sales	-477,061	-124,606
Purchases	30,982	8,579
Fixed-income securities – available for sale		
Sales	-12,364,397	-8,034,764
Purchases	9,307,041	6,752,149
Equity securities – available for sale		
Sales	-852,578	-2,750,149
Purchases	1,015,994	2,425,981
Real estate		
Sales	-25,649	-53,051
Purchases	8,238	33,967
Other changes (net)	1,138,635	-631,724
<b>Cash flows from investing activities</b>	<b>-2,218,795</b>	<b>-2,373,618</b>



1.1.-31.12.2003 1.1.-31.12.2002

	Figures in EUR thousand	
III. Cash flows from financing activities		
Net changes in contract deposits	91,458	82,170
Changes in notes payable	30,087	-33,797
Surplus debenture	12,340	7,905
Minority interest	162,851	73,640
Other changes	-46,116	7,162
<b>Cash flows from financing activities</b>	<b>250,620</b>	<b>137,080</b>
IV. Exchange rate differences on cash	-66,654	25,535
<b>Change in cash and cash equivalents (I+II+III+IV)</b>	<b>-224,989</b>	<b>-45,480</b>
Cash and cash equivalents at the beginning of the period	984,643	1,030,123
Change in cash and cash equivalents according to cash flow statement	-224,989	-45,480
<b>Cash and cash equivalents at the end of the period</b>	<b>759,654</b>	<b>984,643</b>
Income taxes (payments)	184,629	42,000
Interest paid	111,136	121,034

## Segment report

	Primary Insurance			
	Property/Casualty		Life	
	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002
<b>Assets (all figures in EUR thousand)</b>				
Fixed-income securities – held to maturity	190,724	21,630	101,136	6,136
Fixed-income securities – available for sale	3,579,739	2,741,406	2,913,714	2,803,547
Fixed-income securities – trading	—	—	1,850	—
Equity securities – available for sale	271,008	365,162	24,695	140,036
Equity securities – trading	–81	1,083	—	4,090
Real estate	139,067	154,586	32,763	38,369
Shares in affiliated companies and participating interests	54,780	198,007	383,390	90,365
Loans	7,503	8,599	102,972	97,868
Other invested assets	874,409	1,136,512	344,242	308,836
<b>Total investments</b>	<b>5,117,149</b>	<b>4,626,985</b>	<b>3,904,762</b>	<b>3,489,247</b>
Investments for the account and risk of holders of life insurance policies	—	—	584,692	318,594
Prepaid reinsurance premiums	767,108	958,106	—	5
Reinsurance recoverables on benefit reserve	—	—	246,587	266,056
Reinsurance recoverables on unpaid claims	4,780,069	4,949,442	7,627	10,036
Reinsurance recoverables on other technical provisions	25,363	46,649	756,718	460,258
<b>Reinsurers' share of technical provisions</b>	<b>5,572,540</b>	<b>5,954,197</b>	<b>1,010,932</b>	<b>736,355</b>
Deferred acquisition costs	151,344	97,803	341,841	281,481
Accounts receivable	1,016,854	838,243	19,914	19,262
Funds held by ceding companies	17,525	6,423	33,447	38,415
Other assets in the segment	1,817,290	1,685,984	355,180	363,416
<b>Total assets</b>	<b>13,692,702</b>	<b>13,209,635</b>	<b>6,250,768</b>	<b>5,246,770</b>



Reinsurance		Financial Services		Consolidation		Total			
Property/Casualty		Life/Health							
31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002		
427,655	324,139	65,884	62,485	—	—	-294,177	81,715	491,222	496,105
7,460,210	6,345,142	2,114,339	2,076,004	1,415	1,416	352,585	241,456	16,422,002	14,208,971
—	—	—	—	—	—	—	—	1,850	—
800,096	613,105	141,311	124,837	—	—	—	-1	1,237,110	1,243,139
2,031	4,550	370	921	—	—	1	1	2,321	10,645
213,441	243,586	23,422	29,691	—	—	3,144	3,249	411,837	469,481
3,001,446	2,824,068	471,386	527,789	93	93	-3,645,236	-3,377,347	265,859	262,975
66,143	79,863	15,031	2,360	—	—	—	-1	191,649	188,689
1,160,884	1,627,700	266,362	318,102	22,334	16,759	95,056	-269,225	2,763,287	3,138,684
<b>13,131,906</b>	<b>12,062,153</b>	<b>3,098,105</b>	<b>3,142,189</b>	<b>23,842</b>	<b>18,268</b>	<b>-3,488,627</b>	<b>-3,320,153</b>	<b>21,787,137</b>	<b>20,018,689</b>
—	—	—	—	—	—	—	—	584,692	318,594
114,208	93,086	2,555	6,409	—	—	-232,760	-298,135	651,111	759,471
—	—	204,132	518,200	—	—	-142,266	-314,018	308,453	470,238
2,330,341	3,758,814	87,334	176,767	—	—	-2,297,045	-2,578,286	4,908,326	6,316,773
15,433	11,148	401	2,882	—	—	-720,326	-268,258	77,589	252,679
<b>2,459,982</b>	<b>3,863,048</b>	<b>294,422</b>	<b>704,258</b>	<b>—</b>	<b>—</b>	<b>-3,392,397</b>	<b>-3,458,697</b>	<b>5,945,479</b>	<b>7,799,161</b>
255,861	350,201	1,344,787	915,501	—	—	-105,931	-97,980	1,987,902	1,547,006
1,498,389	1,511,146	891,391	1,053,341	—	—	-785,419	-555,543	2,641,129	2,866,449
4,847,114	5,174,623	3,616,632	3,416,849	—	—	-792,298	-489,253	7,722,420	8,147,057
221,257	504,349	202,800	59,303	15,142	12,336	3,124	160,091	2,614,793	2,785,479
<b>22,414,509</b>	<b>23,465,520</b>	<b>9,448,137</b>	<b>9,291,441</b>	<b>38,984</b>	<b>30,604</b>	<b>-8,561,548</b>	<b>-7,761,535</b>	<b>43,283,552</b>	<b>43,482,435</b>

## Segment report

	Primary Insurance			
	Property/Casualty		Life	
	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002
<b>Liabilities (all figures in EUR thousand)</b>				
Loss and loss adjustment expense reserve	7,292,585	7,415,359	132,920	48,572
Policy benefits for life and health contracts	35	1,737	2,391,728	2,412,108
Unearned premium reserve	1,803,699	1,904,572	591,501	643,882
Other technical provisions	24,914	15,106	349,851	350,525
<b>Total technical provisions</b>	<b>9,121,233</b>	<b>9,336,774</b>	<b>3,466,000</b>	<b>3,455,087</b>
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	1,130,222	636,320
Accounts receivable	340,016	483,973	15,997	87,719
Fund held under reinsurance treaties	681,523	384,673	742,723	578,147
Other liabilities in the segment	1,168,805	1,176,020	363,567	312,615
<b>Total liabilities</b>	<b>11,311,577</b>	<b>11,381,440</b>	<b>5,718,509</b>	<b>5,069,888</b>

Reinsurance				Financial Services		Consolidation		Total		
Property/Casualty		Life/Health								
31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	31.12. 2003	31.12. 2002	
15,467,781	16,151,720	950,591	966,281	—	—	-2,335,083	-2,354,033	21,508,794	22,227,899	
—	2,231	4,026,486	4,152,262	—	—	-373,196	-351,827	6,045,053	6,216,511	
1,215,264	1,306,858	22,455	21,757	—	—	-247,638	-240,717	3,385,281	3,636,352	
114,623	135,053	24,002	28,269	—	—	-7,396	-7,538	505,994	521,415	
<b>16,797,668</b>	<b>17,595,862</b>	<b>5,023,534</b>	<b>5,168,569</b>	<b>—</b>	<b>—</b>	<b>-2,963,313</b>	<b>-2,954,115</b>	<b>31,445,122</b>	<b>32,602,177</b>	
—	—	—	912	—	—	—	—	1,130,222	637,232	
1,154,514	1,099,701	364,883	517,062	—	—	-548,642	-604,522	1,326,768	1,583,933	
633,448	1,044,307	1,001,860	589,152	—	—	-1,325,253	-739,593	1,734,301	1,856,686	
1,231,642	1,375,461	375,031	358,101	9,288	9,566	841,006	741,626	3,989,339	3,973,389	
<b>19,817,272</b>	<b>21,115,331</b>	<b>6,765,308</b>	<b>6,633,796</b>	<b>9,288</b>	<b>9,566</b>	<b>-3,996,202</b>	<b>-3,556,604</b>	<b>39,625,752</b>	<b>40,653,417</b>	
								Stockholders' equity*	3,657,800	2,829,018
								Total liabilities	43,283,552	43,482,435

\* Group stockholder's equity  
incl. minority interests

## Segment report

	Primary Insurance			
	Property/Casualty		Life	
	2003	2002	2003	2002
<b>Statement of income (all figures in EUR thousand)</b>				
Gross premiums written	5,611,300	5,537,078	1,022,362	907,124
Ceded premiums written	3,258,176	3,209,495	259,044	263,540
Net premiums written	2,353,124	2,327,583	763,318	643,584
Change in gross unearned premiums	-156,367	-278,123	-90,426	-144,108
Change in ceded unearned premiums	-25,383	31,686	83,972	134,387
Net premiums earned	2,171,374	2,081,146	756,864	633,863
Investment income (without profit/loss transfer)	338,344	136,426	147,027	109,743
Other technical income (net)	21,092	10,005	704	408
Total revenues	2,530,810	2,227,577	904,595	744,014
Claims and claims expenses (net)	1,525,566	1,656,370	457,171	333,166
Change in policy benefits for life and health contracts (net)	—	48	-77,573	-115,896
Commissions and brokerage	167,776	-58,683	59,566	50,380
Other technical expenses (net)	170,813	163,721	236,084	159,569
Administrative expenses	199,921	212,109	45,097	53,156
Total technical expenses	2,064,076	1,973,469	875,491	712,167
Other income and expenses (without profit/loss transfer)	-57,295	-45,095	15,980	5,674
Operating profit (EBIT without profit/loss transfer)	409,439	209,013	45,084	37,521
Interest on hybrid capital	175	836	—	—
Net income before taxes	409,264	208,177	45,084	37,521
Taxes				
Minority interest				
Net income				



Reinsurance		Financial Services		Consolidation		Total			
Property/Casualty	Life/Health								
2003	2002	2003	2002	2003	2002	2003	2002		
7,464,157	8,007,865	2,341,724	2,574,560	—	—	-1,615,393	-2,081,525	14,824,150	14,945,102
1,734,739	2,752,355	337,018	428,365	—	—	-1,644,154	-2,173,081	3,944,823	4,480,674
5,729,418	5,255,510	2,004,706	2,146,195	—	—	28,761	91,556	10,879,327	10,464,428
-55,299	-245,061	-2,008	-7,560	—	—	-8,104	7,487	-312,204	-667,365
27,819	-6,353	675	3,797	—	—	-237,770	-103,098	-150,687	60,419
5,701,938	5,004,096	2,003,373	2,142,432	—	—	-217,113	-4,055	10,416,436	9,857,482
902,281	741,427	178,205	263,696	-22,030	-19,631	-155,584	-45,903	1,388,243	1,185,758
3,980	15,657	4,224	-1,675	—	—	-10,658	-5,212	19,342	19,183
6,608,199	5,761,180	2,185,802	2,404,453	-22,030	-19,631	-383,355	-55,170	11,824,021	11,062,423
5,135,976	4,306,619	1,310,662	1,221,773	—	—	-99,661	73,584	8,329,714	7,591,512
—	-2,231	-283,750	-573,258	—	—	158,383	50,338	-202,940	-640,999
650,314	625,058	426,396	428,314	—	—	4,318	-9,706	1,308,370	1,035,363
17,999	98,572	-3,150	-9,721	—	—	85,015	108,360	506,761	520,501
105,066	113,983	48,286	49,937	—	—	-6,576	3,372	391,794	432,557
5,909,355	5,146,463	2,065,944	2,263,561	—	—	-175,287	125,272	10,739,579	10,220,932
-131,623	-215,835	-49,125	-93,325	31,515	25,074	-68,868	-25,669	-259,416	-349,176
567,221	398,882	70,733	47,567	9,485	5,443	-276,936	-206,111	825,026	492,315
8,960	8,622	1,511	1,813	—	—	44,147	46,013	54,793	57,284
558,261	390,260	69,222	45,754	9,485	5,443	-321,083	-252,124	770,233	435,031
								297,830	168,366
								134,736	81,329
								337,667	185,336

## Notes / General accounting principles

Talanx AG is a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i ff. of the German Commercial Code (HGB). The annual financial statements of Talanx AG and its subsidiaries are included in these consolidated annual accounts. Pursuant to § 291 of the German Commercial Code (HGB) Talanx AG is therefore released from its obligation to compile a consolidated financial statement. The present financial statement has been drawn up on a voluntary basis.

The consolidated financial statement of Talanx AG has been drawn up in accordance with US GAAP (United States Generally Accepted Accounting Principles). In addition, the preparation of the consolidated financial statement made allowance for the standards of the Deutsche Rechnungslegungs Standards Committee e.V. (DSRC) applicable to insurance companies, insofar as their application gives rise to reporting obligations above and beyond the requirements of US GAAP.

All Statements of Financial Accounting Standards (SFAS) issued by the US Financial Accounting Standards Board (FASB) on or before 31 December 2003 with binding effect for the 2003 financial year have been observed in the financial statement.

SFAS 141 "Business Combinations" Para. 11 in conjunction with Appendix D 11 to 18 sets out standards governing the accounting of transfer transactions between entities under common control. This Statement requires that the assets and liabilities of the transferred entity be carried over at the book values of the transferring parent company. The consolidated financial statement of the acquiring entity is to be drawn up as if the transferred entity had already been part of the consolidated group since the commencement of the financial year.

The comparative figures presented for previous reporting periods must also be adjusted according to this treatment. The consolidated financial statement was drawn up in accordance with these requirements, which are referred to in their entirety as the "as-if pooling" method, and supplemented with certain additional information (cf. management report, p. 27 as well as "Consolidation Principles" section of these Notes). All figures provided in the Notes are based upon application of the "as-if pooling" method.

In the consolidated financial statement drawn up in accordance with US GAAP it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet and the disclosure of income and expenses during the reporting period. The estimates and assumptions used reflect the best information available at the time of drawing up the consolidated financial statement; however, they may diverge from the actual amounts subsequently determined.

## Notes / Consolidation

**Consolidated companies**

Talanx AG is the parent company of the Group. In accordance with SFAS No. 94 "Consolidation of All Major Owned Subsidiaries", the consolidated financial statement of Talanx AG includes all major domestic and foreign subsidiaries in which Group companies indirectly or directly hold a share of more than 50 % of the voting rights.

The consolidated financial statement does not include 16 subsidiaries, the overall influence of which on the Group's net assets, financial position and results is considered minimal.

**Consolidated subsidiaries**

	Germany	Abroad
31 Dec. 2002	48	42
Additions	—	1
Departures	—	3
31 Dec. 2003	48	40

In the 2003 financial year HDI Industrie Versicherung AG, which was added as part of a capital increase against a contribution in kind, was consolidated for the first time. Further details are provided on pages 123 and 165. Compagnie de Réassurance RT, S.A., which was acquired through a subsidiary in Luxembourg, was also consolidated for the first time.

As part of a capital increase against a contribution in kind, Talanx AG transferred its shares in HDI Reinsurance (Ireland) Ltd. to Hannover Re effective 1 July 2003.

There were no other significant changes in the group of consolidated companies.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code the following table also lists major participations in unconsolidated third companies.

The figures for the capital and reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
<b>Affiliated companies resident in Germany</b>			
Ampega Asset Management GmbH Hannover/Germany	100.00	EUR 12,263	EUR 6,784
Ampega Financial Services GmbH (formerly: ASPECTA Vertriebs- und Grundstücksverwaltungs-GmbH), Hannover/Germany	70.00	EUR 26	EUR -871
Ampega Immobilien Management GmbH, Hannover/Germany	100.00	EUR 3,392	EUR —
Ampega Investment AG, Hannover/Germany	70.00	EUR 11,632	EUR -2,872
ASPECTA Global Group AG, Hamburg/Germany	100.00	EUR 95,669	EUR -16,438
ASPECTA Lebensversicherung AG, Hamburg/Germany	100.00	EUR 42,243	EUR -5,344
ASPECTA Versicherung AG, Hamburg/Germany	100.00	EUR 6,340	EUR 259
CiV Lebensversicherung AG, Hilden/Germany	100.00	EUR 30,255	EUR 17,393
CiV Versicherung AG, Hilden/Germany	100.00	EUR 6,342	EUR 285
E+S Rückversicherung AG, Hannover/Germany	50.05	EUR 459,281	EUR 39,000
Erste HDI Beteiligungsgesellschaft mbH, Hannover/Germany	100.00	EUR 658,836	EUR 20,636
GbR Hannover Rückversicherung AG / E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	54.83	EUR 59,108	EUR 1,207
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany	66.36	EUR 20,990	EUR -81
Hannover Beteiligungsgesellschaft mbH, Hannover/Germany	100.00	EUR 26	EUR 1
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany	72.48	EUR 24,134	EUR 8
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany	60.93	EUR 4,191	EUR -24
Hannover Grundstücksgesellschaft mbH, Hannover/Germany (in future: CiV Immobilien GmbH, Hilden/Germany)	100.00	EUR 25	EUR 1
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	71.80	EUR 596,851	EUR 21,730

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
Hannover Rückversicherung AG, Hannover/Germany	71.80	EUR 1,330,816	EUR 114,889
HANNOVER Sicherheitstechnik GmbH HST (in future: HDI SicherheitsTechnik GmbH, HST), Hannover/Germany	100.00	EUR 1,233	EUR 722
HAPEP II Holding GmbH, Hannover/Germany	66.36	EUR 19,012	EUR -186
HAPEP II Komplementär GmbH, Hannover/Germany	100.00	EUR 24	EUR -1
HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hannover/Germany	100.00	EUR 1,936	EUR -657
HDI Autohaus Service GmbH, Hannover/Germany	100.00	EUR 24	EUR -112
HDI Direkt Service GmbH, Hannover/Germany	100.00	EUR 51	EUR 3
HDI Industrie Versicherung AG (formerly: HDI Versicherungsvermittlungs-AG), Hannover/Germany	100.00	EUR 169,990	EUR -66,606
HDI Informationssysteme Gesellschaft für Anwendungsentwicklung mbH, Hannover/Germany	100.00	EUR 288	EUR 33
HDI International Holding AG Hannover/Germany	100.00	EUR 326,865	EUR 5,055
HDI Lebensversicherung AG, Hamburg/Germany	100.00	EUR 17,256	EUR —
HDI Pension Strategy & Management GmbH, Hamburg/Germany	100.00	EUR 4,109	EUR 3,047
HDI Pensionsfonds AG under establishment (in future: HDI Pensionsmanagement AG), Hamburg/Germany	100.00	EUR 3,861	EUR -419
HDI Pensionskasse AG, Hamburg/Germany	100.00	EUR 3,799	EUR -395
HDI Privat Versicherung AG, Hannover/Germany	100.00	EUR 161,000	EUR 188,648
HDI Rechtsschutz Versicherung AG, Hannover/Germany	100.00	EUR 9,044	EUR 2,397
HDI Service AG (formerly: Zweite HDI Verwaltungs-Service AG), Hannover/Germany	100.00	EUR 501	EUR 451
HDI Verwaltungs-Service AG, Hannover/Germany	100.00	EUR 658,855	EUR 20,631

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
HEPEP II Holding GmbH, Hannover/Germany	72.48	EUR 16,593	EUR -9
HEPEP II Komplementär GmbH, Hannover/Germany	100.00	EUR 23	EUR -1
HEPEP III Holding GmbH, Hannover/Germany	60.93	EUR 2,009	EUR -16
HEPEP III Komplementär GmbH, Hannover/Germany	100.00	EUR 24	EUR -1
HGG Hannover Grundstücksgesellschaft mbH & Co. KG, Hannover/Germany (in future: CiV Immobilien GmbH & Co. KG, Hilden/Germany)	100.00	EUR 7,636	EUR -823
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover/Germany	100.00	EUR 58,305	EUR 5,658
Oval Office Grundstücks GmbH, Hannover/Germany	85.90	EUR 29,903	EUR -24
ProACTIV Communication Center GmbH, Hilden/Germany	100.00	EUR 458	EUR 196
Protection Reinsurance Intermediaries AG, Hannover/Germany	100.00	EUR 388	EUR 106
SSV Schadensschutzverband GmbH, Hannover/Germany	100.00	EUR 38	EUR 12
VES Gesellschaft für Mathematik, Verwaltung und EDV mbH, Gevensberg/Germany	100.00	EUR -678	EUR 206
Zweite HDI Beteiligungsgesellschaft mbH, Hannover/Germany	100.00	EUR 658,836	EUR 20,635

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
<b>Affiliated companies resident abroad</b>			
ASPECTA Assurance International AG, Vaduz/Liechtenstein	100.00	CHF 6,969	CHF —
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00	EUR 10,003	EUR 157
Compagnie de Réassurance RT, S.A. Luxembourg/Luxembourg	100.00	EUR 5,065	EUR —
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	50.05	EUR 157,643	EUR 12,994
Euro International Reinsurance S.A., Luxembourg/Luxembourg	100.00	EUR 10,226	EUR —
H.J. Roelofs Assuradeuren B.V., Rotterdam/Netherlands	100.00	EUR 574	EUR 6
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg	71.80	EUR 9,698	EUR 7,869
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	71.80	GBP 109,352	GBP -10
Hannover Finance, Inc., Wilmington/USA	71.80	USD 400,773	USD 8,238
Hannover Finance, Inc. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares:			
Clarendon America Insurance Company, Trenton/USA	100.00	USD 179,213	USD 10,815
Clarendon National Insurance Company, Trenton/USA	100.00	USD 518,515	USD 16,956
Clarendon Select Insurance Company, Tallahassee/USA	100.00	USD 27,121	USD 3,537
Harbor Specialty Insurance Company, Trenton/USA	100.00	USD 42,028	USD 6,313
Insurance Corporation of Hannover, Chicago/USA	100.00	USD 197,044	USD 11,302
Redland Insurance Company, Council Bluffs/USA	100.00	USD 26,500	USD 2,393
HANNOVER International Aktiengesellschaft für Industrierversicherungen (in future: HDI Hannover Versicherung AG) Vienna/Austria	99.76	EUR 13,193	EUR -968
HANNOVER International (Belgique) S.A., Brussels/Belgium	100.00	EUR 2,140	EUR -300

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
HANNOVER International España, Cia de Seguros y Reaseguros S.A., (in future: HDI HANNOVER International España, Cia de Seguros y Reaseguros S.A.), Madrid/Spain	100.00	EUR 34,308	EUR 3,621
HANNOVER International Insurance (Nederland) N.V. (in future: HDI Verzekeringen N.V.), Rotterdam/Netherlands	100.00	EUR 28,281	EUR 4,381
Hannover International Seguros S.A. (in future: HDI Seguros S.A.), São Paulo/Brazil	99.99	BRL 72,147	BRL 5,064
Hannover Life Re of Australasia Ltd., Sydney/Australia	60.93	AUD 177,160	AUD 13,940
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	71.80	EUR 101,639	EUR 2,963
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	71.80	GBP 33,074	GBP 980
Hannover Life Reassurance Company of America, Orlando/USA	71.80	USD 84,958	USD -1,401
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	71.80	EUR 647,472	EUR 142,961
Hannover Re Advanced Solutions Ltd., Dublin/Ireland	64.55	EUR 797	EUR 218
Hannover Re Real Estate Holdings, Inc., Orlando/USA	68.86	USD 124,787	USD 4,951
Hannover Re Real Estate Holdings, Inc. holds a sub-group including the following major companies in which it holds the following shares:			
Hannover USA Real Estate Corporation, Orlando/USA	100.00	USD 51,042	USD 1,966
Orange Avenue Corporation, Orlando/USA	100.00	USD 204	USD -41
Summit at Southpoint Corporation, Jacksonville/USA	100.00	USD 7,422	USD 338
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden	71.80	SEK —	SEK 723
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	71.80	EUR 536,952	EUR 46,430
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	71.80	ZAR 343,191	ZAR -39,118

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares:			
Aviation Insurance Company Limited, Cape Town/South Africa	31.25	ZAR 21,326	ZAR 3,970
Compass Insurance Holdings (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR 12,125	ZAR 2,333
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR 32,977	ZAR -2,195
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa	100.00	ZAR 289,992	ZAR 259
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR 39,897	MUR -101,045
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR 9,743	ZAR -3,421
Hannover Risk Consultants B.V., Rotterdam/Netherlands	100.00	EUR -145	EUR 33
Hannover Services (UK) Ltd., Virginia Water/United Kingdom	71.80	GBP 635	GBP 169
HDI Assicurazioni S.p.A., Rome/Italy	71.68	EUR 146,842	EUR 5,031
HDI International Finanziaria S.p.A., Rome/Italy	35.54	EUR 90	EUR -2
HDI Reinsurance (Ireland) Ltd. (in future: Hannover Reinsurance (Dublin) Ltd.), Dublin/Ireland	71.80	EUR 226,844	EUR 104,091
HDI Samopomoc TU S.A. (formerly: Towarzystwo Ubezpieczeniowe S.A.), Warsaw/Poland	99.22	PLN 61,184	PLN 4,732
InLine S.p.A., Rome/Italy	66.66	EUR 1,088	EUR 7
International Insurance Company of Hannover Ltd., Virginia Water/United Kingdom	71.80	GBP 70,970	GBP 6,365
Magyar Posta Biztosító Részvénytársaság, Budapest/Ungarn	66.93	HUF 664,379	HUF -267,564
Magyar Posta Életbiztosító Részvénytársaság, Budapest/Hungary	55.00	HUF 1,032,789	HUF -607,656
Penates A, Ltd., Tortola/British Virgin Islands	65.96	USD 92,243	USD 3,386

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %	Capital and reserves	Result for the last financial year
Protection Reinsurance Intermediaries Ltd., London/United Kingdom	100.00	GBP 449	GBP -16
Société Civile Immobilière HANNOVER International France, Paris/France	100.00	EUR 3,493	EUR 13
Talanx Finanz (Luxemburg) S.A., Luxembourg/Luxembourg	99.95	EUR 5,067	EUR 67
Towarzystwo Ubezpieczeniowe Samopomoc Zycie S.A., Warsaw/Poland	100.00	PLN 5,832	PLN -2,338
WRH Offshore High Yield Partners, L.P., Wilmington/USA	65.28	USD 48,828	USD 2,996
<b>Associated companies resident in Germany</b>			
Hannover Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany	17.95	EUR 106,971	EUR 37,543
IGEPA Industrie- und Gewerbepark GmbH & Co. Vermietungs KG, Munich/Germany	37.50	EUR 8,817	EUR 2,023
PB Lebensversicherung AG, Hilden/Germany	50.00	EUR 15,895	EUR -6,011
PB Versicherung AG Hilden/Germany	50.00	EUR 14,490	EUR -4,197
SITON Beteiligungs GmbH & Co. Vermietungs KG, Munich/Germany	55.45	EUR -619	EUR -270
TAMARISKE Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich/Germany	50.00	EUR 3,727	EUR -942
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	30.46	EUR 70,350	EUR 25,442
<b>Associated companies resident abroad</b>			
ITAS Assicurazioni S.p.A., Trento/Italy	31.41	EUR 54,197	EUR 4,786
ITAS Vita S.p.A., Trento/Italy	25.04	EUR 52,410	EUR 2,087
WPG Corporate Development Associates IV (Overseas) L.L.C., Grand Cayman/Cayman Islands	19.83	USD 2,379	USD -12

## Notes / Consolidation

The following companies are included in the consolidated financial statement:

Name and registered office of the company (Figures in currency units of 1000)	Participation in %
<b>Companies not included in the consolidated financial statement</b>	
JM Management Consulting GmbH, Hannover/Germany	53.13
PB Pensionsfonds AG, Hilden/Germany	50.00
ASPECTA Japan KK, Tokyo/Japan	100.00
Hannover Coop Bulgaria Insurance Company A.D., (in future: HDI COOP Bulgaria Insurance AD), Sofia/Bulgaria	66.00
HANNOVER International S.A., (in future: Hannover International S.A.R.L.), Paris/France	99.99
Hannover Life Re Consultants, Inc., Orlando/USA	71.80
Hannover Re (Guernsey) PCC Ltd., St. Peter Port/Guernsey	71.80
Hannover Re Gestion de Réassurance France S.A., Paris/France	71.80
Hannover Re Services Italy S.r.L., Milan/Italy	71.58
Hannover Re Services Japan, Tokyo/Japan	71.80
Hannover Services (Mexico) S.A. de C.V., Mexico City/Mexico	71.80
HR Hannover Re Correduría de Reaseguros S.A., Madrid/Spain	71.80
Intercontinental Re, Inc., Los Angeles/USA	71.80
International Mining Industry Underwriters Ltd., London/United Kingdom	71.80
LRA Superannuation Plan Pty Ltd., Sydney/Australia	60.93
Mediterranean Reinsurance Services Ltd., Hong Kong/China	71.80

## Notes / Consolidation

### Consolidation principles

All subsidiaries included in the consolidated financial statement draw up an annual financial statement as at 31 December. Certain special funds have diverging financial years.

For the purposes of inclusion in the consolidated financial statement, the individual financial statements drawn up in compliance with the provisions of the respective national laws – with respect to methods, valuations and disclosure – were transformed in accordance with US GAAP, on which the consolidated financial statement is based.

The *capital consolidation* is based upon the “purchase accounting” method (comparable to the German book value method). The purchase costs of the participation have been netted with the proportionate stockholders’ equity of the subsidiary at the time when it was first included in the consolidated financial statement after the revaluation of all assets and liabilities.

A difference that cannot be allocated to assets or liabilities is recognized as goodwill. Goodwill is valued in accordance with SFAS 142 “Goodwill and other Intangible Assets”, i.e. it is not amortized but is instead regularly tested (i.e. at least annually) for impairment. If such a test reveals that the assessable value as at the balance sheet date is less than the reported value, impairment is to be taken on goodwill. Immaterial and negative goodwill were booked to earnings in the year of their occurrence.

In the case of transactions between entities under common control, the assets and liabilities of the transferred entity are carried over at the book values of the transferring parent company, and no fair value or goodwill is recognized. Under SFAS 141 “Business Combinations” Para. 11 in conjunction with Appendix D, the consolidated financial statement of the acquiring entity is to be drawn up as if the transferred entity had already been part of the consolidated group since the commencement of the financial year. In this context, transactions between the transferred entity and other group entities are to be eliminated as if they were intra-group transactions. The same applies to all previous reporting periods shown for comparative purposes (“as-if pooling” method).

In April 2003 the Derivative Implementation Group (DIG) of the FASB published SFAS 133 Implementation Issue No. B 36 “Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments” (DIG B 36). The Statement defines standards for the accounting of “Modified Coinsurance” (Modco) and “Coinsurance With Funds Withheld” (CWFw) reinsurance contracts. It states that such contracts contain embedded derivatives that must be accounted separately from the underlying reinsurance arrangements at fair value. The changes in fair value between two accounting dates are to be recognized in the statement of income. SFAS 133 DIG B 36 was to be applied for the first time on 1 October 2003.

## Notes / Consolidation

We have applied these standards since the above date. The requirement affected a small number of contracts in life/health reinsurance. The application of DIG B 36 had no significant impact on the consolidated financial statement in the 2003 financial year. For further details the reader is referred to the section "Derivative financial instruments".

In the same month the FASB published SFAS 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 supplements the relevant accounting standards set out in SFAS 133, insofar as such derivative instruments and hedging activities were not already covered by the rules published by the Derivative Implementation Group. This standard is applicable to all contracts concluded or modified after 30 June 2003.

In December 2003 the FASB issued FASB Interpretation No. 46 (FIN 46) (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46R), clarifying the consolidation of so-called "variable interest entities". The Standard sets out how an entity must analyze whether it controls another entity through means other than majority voting rights and hence whether it must consolidate the said other entity. The revised Interpretation supersedes FIN 46 "Consolidation of Variable Interest Entities", which was published in January 2003.

The Talanx Group has applied the standards of FIN 46R to special purpose entities with effect from 31 December 2003. More detailed explanations are provided in the section on the securitization of reinsurance risks. We are currently reviewing the implications of FIN 46R for relations with companies that do not constitute special purpose entities.

In May 2003 the FASB published SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This Standard governs the accounting treatment of certain financial instruments that issuers have hitherto classified as equity. SFAS 150 requires that certain stand-alone financial instruments with characteristics of both liabilities and equity be classified as liabilities. In most cases, the corresponding changes in fair value are to be recognized in the statement of income. The Standard may influence certain repurchase transactions involving equities as well as management ratios and key balance sheet figures.

The application of SFAS 150 did not have any significant impact on the consolidated financial statement in the 2003 financial year.

In March 2003 the Emerging Issue Task Force (EITF) reached a consensus on the outstanding items of EITF 02-9 "Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold". EITF 02-9 requires that financial assets previously accounted by the transferor as sold be recognized at fair value insofar as it has regained control of such financial assets. The accounting treatment is the same as would be applied in the event of repurchase by the transferor. At the same time, the transferor must recognize a corresponding liability to the acquirer. In the event of a regaining of control the transferor may not realize any gains or losses. No bad debt provisions may be established for receivables as at the date when control is regained. The rules are to be applied from April 2003 onwards to all changes through which the transferor regains control over previously sold financial assets.

## Notes / Consolidation

The implementation of the standards did not have any impact on the consolidated financial statement in the 2003 financial year.

In November 2002 the FASB published FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness to Others – an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34". The Interpretation clarifies the disclosures to be made by a guarantor in its financial statements with respect to obligations under guarantees that it issues. In addition, FIN 45 requires that at the time when a company issues a guarantee it must recognize an initial liability for the fair value of the obligations it assumes under the guarantee. The disclosure requirements are effective for financial statements of interim or annual periods ending after 15 December 2002 (the reader is referred here to our remarks in the section "Contingent liabilities"). The recognition provisions apply to guarantees and contingent liabilities entered into after 31 December 2002. They do not apply to guarantees given with a group of companies or by a group company to third parties on behalf of another group company.

The application of this Standard did not have any significant impact on the consolidated financial statement.

In July 2002 SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities" was published. This Statement requires that costs associated with exit or disposal activities be recognized as liabilities when the costs are incurred, provided the fair value can be reasonably measured. It had previously been the case that such liabilities could be recognized at the date of an entity's commitment to a restructuring plan. SFAS 146 is to be applied to exit and disposal activities initiated after 31 December 2002.

The application of the Standard did not have any significant impact on the consolidated financial statement in the 2003 financial year.

Where minority interests in the stockholders' equity exist, such interests are reported separately. The minority interest in the result is deducted from the net income in the statement of income and totaled EUR 134.7 million in the 2003 financial year.

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other within the scope of the *debt consolidation*.

The effects of business relations within the Group were eliminated via the *consolidation of expenses and profit*. Allowance was made for corresponding tax deferrals (deferred taxes) in connection with eliminating entries recognized within the statement of income.

Notes / Consolidation

**Major acquisitions**

As part of a capital increase for a contribution in kind, HDI Va.G. transferred all shares in HDI Industrie Versicherung AG to Talanx by means of a contract of assignment dated 12 June 2003 against issuance of 55,000 new registered no-par-value shares with a notional value of EUR 1,000 each. An amount of EUR 115.0 million was contributed as a share premium to additional paid-in capital.

Since this transfer constitutes a transaction between entities under common control, US GAAP requires that the company be consolidated at the book values of HDI Va.G. as if it had already belonged to the Group at the commencement of the financial year. The previous year's figures presented for comparative purposes were also adjusted according to this treatment (on the "as-if pooling" method cf. section "Consolidation principles").

**Associated companies**

In accordance with APB Opinion No. 18, all companies that are not subsidiaries and in which group companies hold between 20 % and 50 % of the voting rights – irrespective of whether a controlling influence is actually exercised over business or financial policy – are considered associated companies.

Companies valued at equity

	Germany	Abroad
31 Dec. 2002	7	3
Additions	—	—
Departure	—	—
31 Dec. 2003	7	3

## Notes / Reporting and valuation methods, differences compared to German law

### Assets side

#### Investments including income and expenses

Investments were valued in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". Under these provisions, the valuation of investments is dependent upon the intended investment period.

Fixed-income securities classified as held to maturity are valued at purchase costs plus/minus amortized costs.

Fixed-income securities classified as available for sale are valued at fair value. The difference between the fair value and amortized cost is booked to other comprehensive income. Fair value adjustments are also made to recognize changes in the fair value of securities. Unlike the amortization of the purchase costs, these are not recognized in the statement of income. Taking account of apportionable deferred taxes, they are booked to a special item directly allocated to stockholders' equity.

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

In compliance with the accounting standards of the US Securities and Exchange Commission (SEC) for companies that draw up their financial statements in accordance with US GAAP, we tested for impairment the holdings of all papers that permanently listed at more than 20 % under their book value in the six months prior to the key date of 15 December 2003. Only in justified exceptional cases (Management Judgements) was a write-down to fair value omitted. In all other cases a write-down to fair value as at the key date of 15 December 2003 was taken.

The aforementioned principles break with the historical cost principle and realization principle typically applied in German commercial law. The valuation of financial assets at near market value provides readers of the balance sheet with better information about the profitability of investments.

Major participating interests are valued at equity if the Group holds between 20 % and 50 % of the voting rights, irrespective of whether a controlling influence is exercised over the commercial or financial policy of the participation ("associated company").

Shares in affiliated companies not included in the consolidated financial statement and other participations are valued at cost of acquisition, where applicable less special write-downs.

#### Real estate

Real estate is divided into real estate for own use and third-party use. Only the real estate in the portfolio which is used to generate income is shown under the investments.

Real estate is valued at cost of acquisition less scheduled and special depreciation.

Income and expenses from rental agreements are included in the investment income.

## Notes / Reporting and valuation methods, differences compared to German law

### **Investments for the account and risk of holders of life insurance policies**

This item refers principally to policyholders' investments under unit-linked life insurance policies. They are accounted at fair value; the unrealized gains or losses are opposed by changes in the corresponding technical provisions in the same amount.

The assets are kept and invested separately from other investment assets. Policyholders are entitled to the profits and income generated; they are likewise liable for the incurred losses.

### **Reinsurance recoverables on technical provisions**

The reinsurers' portions of the technical provisions are determined according to the contractual terms of the underlying reinsurance treaties; the reader is referred to the notes on the corresponding liabilities-side items.

### **Deferred acquisition costs**

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs for insurance contracts be capitalized as assets and amortized via the statement of income. German commercial law prohibits the capitalization of such expenses (§ 248 Para. 3 German Commercial Law (HGB)).

In the case of property and casualty (re-)insurance, acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premiums. In life and health (re-)insurance, the capitalized acquisition costs under life and annuity policies with regular premium payments are determined in the light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. In the case of annuity policies

with a single premium payment, these values refer to the expected policy period or period of annuity payment. In other reinsurance lines and in property/casualty insurance the capitalized acquisition costs are amortized on a straight-line basis across the average contractual period of up to five years.

### **Accounts receivable**

Accounts receivable from direct written insurance business, accounts receivable on reinsurance business and other receivables are accounted at nominal value. Value adjustments are made where necessary.

### **Deferred tax assets**

In accordance with SFAS 109 "Accounting for Income Taxes" deferred tax assets and liabilities are established for differences in time between the net income shown in the commercial and tax balance sheets. In principle, such valuation differences may arise between the national tax balance sheet and the national commercial balance sheet as well as the uniform consolidated balance sheet and the national commercial balance sheet or from tax loss carry-forwards. Deferred taxes are based on the current tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is stipulated in law. Deferred taxes at the Group level are booked using the Group tax rate of 40 %, unless they can be allocated to specific companies. Deferred tax assets are established to the extent that they will probably be realized in subsequent periods.

### **Other assets**

Other assets are valued at cost of acquisition less required depreciation/amortization.

## Liabilities side

### Technical provisions (gross)

The technical provisions are shown for gross account in the balance sheet, i.e. before deduction of the portion attributable to reinsurers; the reader is referred here to the notes on the corresponding asset items. The claims equalization reserves and provisions for major losses permitted under German law cannot be brought to account under US GAAP.

SFAS 60 and SFAS 5 "Accounting for Contingencies" state that provisions may only be established for impending losses from loss events that occurred before the balance sheet date. Given the fact that a considerable time lag may occur between the loss event and reporting of the receivable to the insurer, IBNR reserves are constituted for losses that have been "incurred but not reported".

Unearned premiums correspond to already collected premiums that are apportionable to future risk periods. These premiums are deferred by specific dates for insurance contracts (primarily in primary insurance); in reinsurance business global methods are sometimes used if the data required for a calculation pro rata temporis is unavailable.

Policy benefits for life and health contracts are established on the basis of assumptions regarding interest rates, life expectancy and the disability risk. The actuarial methods used take account of the present value of future payments to policyholders less premium income due.

The loss and loss adjustment expense reserves relate to payment obligations under insurance and reinsurance contracts in respect of which the amount of the insurance benefit or the due date of payment is still uncertain. Such reserves are established for known losses, claims that have been incurred but not yet reported and for internal and external expenses in connection with loss adjustment. The reserves are based on estimates, and the actual payments may therefore be higher or lower.

This is especially true of reinsurance, where a considerable period of time may elapse between occurrence of the insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. The realistically estimated future settlement amount, calculated in principle on the basis of the information provided by ceding companies, is brought to account. This estimate draws on past experience and assessments of the future development, taking account of market information. The amount of the reserves and their allocation to occurrence years are determined using established forecasting methods of non-life actuarial science. A case-by-case approach is also used for special events in connection with major claims, primarily in public liability and industrial fire business.

## Notes / Reporting and valuation methods, differences compared to German law

As a general rule, future payment obligations are not discounted; in one subsegment of financial reinsurance, however, technical provisions are discounted. The interest rates are determined by the contractual agreements. The period from inception to expiry of such contracts is at least four years.

Financial reinsurance is accounted in accordance with the requirements of SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". In this context, a distinction is made between insurance contracts according to the extent to which a risk transfer occurs between the ceding company and the reinsurer.

The development of the loss and loss adjustment expense reserve is shown in the table on page 142.

The provision for premium refunds refers to obligations to make premium refunds to insureds in life insurance that are not yet due as at the balance sheet date; they are valued on the basis of supervisory regulations or the individual contractual provisions. In addition, the portions of the cumulative valuation differences between US GAAP and the German Commercial Code (HGB) attributable to policyholders are shown here (provision for deferred premium refunds).

### **Contracts with no technical risk**

Insurance contracts have been identified that do not satisfy the requirements of SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". These involve reinsurance treaties under which the risk transfer between the ceding company and the reinsurer is of merely subordinate importance. With the exception of the contractually agreed fee payable by the ceding company, these contracts were eliminated in full from the technical account. The profit components were netted under other income/expenses. The payment flows resulting from these contracts were reported in the cash flow statement under financing activities. Technical amounts were shown as net changes in contract deposits, the fair values of which corresponded approximately to their book values.

### **Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders**

Regarding this item the reader is referred to the notes on the assets-side item and on the policy benefits for life and health contracts.

### **Minorities**

Minority interests are established in accordance with the shares held in the stockholders' equity of the subsidiaries by companies that do not wholly belong directly or indirectly to Talanx AG.

## Notes / Reporting and valuation methods, differences compared to German law

### Liabilities side

#### Provisions for pensions

Provisions for pensions and similar commitments are reported here. SFAS 87 "Employers' Accounting for Pensions" provides for valuation of the provision for pensions using the Projected Unit Credit Method. The provision must be established for the benefit entitlement acquired as at the balance sheet date in light of future increases in the rate of compensation. The provision is to be assessed at present value, and the interest rate used for discounting is to be based upon the capital market rate obtainable for highest-rated securities. Under the German Commercial Code (HGB), however, pension provisions are normally valued in accordance with German tax regulations. In this case, the point of departure is the situation existing on the balance sheet date, with no consideration given to future increases in the rate of compensation.

The information shown on page 148 meets the requirements of SFAS 132 "Employers' Disclosures about Pension and other Postretirement Benefits".

#### Liabilities

Items such as surplus debenture, notes payable, reinsurance accounts payable, funds held under reinsurance treaties and other liabilities are shown with the amount repayable.

#### Provision for deferred taxes

Deferred tax liabilities must be shown in accordance with SFAS 109 if asset items in the consolidated balance sheet are to be reported as higher or liabilities items as lower than in the tax balance sheet of the Group company concerned and if these divergences are limited in duration; cf. the notes on the corresponding asset item.

#### Stockholders' equity

The retained earnings include the capital surplus of the parent company plus the net income generated and not distributed by the Group companies since they have belonged to the Talanx Group as well as income and expenses from consolidation measures. Unrealized gains and losses from the valuation of investments at fair value are shown as a separate component of the stockholders' equity (cumulative comprehensive income).

Notes / Reporting and valuation methods, differences compared to German law

**Currency translation**

Foreign currency items in the individual companies' statements of income are converted into the respective national currency at the average rates of exchange. The individual companies' statements of income prepared in the national currencies are converted into euros at the average rates of exchange and transferred to the consolidated financial statement.

The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In the case of functional currencies, differences arising between the average exchange rate and the exchange rate on the balance sheet date lead to the establishment of a separate item in the stockholders' equity, which is excluded from the statement of income. Functional currencies are defined as those currencies in which investments are effected. In contrast to this procedure, German Commercial Law provides no explicit arrangements for currency translation in the consolidated financial statement.

Exchange rates for the Group's key foreign currencies were as follows:

1 EUR corresponds to:		Balance sheet		Statement of income	
		31.12.2003	31.12.2002	2003	2002
AUD	Australia	1.6788	1.8497	1.7473	1.7405
CAD	Canada	1.6290	1.6385	1.5905	1.4835
GBP	United Kingdom	0.7070	0.6502	0.6899	0.6279
PLN	Poland	4.7255	4.0072	4.4222	3.8546
HUF	Hungary	262.1150	235.8750	253.3473	242.9527
USD	United States	1.2610	1.0415	1.1342	0.9453
ZAR	South Africa	8.3282	8.9550	8.5031	9.8562

Notes / Notes on the consolidated balance sheet – assets

(1) Fixed-income securities – held to maturity

	Balance sheet value		Fair value	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<b>Issuers</b>	<b>Figures in EUR thousand</b>			
Government debt securities of EU member states	—	—	—	—
US Treasury Notes	—	23,133	—	25,086
Other foreign government debt securities	—	1,922	—	1,927
Debt securities issued by semi-governmental entities	145,896	—	154,613	—
Corporate securities	241,425	344,604	363,837	363,563
Asset-backed securities	103,873	88,481	109,716	96,063
Other securities	28	37,965	57	39,186
<b>Total</b>	<b>491,222</b>	<b>496,105</b>	<b>628,223</b>	<b>525,825</b>

	Balance sheet value		Fair value	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<b>Contractual maturity</b>	<b>Figures in EUR thousand</b>			
Due in one year	67,169	38,282	68,408	41,702
Due after one through five years	217,239	197,615	225,643	212,862
Due after five through ten years	185,156	237,593	311,341	246,382
Due after more than ten years	21,658	22,615	22,831	24,879
<b>Total</b>	<b>491,222</b>	<b>496,105</b>	<b>628,223</b>	<b>525,825</b>

	Balance sheet value	
	31.12.2003	31.12.2002
<b>Rating structure</b>	<b>Figures in EUR thousand</b>	
AAA	71,758	183,579
AA	165,926	125,152
A	238,374	171,886
BBB or lower	13,563	14,965
Unrated	1,601	523
<b>Total</b>	<b>491,222</b>	<b>496,105</b>

The rating structure is based on the classification made by the Standard & Poor's rating agency.

Notes / Notes on the consolidated balance sheet – assets

(2) Securities – available for sale	Balance sheet value		Unrealized gains / losses		Cost or amortized cost	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<b>Figures in EUR thousand</b>						
Fixed-income securities						
Government debt securities of EU member states	2,271,822	2,439,374	29,850	72,767	2,241,972	2,366,607
US Treasury Notes	1,535,280	1,461,361	3,954	44,181	1,531,326	1,417,180
Other foreign government debt securities	363,957	498,825	5,316	12,850	358,641	485,975
Debt securities issued by semi-governmental entities	3,701,123	—	32,113	—	3,669,010	—
Corporate securities	4,287,715	5,610,982	113,200	219,171	4,174,516	5,391,811
Asset-backed securities	3,144,848	2,928,120	86,190	101,104	3,058,658	2,827,016
Investment funds	599,546	602,184	–1,703	23,154	601,249	579,030
Other securities	517,711	668,125	17,230	3,066	500,481	665,059
<b>Total fixed-income securities</b>	<b>16,422,002</b>	<b>14,208,971</b>	<b>286,150</b>	<b>476,293</b>	<b>16,135,853</b>	<b>13,732,678</b>
Variable-yield securities						
Equities	250,232	249,297	5,550	–69,243	244,682	318,540
From investment funds	984,448	987,445	39,752	–216,664	944,696	1,204,109
Other securities	2,430	6,397	1,154	97	1,276	6,300
<b>Total variable-yield securities</b>	<b>1,237,110</b>	<b>1,243,139</b>	<b>46,456</b>	<b>–285,810</b>	<b>1,190,654</b>	<b>1,528,949</b>
<b>Total securities</b>	<b>17,659,112</b>	<b>15,452,110</b>	<b>332,606</b>	<b>190,483</b>	<b>17,326,507</b>	<b>15,261,627</b>

Realized gains and losses	2003	2002
	<b>Figures in EUR thousand</b>	
Gains on disposal	360,136	226,502
Losses on disposal	147,671	225,856
<b>Total</b>	<b>212,465</b>	<b>646</b>

Notes / Notes on the consolidated balance sheet – assets

	Balance sheet value		Cost or amortized cost	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<b>Contractual maturity of fixed-income securities</b>	<b>Figures in EUR thousand</b>			
Due in one year	2,206,100	2,569,760	2,165,677	2,552,592
Due after one through five years	8,130,408	5,778,561	8,042,309	5,589,859
Due after five through ten years	4,554,945	4,516,195	4,429,960	4,288,604
Due after more than ten years	1,530,549	1,344,455	1,497,906	1,301,623
<b>Total</b>	<b>16,422,002</b>	<b>14,208,971</b>	<b>16,135,852</b>	<b>13,732,678</b>

	Balance sheet value	
	31.12.2003	31.12.2002
<b>Rating structure of fixed-income securities</b>	<b>Figures in EUR thousand</b>	
AAA	8,220,485	7,447,042
AA	4,524,680	3,708,351
A	2,458,339	1,983,421
BBB or lower	953,468	784,845
Unrated	265,030	285,312
<b>Total</b>	<b>16,422,002</b>	<b>14,208,971</b>

Notes / Notes on the consolidated balance sheet – assets

(3) Securities – trading

	Balance sheet value		Unrealized gains / losses		Cost or amortized cost	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Figures in EUR thousand						
Fixed-income securities	1,850	—	–204	—	2,054	—
Equities	—	4,696	—	–134	—	4,830
Derivatives	2,321	5,949	2,402	5,717	–81	232
<b>Total</b>	<b>4,171</b>	<b>10,645</b>	<b>2,198</b>	<b>5,583</b>	<b>1,973</b>	<b>5,062</b>

	Balance sheet value		Cost or amortized cost	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Contractual maturity of fixed-income securities				
Figures in EUR thousand				
Due in one year	—	—	—	—
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after more than ten years	—	—	—	—
<b>Total</b>	<b>1,850</b>	<b>—</b>	<b>1,435</b>	<b>—</b>

	Balance sheet value	
	31.12.2003	31.12.2002
Rating structure of fixed-income securities		
Figures in EUR thousand		
AAA	—	—
AA	1,731	—
A	119	—
BBB or lower	—	—
Unrated	—	—
<b>Total</b>	<b>1,850</b>	<b>—</b>

## Notes / Notes on the consolidated balance sheet – assets

### (4) Real estate

	2003	2002
	Figures in EUR thousand	
Balance sheet value as at 1 Jan.	469,481	481,578
Additions	8,834	96,541
Disposals	7,984	22,824
Write-downs	37,099	11,323
Other movements	-4,337	-33,593
Currency exchange rate differences	-17,058	-40,898
Balance sheet value as at 31 Dec.	411,837	469,481

Own-use real estate was taken out of the investments and allocated to other assets.

### (5) Shares in affiliated companies and participating interests

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Affiliated companies	4,658	5,367
Associated companies	213,920	211,611
Participating interests	47,281	45,997
Total	265,859	262,975

The shares in associated companies accounted using the equity method are held within the Group primarily by

Hannover Re (EUR 104.6 million), Talanx (EUR 69.6 million) and E+S Rück (EUR 21.1 million).

Notes / Notes on the consolidated balance sheet – assets

(6) Loans

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Mortgage loans	80,593	89,167
Loans and prepayments on insurance policies	111,056	99,522
<b>Total</b>	<b>191,649</b>	<b>188,689</b>

(7) Other invested assets

The other invested assets comprise short-term deposits at banks in the amount of EUR 1,454.4 (1,491.5) million.

**Securitization of reinsurance risks**

In December 2003 the FASB published the revised version of FIN 46 “Consolidation of Variable Interest Entities” (FIN 46R) addressing the consolidation of so-called variable interest entities. The revised interpretation supersedes FIN 46 “Consolidation of Variable Interest Entities” published in January 2003. In cases where consolidation is not required on the basis of a majority voting interest, a variable interest entity is to be consolidated by the primary beneficiary. The primary beneficiary is the party that absorbs a majority of the entity’s expected losses and receives a majority of its expected residual returns as a result of holding variable interests. The term “variable interest” is defined in FIN 46R as a “contractual, ownership or other pecuniary interest in an entity that changes with changes in the entity’s net asset value”.

FIN 46R is to be applied for the first time with effect from 31 March 2004 to all relevant entities. As at 31 December 2003 we applied FIN 46R to all variable interests in special purpose entities. In addition, FIN 46R contains disclosure requirements with respect to existing relationships with variable interest entities that are to be satisfied even if such entities are not consolidated.

Within the scope of the portfolio-linked securitization of certain reinsurance risks under transactions concluded in the years 1993 to 2002, Hannover Re retroceded business on a proportional basis to an insurance enterprise in the form of a special purpose entity that finances the business via the international capital markets. The entity has been in the process of winding up since February 2003. This transaction falls within the scope of applicability of FIN 46R. Since Hannover Re’s relations with the entity do not constitute variable interests as defined by FIN 46R, the transaction does not give rise to a consolidation requirement.

The residual assets of the special purpose entity as at 31 December 2003 amounted to EUR 1.3 million and thus do not constitute a significant risk of loss for Hannover Re.

Since March 2002 Hannover Re has retroceded natural catastrophe risks (including hurricanes and earthquakes in the USA, windstorms in Europe and earthquakes in Japan) as well as worldwide aviation business on a proportional basis to a special purpose entity that finances the business via the international capital markets. Hannover Re’s relations with this entity do not constitute variable interests, and there is therefore no consolidation requirement.

This entity reported liable equity capital of EUR 182.4 million as at 31 December 2003. It is fully secured and thus does not constitute any risk of loss for Hannover Re.

## Notes / Notes on the consolidated balance sheet – assets

Since November 2000 Hannover Re has held voting equity interests in as well as a share of the capital market bonds issued by a special purpose entity for the securitization of reinsurance risks in France and Monaco. The total volume of the bonds issued stands at EUR 102.3 million. Based on its variable interests, the maximum risk of loss for Hannover Re from this transaction is EUR 15.7 million. Hannover Re is not the primary beneficiary in this relationship.

Since 2 November 2001 Hannover Re has held the equity of a special purpose entity for the purchase and handling of so-called “life settlements”. The company’s total financing volume amounts to EUR 269.6 million. The entire underwriting risk of the special purpose entity is borne by an insurance company. This cedant retrocedes part of the risk to Hannover Re. The contract has been terminated with effect from 31 December 2003. The special purpose entity is closed for the acceptance of new business and is currently in the process of winding up. The maximum risk of loss for Hannover Re from this transaction is EUR 20.6 million. Hannover Re is not the primary beneficiary in this relationship.

## Notes / Notes on the consolidated balance sheet – assets

### Investments

Within the scope of asset management activities Hannover Re has participated in numerous special purpose entities since 1988, which for their part transact certain types of equity and debt capital investments. The same is true of the primary insurance sector, the oldest investment of which to be subsumed under special purpose entities derives from the year 1984. The set of variable interests associated with such structures consists largely of participations sold on the capital market to numerous investors. On the basis of our analysis we came to the conclusion that although – from the perspective of the Talanx Group – relations exist in the form of variable interests, there are no grounds to consider the Group the primary beneficiary in any of these transactions. A consolidation requirement therefore does not exist.

Since May 1994, Hannover Re has participated in a number of special purpose entities for the securitization of catastrophe risks by taking up certain capital market securities known as “disaster bonds” (or “CAT bonds”). Hannover Re’s relations with these entities constitute variable interests. Hannover Re is not the primary beneficiary in any of these transactions, and there is therefore no consolidation requirement. The maximum risk of loss for Hannover Re resulting from these participations is EUR 48.5 million.

The extent of relations with entities other than those described above is presently being examined in the light of the scope of validity of FIN 46R. According to our current assessment, there is no requirement for consolidation. As things stand at this time, the total volume of these transactions and the resulting maximum risk of loss for the Group are insignificant.

Notes / Notes on the consolidated balance sheet – assets

(8) Deferred acquisition costs	Gross business		Reinsurers' share		Net business		Total
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Figures in EUR thousand							
Balance as at 1 Jan. 2003	1,259,164	936,621	249,844	398,935	1,009,320	537,686	1,547,006
Newly capitalized acquisition costs	315,137	345,118	42,158	18,686	272,979	326,432	599,411
Withdrawal	—	—	-11,917	—	11,917	—	11,917
Amortized acquisition costs	79,625	306,568	1,812	338,957	77,813	-32,389	45,424
Currency exchange rate differences	-1,040	-38,632	61	2,431	-1,101	-41,063	-42,164
Other changes	-51,353	-40,209	-34,355	1,803	-16,998	-42,012	-59,010
Balance as at 31 Dec. 2003	1,442,283	896,330	267,813	82,898	1,174,470	813,432	1,987,902

Notes / Notes on the consolidated balance sheet – assets

(g) Goodwill

	2003	2002
	Figures in EUR thousand	
Goodwill net as at 1 January	205,938	187,675
Additions	1,347	25,298
Impairments	5,547	6,933
Disposals	8,377	—
Currency exchange rate differences	-2,993	-102
Goodwill net as at 31 December	190,368	205,938

Of the additions, an amount of EUR 1.3 million relates to goodwill from the acquisition of interests in the Polish property insurance company. The pro-rata goodwill of EUR 2.1 million from the addition of the Luxembourg-based reinsurance subsidiary Compagnie de Réassurance was amortized in the financial year. Beyond the figures reported above no allowance was necessary for unscheduled amortization.

The disposals derive principally from the reduction of around 3 % in the Group's interest in Hannover Rückversicherung AG and the associated decrease in the indirectly held interests in its subsidiaries.

The above table includes the present value of future profits (PVFP) on acquired life reinsurance portfolios with a balance sheet value of EUR 16.5 million as at 31 December 2003. The amortization brought to account totaled EUR 3.1 million; based on the reduced interest described above, a disposal of EUR 1.8 million was recognized. The period of amortization varies between 5 and 29 years.

Notes / Notes on the consolidated balance sheet – assets

(10) Other intangible assets	Software	Start-up and expansion costs	Other	2003	2002
				Figures in EUR thousand	
Balance as at 1 January	55,395	376	15,962	71,733	72,308
Changes in the consolidated companies	—	—	5,812	5,812	3,129
Additions	41,711	30	2,000	43,741	33,610
Withdrawals	11,873	—	5,909	17,782	2,673
Write-ups	179	—	44	223	—
Amortizations	21,577	166	7,629	29,372	18,889
Transfers	-219	—	-374	-593	-14,943
Currency exchange rate differences	279	-16	-1,472	-1,209	-809
Balance as at 31 December	63,895	224	8,434	72,553	71,733

(11) Other assets	31.12.2003	31.12.2002
	Figures in EUR thousand	
Own-use real estate	269,297	253,954
Dividends receivable	7	198
Tax refund claims	57,957	90,964
Property, plant and equipment, inventories	82,559	81,338
Accounts receivable for services rendered	57,011	—
Trade accounts receivable	104,217	47,489
Other assets	189,510	145,490
Total	760,558	619,433

Notes / Notes on the consolidated balance sheet – liabilities

(12) Loss and loss adjustment expense reserve

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Gross	21,508,794	22,227,899
Reinsurance recoverables	4,908,326	6,316,773
Netto	16,600,468	15,911,126

The breakdown of the net loss and loss adjustment expense reserve into the Group segments is shown in the following table:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Primary insurance	2,637,809	2,504,453
thereof:		
Property/Casualty	2,512,516	2,465,917
Life	125,293	38,536
Reinsurance	14,000,697	13,182,422
thereof:		
Property/Casualty	13,137,440	12,392,906
Life/Health	863,257	789,516
Consolidation	-38,038	224,251
Total	16,600,468	15,911,126

Notes / Notes on the consolidated balance sheet – liabilities

The loss and loss adjustment expense reserve (loss reserve) developed as follows:

	2003	2002
	Figures in EUR thousand	
1. Loss reserve as at 1 January		
a. Gross	22,227,899	21,060,166
b. Reinsurance recoverables	6,316,773	6,945,450
c. Net	15,911,126	14,114,716
2. Plus incurred claims and claims expenses (net)		
a. Year under review	5,651,694	6,480,782
b. Previous years	2,540,857	1,196,589
c. Total	8,192,551	7,677,371
3. Less claims and claims expenses paid (net)		
a. Year under review	3,085,482	1,161,300
b. Previous years	2,500,828	3,698,064
c. Total	5,586,310	4,859,364
4. Effects of currency conversion	-1,873,896	-2,097,486
5. Change in additions to/departures from the consolidated group	7,283	934,748
6. Reclassification	458	—
7. Other changes	-50,744	141,141
8. Loss reserve as at 31 December		
a. Gross	16,600,468	15,911,126
b. Reinsurance recoverables	4,908,326	6,316,773
c. Net	21,508,794	22,227,899

Notes / Notes on the consolidated balance sheet – liabilities

(13) Policy benefits for life and health contracts

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Gross	6,045,053	6,216,511
Reinsurance recoverables	308,453	470,238
Net	5,736,600	5,746,273

The breakdown of the net policy benefits for life and health contracts into the Group segments is shown in the following table:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Primary insurance	2,145,176	2,147,789
thereof:		
Property/Casualty	35	1,737
Life	2,145,141	2,146,052
Reinsurance	3,822,354	3,636,293
thereof:		
Property/Casualty	—	2,231
Life/Health	3,822,354	3,634,062
Consolidation	-230,930	-37,809
Total	5,736,600	5,746,273

Notes / Notes on the consolidated balance sheet – liabilities

(14) Unearned premium reserve

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Gross	3,385,281	3,636,352
Prepaid reinsurance premiums	651,111	759,471
Net	2,734,170	2,876,881

The breakdown of the net unearned premium reserve into the Group segments is shown in the following table:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Primary insurance	1,628,092	1,590,343
thereof:		
Property/Casualty	1,036,591	946,466
Life	591,501	643,877
Reinsurance	1,120,956	1,229,120
thereof:		
Property/Casualty	1,101,056	1,213,772
Life/Health	19,900	15,348
Consolidation	-14,878	57,418
Total	2,734,170	2,876,881

Notes / Notes on the consolidated balance sheet – liabilities

(15) Other technical provisions and provision for premium refunds

	Gross 31.12.2003	Re 31.12.2003	Net 31.12.2003	Gross 31.12.2002	Re 31.12.2002	Net 31.12.2002
Figures in EUR thousand						
Provision for premium refunds	351,457	—	351,457	339,513	—	339,513
Other	20,063	4,356	15,707	32,515	7,285	25,230
<b>Total</b>	<b>371,520</b>	<b>4,356</b>	<b>367,164</b>	<b>372,028</b>	<b>7,285</b>	<b>364,743</b>

The breakdown of the net provisions into the Group segments is shown in the following table:

	31.12.2003	31.12.2002
Figures in EUR thousand		
Primary insurance	360,295	346,872
thereof:		
Property/Casualty	10,547	-3,499
Life	349,748	350,371
Reinsurance	7,769	16,365
thereof:		
Property/Casualty	7,731	7,671
Life/Health	38	8,694
Consolidation	-900	1,506
<b>Total</b>	<b>367,164</b>	<b>364,743</b>

Notes / Notes on the consolidated balance sheet – liabilities

The breakdown of the net provisions for premium refunds into the Group segments is shown in the following table:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Primary insurance	350,905	330,301
thereof:		
Property/Casualty	1,165	—
Life	349,740	330,301
Reinsurance	1,722	9,212
thereof:		
Property/Casualty	1,722	1,445
Life/Health	—	7,767
Consolidation	-1,170	—
<b>Total</b>	<b>351,457</b>	<b>339,513</b>

(16) Minorities

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Minority interest in unrealized gains and losses	16,036	-41,136
Minority interest in consolidated net income	134,736	81,329
Minority interest in other stockholders' equity	969,219	724,140
<b>Total</b>	<b>1,119,991</b>	<b>764,333</b>

## Notes / Notes on the consolidated balance sheet – liabilities

### (17) Provisions for pensions and similar liabilities

	31.12. 2003	31.12. 2002
	Figures in EUR thousand	
Pension plans	249,087	243,978
Other pension commitments	8,216	7,284
<b>Total</b>	<b>257,303</b>	<b>251,262</b>

Pension commitments are given in accordance with the relevant version of the pension plan as amended. For German companies the 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants in 1981.

The 1993 pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, differentiated according to remuneration less than or above the assessment limit of the statutory pension insurance scheme in Germany. The pension plan closed as at 31 March 1999.

Since the mid-nineties various German companies have offered the option of obtaining pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI Lebensversicherung AG, Hamburg.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. This pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision by way of deferred compensation through membership of HDI Pensionskasse AG. The benefits provided by HDI Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, executive staff and Board members, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

## Notes / Notes on the consolidated balance sheet – liabilities

Additional similar obligations based upon length of service exist at some Group companies.

Provisions for pensions are established in accordance with SFAS 87 (Employers' Accounting for Pensions) using the Projected Unit Credit method. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities.

The provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level. The calculation of the provisions for pensions is based upon the following assumptions:

- Discount rate: 5.75 % to 6.75 %
- Rate of compensation increase: 3.0 % to 5.5 %
- Projected long-term yield on plan assets: 4.25 % to 8.0 %
- Indexation: 2.0 %

The commitments to employees in Germany predominantly comprise commitments financed by the Group companies. The pension plans in Germany are unfunded.

Notes / Notes on the consolidated balance sheet – liabilities

Provisions for pensions	German pension plans	Foreign pension plans	German pension plans	Foreign pension plans
	31.12.2003	31.12.2003	31.12.2002	31.12.2002
Figures in EUR thousand				
Change in projected benefit obligation				
Projected benefit obligation at the beginning of the reporting year	241,236	33,199	219,255	30,216
Currency exchange rate differences	—	-1,128	—	-1,053
Service cost	8,057	2,557	8,137	1,889
Interest cost	13,629	1,990	12,894	1,836
Actuarial gain (+) / loss (-) in the reporting year	496	-711	-3,940	-688
Deferred compensation	418	—	326	—
Benefits paid during the year	8,790	634	7,001	540
Business combinations, divestitures and other activities	-5,561	-805	3,685	163
Projected benefit obligation at the end of the reporting year	248,493	35,890	241,236	33,199

Notes / Notes on the consolidated balance sheet – liabilities

Provisions for pensions	German	Foreign	German	Foreign
	pension plans 31.12.2003	pension plans 31.12.2003	pension plans 31.12.2002	pension plans 31.12.2002
Figures in EUR thousand				
Changes in plan assets				
At the beginning of the year	—	16,599	—	13,269
Currency exchange rate differences	—	-668	—	-626
Business combinations, divestitures and other activities	—	3,156	—	52
Employer's contributions	—	2,776	—	4,210
Benefits paid	—	267	—	306
At the end of the year	—	21,596	—	16,599
Funded status of plan				
Unrecognized net obligation	—	7,000	2,748	7,700
Unrecognized actuarial gain / loss	-9,090	2,856	-9,699	-1,426
Unamortized prior service cost	—	1,001	—	7,285
Difference on pension valuation	535	—	273	157
Accrued pension liability	239,938	9,149	229,062	14,916
Net periodic pension cost of the year	—			
Service cost	—			
Year under review	8,057	2,557	8,201	1,889
Amortization for previous years	—	17	—	23
Interest cost	13,629	1,990	12,932	1,836
Expected return on plan assets	—	938	—	982
Recognized net actuarial loss	63	251	-167	12
Amortization of net obligation	-620	700	2,418	700
Total	21,129	4,577	23,384	3,478

## Notes / Notes on the consolidated balance sheet – liabilities

### (18) Other liabilities

The breakdown of the "Other liabilities" is shown below:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Liabilities from derivatives	56,934	98,254
Liabilities due to banks	87,034	216,577
Liabilities due to social insurance institutions	9,500	9,806
Loans	95,416	116,735
Interest	6,531	23,152
Other non-technical provisions	46,222	62,846
Trade accounts payable	101,873	100,299
Other liabilities	488,293	325,943
<b>Total other liabilities</b>	<b>891,803</b>	<b>953,612</b>

### (19) Deferred taxes and taxes

The deferred tax assets and deferred tax liabilities are based on the balance sheet items as shown below:

	31.12.2003	31.12.2002
	Figures in EUR thousand	
Tax loss carry-forwards	-60,417	-66,885
Investments	2,286	6,222
Claims equalization reserve	841,338	570,949
Deferred acquisition costs	576,104	429,373
Other	-507,613	-132,814
Value adjustment	50,103	68,471
<b>Net deferred taxes</b>	<b>901,801</b>	<b>875,316</b>

Notes / Notes on the consolidated balance sheet – liabilities

The breakdown of deferred tax assets and deferred tax liabilities is as follows:

	31.12. 2003	31.12. 2002
	Figures in EUR thousand	
Deferred tax assets	204,142	181,591
Deferred tax liabilities	1,105,943	1,056,907
Net deferred taxes	901,801	875,316

**Taxes**

This item includes domestic income tax as well as comparable income tax incurred by foreign Group companies and the "Other taxes". The determination of the income tax includes the calculation of deferred taxes.

The principles used to take account of deferred taxes are set out in the notes on the accounting and valuation methods on page 125.

The "Other taxes" amounted to EUR 3,721 (5,505) thousand.

The taxes on income can be broken down as follows:

	2003	2002
	Figures in EUR thousand	
Current taxes	211.785	121.374
Germany	169.659	107.781
Outside Germany	42.126	13.593
Deferred taxes	82.324	41.487
Germany	-83.003	90.040
Outside Germany	165.327	-48.553
Total	294.109	162.861

## Notes / Notes on the consolidated balance sheet – liabilities

The following table provides a reconciliation of the expected expense for income taxes with the actual tax expenditure shown in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes.

In this context, the Group tax rate used is composed of the corporate income tax rate of 25 %, the German solidarity surcharge of 5,5 % levied on corporate income tax and trade earnings tax of 13,625 % calculated on the basis of this effective corporate income tax rate.

	2003	2002
	Figures in EUR thousand	
Profit before income taxes	766,512	429,526
Expected expense for income taxes	307,678	171,810
Taxation differences affecting foreign subsidiaries	-101,463	-61,346
Change in rates of taxation	3,543	8,155
Other	84,351	44,242
Income taxes	294,109	162,861

### (20) Notes payable and loans / Surplus debenture / Other financial facilities

#### Notes payable and loans

On 31 March 1999 Hannover Finance Inc., Wilmington/USA, issued a surplus note in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009.

In order to hedge against the risk of interest rate changes associated with this loan, the issuing company purchased interest rate swaps in 1999 in the same amount which expire on 31 March 2009. In this way, the interest rate is converted from a floating rate to a fixed rate for a period ending commensurate with the first opportunity to redeem the loan. The interest rate arising after allowance is made for the interest rate swap amounts to an annual average rate of 6.69 % until 31 March 2009. Hannover Re repurchased a large portion of the debt in the 2004 financial year. For further information the reader is referred to the description of events subsequent to conclusion of the financial year on page 171.

## Notes / Notes on the consolidated balance sheet – liabilities

In order to further safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. A subordinated loan was placed via Hannover Finance (Luxembourg) S.A. – a wholly owned subsidiary of Hannover Re – on the European capital market. The debt, which is secured by Hannover Re, was issued in the amount of EUR 350 million with a term of 30 years. It may be redeemed by the issuer after 10 years at the earliest.

In the 2000 financial year Talanx AG issued a convertible bond with a total nominal value of EUR 175 million, which is divided into bearer bonds with equal rights in a nominal value of EUR 50 thousand each. The rate of interest is 3.375 %. The convertible bond entitles each bond creditor in the period from 30 January 2001 to 10 December 2005 to convert their bond at a conversion price of EUR 39.305 per share to registered, no-par-value common stock of Hannover Rückversicherung AG. Throughout the entire period Talanx AG may decide at its discretion – upon exercise of the option – to grant the acquirers a cash settlement, stock or a mixture of the two. If the option is not exercised, Talanx AG shall buy back the bond on 20 December 2005 at the nominal value.

### Surplus debenture (Genussrechtskapital)

On 2 November 1993 Hannover Re and E+S Rück issued surplus debentures in the amounts of EUR 76.7 million at an interest rate of 7.55 % and EUR 40.9 million at an interest rate of 7.75 % respectively. Repayment is due in full on 2 November 2004.

In the event that interest incurred in connection with servicing the surplus debenture should in future no longer be deductible in Germany for the purpose of calculating taxable income, a right of premature repayment exists. Interest payments and repayment of the nominal amounts are dependent on the company's results. In the event of insolvency, the participating rights are serviced before the stockholders and after the claims of creditors.

Surplus debenture is shown as a liability with the amount repayable.

### Other financial facilities

In order to protect against possible future major losses, Hannover Rückversicherung AG took out a credit line of EUR 250 million in 2000 in the form of a syndicated loan. The facility has a term of five years and is due in November 2005.

E+S Rück has a credit line of EUR 40 million, which is extended on a half-yearly basis and can be drawn on as required.

Additional bilateral, secured credit lines in the amount of EUR 200 million – available variably for both cash and guarantee credit financing – as well as similar unsecured credit lines with a volume of EUR 70 million were arranged with Landesbank Hessen-Thüringen Girozentrale for the purpose of short-term borrowing.

## Notes / Notes on the consolidated balance sheet – liabilities

### (21) Stockholders' equity and minority interests

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

The minority interests refer principally to shares held by companies outside the Group in the stockholders' equity of Hannover Re and E+S Rück.

	Balance as at 1 January	Capital increase	Change in the current period less deferred taxes	Change in retained earnings	Group stock- holder's equity	Minority interests	Group stock- holder's equity incl. minority interests
Figures in EUR thousand							
Common stock	253,222	6,778	—	—	260,000		
Additional paid-in capital	615,356	14,173	—	—	629,529		
Cumulative comprehensive income	-256,328	—	112,341	—	-143,987		
Retained earnings	1,452,435	—	—	—	1,452,435		
Net income	—	—	—	337,667	337,667		
Other changes	—	—	—	2,165	2,165		
<b>Total as at 31 Dec. 2003</b>	<b>2,064,685</b>	<b>20,951</b>	<b>112,341</b>	<b>339,832</b>	<b>2,537,809</b>	<b>1,119,991</b>	<b>3,657,800</b>
Common stock	253,222	—	—	—	253,222		
Additional paid-in capital	615,356	—	—	—	615,356		
Cumulative comprehensive income	-58,323	—	-198,005	—	-256,328		
Retained earnings	1,098,295	—	—	—	1,098,295		
Net income	—	—	—	185,336	185,336		
Other changes	—	—	—	168,804	168,804		
<b>Total as at 31 Dec. 2002</b>	<b>1,908,550</b>	<b>—</b>	<b>-198,005</b>	<b>354,140</b>	<b>2,064,685</b>	<b>764,333</b>	<b>2,829,018</b>

Notes / Notes on the consolidated statement of income

(22) Investment income

	2003	2002
	Figures in EUR thousand	
Ordinary investment income		
Real estate	34,249	44,313
Dividends	43,396	78,427
Ordinary investment income on fixed-income securities	1,324,877	1,339,891
Other income	48,963	29,085
<b>Total</b>	<b>1,451,485</b>	<b>1,491,716</b>
Realized gains on investments	404,239	377,155
Realized losses from investments	225,207	284,918
Unrealized gains and losses	18,660	-17,712
Other investment expenses / write-offs		
Real estate depreciation	37,159	11,290
Write-off on dividend-bearing securities	84,970	209,957
Write-off on fixed-income securities	32,796	28,238
Write-downs on participations	5,216	16,608
Other investment expenses	100,793	114,390
<b>Total</b>	<b>260,934</b>	<b>380,483</b>
<b>Net investment income</b>	<b>1,388,243</b>	<b>1,185,758</b>

Notes / Notes on the consolidated statement of income

	Primary Insurance			
	Property / Casualty 2003	2002	Life 2003	2002
	Figures in EUR thousand			
Ordinary investment income				
Real estate	6,256	7,875	1,396	1,826
Dividends	11,474	8,895	7,001	8,715
Ordinary investment income on fixed-income securities	176,104	168,878	150,532	130,632
Other income	9,540	-3,423	7,389	8,827
<b>Total</b>	<b>203,374</b>	<b>182,225</b>	<b>166,318</b>	<b>150,000</b>
Realized gains on investments	236,073	61,909	49,799	119,205
Realized losses from investments	41,831	45,948	68,957	126,877
Unrealized gains and losses	-556	-101	10,635	-10,522
Other investment expenses / write-offs				
Real estate depreciation	15,286	2,153	453	866
Write-off on dividend-bearing securities	17,722	33,831	47	11,521
Write-off on fixed-income securities	6,160	2,080	3,050	750
Write-downs on participations	606	568	312	-438
Other investment expenses	18,942	23,027	6,905	9,365
<b>Total</b>	<b>58,716</b>	<b>61,659</b>	<b>10,767</b>	<b>22,064</b>
<b>Net investment income</b>	<b>338,344</b>	<b>136,426</b>	<b>147,028</b>	<b>109,742</b>

Notes / Notes on the consolidated statement of income

Reinsurance		Financial Services		Consolidation		Total			
Property / Casualty	Life / Health								
2003	2002	2003	2002	2003	2002	2003	2002		
Figures in EUR thousand									
26,599	33,229	—	2,304	—	—	-2	-921	34,249	44,313
62,621	61,023	333	9,643	—	—	-38,033	-9,849	43,396	78,427
801,940	752,856	204,627	273,141	-317	608	-8,009	13,776	1,324,877	1,339,891
62,625	25,305	-23,423	571	—	—	-7,168	-2,195	48,963	29,085
953,785	872,413	181,537	285,659	-317	608	-53,212	811	1,451,485	1,491,716
217,817	320,287	10,153	31,132	—	-282	-109,603	-155,096	404,239	377,155
102,392	99,858	6,120	9,845	—	—	5,907	2,390	225,207	284,918
3,283	-5,919	5,299	-1,171	—	—	-1	1	18,660	-17,712
21,315	7,778	—	389	—	—	105	104	37,159	11,290
66,171	142,565	1,092	22,040	—	—	-62	—	84,970	209,957
15,093	15,117	593	8,293	—	—	7,900	1,998	32,796	28,238
4,299	15,362	—	1,487	—	—	-1	-371	5,216	16,608
41,631	164,773	10,979	7,550	22,585	19,957	-249	-110,282	100,793	114,390
148,509	345,595	12,664	39,759	22,585	19,957	7,693	-108,551	260,934	380,483
923,984	741,328	178,205	266,016	-22,902	-19,631	-176,416	-48,123	1,388,243	1,185,758



Notes / Notes on the consolidated statement of income

Reinsurance				Consolidation		Total	
Property / Casualty		Life / Health					
2003	2002	2003	2002	2003	2002	2003	2002
Figures in EUR thousand							
4,085,139	4,294,330	1,383,622	1,500,358	-858,899	-1,465,435	8,270,060	8,081,580
1,555,786	1,848,377	58,277	-27,234	-107,233	166,429	2,186,903	3,033,168
5,640,925	6,142,707	1,441,899	1,473,124	-966,132	-1,299,006	10,456,963	11,114,748
1,383,400	1,878,155	146,758	300,277	-909,230	-1,106,158	2,536,104	3,274,651
-878,451	-42,067	-15,521	-48,926	42,759	-266,432	-408,855	248,585
504,949	1,836,088	131,237	251,351	-866,471	-1,372,590	2,127,249	3,523,236
2,701,739	2,416,175	1,236,864	1,200,081	50,331	-359,277	5,733,956	4,806,929
2,434,237	1,890,444	73,798	21,692	-149,992	432,861	2,595,758	2,784,583
5,135,976	4,306,619	1,310,662	1,221,773	-99,661	73,584	8,329,714	7,591,512

Reinsurance				Consolidation		Total	
Property / Casualty		Life / Health					
2003	2002	2003	2002	2003	2002	2003	2002
Figures in EUR thousand							
—	-2,231	-283,842	-619,159	26,754	90,089	-363,972	-663,478
—	—	-92	-45,901	-131,629	39,751	-161,032	-22,479
—	-2,231	-283,750	-573,258	158,383	50,338	-202,940	-640,999

Notes / Notes on the consolidated statement of income

(25) Commission and brokerage	Primary Insurance			
	Property / Casualty 2003	Property / Casualty 2002	Life 2003	Life 2002
	Figures in EUR thousand			
Gross				
Commissions and brokerage paid	848,590	736,466	124,349	80,640
Change in contingency reserve	321	-6,254	—	—
Total	848,911	730,212	124,349	80,640
Reinsurers' share				
Commissions and brokerage paid	681,135	788,895	64,708	30,260
Change in contingency reserve	—	—	75	—
Total	681,135	788,895	64,783	30,260
Net				
Commissions and brokerage paid	167,455	-52,429	59,641	50,380
Change in contingency reserve	321	-6,254	-75	—
Total	167,776	-58,683	59,566	50,380
(26) Other income / expenses			2003	2002
	Figures in EUR thousand			
Other income				
Exchange gains		427,810	193,335	
Income from services		24,713	15,019	
Sundry income		202,642	95,732	
Total		655,165	304,086	
Other expenses				
Exchange losses		428,751	209,095	
Other interest expenses		79,675	93,257	
Depreciation		45,254	62,090	
Expenses for services		43,553	74,659	
Expenses for the company as a whole		317,348	214,161	
Sundry expenses		914,581	653,262	
Total		-259,416	-349,176	

Notes / Notes on the consolidated statement of income

Reinsurance				Consolidation		Total	
Property / Casualty	Life / Health						
2003	2002	2003	2002	2003	2002	2003	2002
Figures in EUR thousand							
1,342,511	1,376,113	598,473	562,838	-347,050	-463,302	2,566,873	2,292,755
1,255	13,239	5,309	8,131	17	-1,185	6,902	13,931
1,343,766	1,389,352	603,782	570,969	-347,033	-464,487	2,573,775	2,306,686
686,162	850,564	177,883	140,105	-351,435	-451,939	1,258,453	1,357,885
7,290	-86,270	-497	2,550	84	-2,842	6,952	-86,562
693,452	764,294	177,386	142,655	-351,351	-454,781	1,265,405	1,271,323
656,349	525,549	420,590	422,733	4,385	-11,363	1,308,420	934,870
-6,035	99,509	5,806	5,581	-67	1,657	-50	100,493
650,314	625,058	426,396	428,314	4,318	-9,706	1,308,370	1,035,363

## Notes / Other information

### Staff

	2003	2002
<b>Breakdown of the average number of staff employment throughout the year:</b>		
Primary insurance companies	6,552	6,196
Reinsurance companies	1,726	1,729
Financial services companies	134	115
Other	21	9
<b>Total</b>	<b>8,433</b>	<b>8,049</b>

### Expenditures on personnel

	2003	2002
<b>Figures in EUR thousand</b>		
<b>Wages and salaries</b>		
Expenditures on insurance business	325,042	236,087
Expenditures on the administration of investments	25,963	19,382
	351,005	255,469
<b>Social security contributions and expenditure on provisions and assistance</b>		
Social security contributions	52,258	40,386
Expenditures for pension provision	30,168	18,046
Expenditures for assistance	291	3,071
	82,717	61,503
<b>Total</b>	<b>433,722</b>	<b>316,972</b>

## Notes / Other information

### Related party disclosures

#### Transactions with related parties

SFAS 57 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) directly holds all the shares of Talanx AG. All companies combined within the HDI Group are therefore considered affiliated companies.

On the occasion of the Annual General Meeting of 27 June 2003 the sole stockholder HDI V.a.G. resolved to increase the capital of Talanx AG through a contribution in kind of HDI Industrie Versicherung AG against issuance of 55,000 shares with a nominal value of EUR 55.0 million and subject to collection of a premium of EUR 115.0 million. Effective the same date it was resolved to strengthen the capital of Talanx AG through a contribution in kind of Euro International Reinsurance, Luxembourg, against issuance of 5,000 shares with a nominal value of EUR 5.0 million and subject to collection of a premium of EUR 5.3 million.

Talanx AG holds profit participation certificates of HDI V.a.G. with a nominal value of EUR 102.3 million. They carry a 7.25 % dividend on the nominal amount. The profit participation certificates were cancelled by HDI V.a.G. with effect from 31 December 2004.

All transactions were effected at normal market conditions. Talanx AG gave an account of these transactions in its dependent company report.

## Notes / Other information

### Related party disclosures

#### Stock options

Of the group of companies included in the consolidated financial statements, Hannover Re set up a virtual stock option scheme with effect from 1 January 2000. Members of the Executive Board as well as the two further levels of management may choose to waive variable remuneration components and acquire stock options. The number of such options granted each year is based upon the diluted earnings per share under US GAAP. An additional performance criterion is the movement in the price of the Hannover Re share relative to an industry benchmark based upon the unweighted "Reactions" Reinsurance Index.

A present value of EUR 6.66 is assumed in order to determine the basic number of stock options. The basic number increases or decreases according to the over- or underperformance of the earnings per share. For each full amount of 3.33 cents by which the earnings per share exceeds the target performance the basic number of stock options is increased by 10 %, while for each full amount of 6.66 cents by which the earnings per share falls short of the target performance it is reduced by 10 %. These figures are based upon the amendment of § 3 Para. 1 of the Conditions for the Granting of Stock Options adopted by a resolution of the Supervisory Board on 11 April 2003 following the stock split of 15 April 2002.

As a second performance criterion, a calculation is made to determine the extent to which the stock market performance of the Hannover Re share exceeds or undershoots the development of the "Reactions" Reinsurance Index in the year when the stock options are granted. For each full percentage point by which the Hannover Re share surpasses the benchmark index, the basic number of stock options increases by 10 % up to a maximum of 400 % of the basic number; if the share falls

short of the benchmark index, the basic number decreases by 5 % for each full percentage point, although by no more than 50 %.

The concrete value of the stock option is calculated as the difference between the current stock market price of the Hannover Re share at the time when the option is exercised and the reference price, i.e. the share price at the beginning of the year in which the stock option is granted. This value is paid out on exercise of the stock option.

The maximum option period is 10 years. The waiting period prior to first-time exercise of an option is two years following the expiry of the year in which the option was granted.

Following expiry of the waiting period a maximum of 40 % of the granted stock options may be exercised. The waiting period for each additional 20 % is one year. Stock options which are not exercised lapse after 10 years.

The waiting period for 40 % of the stock options granted in 2000 first expired in the financial year. Since the current stock market price of the Hannover Re share did not reach the reference price in all four exercise periods, it was not possible to determine a concrete value for each stock option. For this reason no option rights were exercised.

The existing option rights were valued on the basis of the Black/Scholes option pricing model using a trinomial tree method.

As at 1 January 2003 the existing number of stock options stood at 1,097,235 with an average exercise price of EUR 25.50 each. In accordance with the resolution of the Supervisory Board dated 11 April 2003 a further 710,429 option rights were granted at an average exercise price of EUR 23.74 each.

Notes / Other information

134,165 option rights lapsed in the financial year at an average exercise price of EUR 25.19.

The total number of stock options existing as at year-end stood at 1,673,499. The average exercise price per option amounted to EUR 24.78. Of this total number, 394,734 option rights could be exercised at an average exercise price of EUR 25.50.

The calculations were based on the year-end closing price of the Hannover Re share as at 30 December 2003 of EUR 27.72, volatility of 43.0 %, a dividend yield of 2.88 % and risk-free interest rates of 4.26 % for the 2000 allocation year and 4.42 % for the 2002 allocation year.

On this basis provisions of EUR 1,116 thousand for the 2002 allocation year and EUR 3,486 thousand for the 2000 allocation year were established for the stock options existing as at 31 December 2003.

Development of the stock option scheme

	2003		2002	
	Average exercise price		Average exercise price	
Stock options	Number	EUR per option	Number	EUR per option
Total options existing at 1 January	1,097,235	25.50	1,138,005	25.50
Granted	710,429	23.74	—	—
Exercised	—	—	—	—
Lapsed	134,165	25.19	40,770	25.50
Total options remaining at 31 December	1,673,499	24.78	1,097,235	25.50
Exercisable at year-end	394,734	25.50	—	25.50

## Notes / Other information

### Contingent liabilities

Hannover Re has secured by guarantee a surplus note in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA.

Hannover Re has also provided security for subordinated debt in the amount of EUR 350 million issued by Hannover Finance (Luxembourg) S.A.

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

As security for technical liabilities to US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 1,664.2 million (EUR 1,491.9 million). HDI Industrie Versicherung AG has blocked holdings of EUR 74.8 million. The securities held in the master trust are shown as available-for-sale investments.

As security for technical liabilities, various financial institutions have furnished sureties for us in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,013.8 million.

Outstanding capital commitments with respect to special investments exist in the amount of EUR 62.8 million for E+S Rückversicherungs-AG, EUR 115.4 million for Hannover Re and EUR 1.0 million for HDI Industrie Versicherung AG. These involve primarily private equity funds and venture capital firms in the form of private limited companies.

Within the scope of a novation agreement regarding a life insurance contract Hannover Re assumed contingent re-insurance commitments with respect to due date and amount estimated at EUR 25.7 million as at the balance sheet date.

Several Group companies are members of the German aviation pool, the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsofferhilfe e.V. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Call commitments on equities existed with respect to PB Lebensversicherung AG in the amount of EUR 6.1 million and PB Versicherung AG in the amount of EUR 1.5 million.

Other financial call commitments of altogether EUR 26.4 million existed with respect to the life insurance companies CIV Leben, PB Leben, ASPECTA Leben and HDI Leben in connection with the participation entered into in Protektor Lebensversicherungs-AG.

## Notes / Other information

### Derivative financial instruments

The accounting of the "Modco" and "CFW" reinsurance treaties, under which security deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, must comply with the standards of SFAS 133 DIG B 36. The derivatives embedded in such host contracts are to be reported separately from the underlying reinsurance arrangements at fair value ("General accounting principles").

A small number of treaties in life and health reinsurance meet criteria which require the application of SFAS 133 DIG B 36. Under these treaties the interest-rate risk elements are clearly and closely linked with the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract is concluded and its value then fluctuates over time according to changes in the credit spread of the securities.

The application of DIG B 36 had no significant impact on the consolidated financial statement in the financial year. The fair values of the embedded derivatives were recognized in the investments as at the balance sheet date and to this extent increased the investment income. The pre-tax effect on the investment income amounted to altogether EUR 3.3 million as at the balance sheet date. Of this amount, EUR 2.8 million before tax was attributable to the cumulative adjustment based on first-time application of the standard as at 1 October 2003 with tax expenditure of EUR 0.5 million, and the investment income after tax was therefore increased by EUR 2.3 million under the first-time application. In the course of the fourth quarter the fair value of the embedded derivatives further increased by a total of EUR 0.5 million before tax. Multi-tranches are recognized with segmentation of the underlying from the option portion. The valuation of the option portions produced income of EUR 3.2 million.

Since Hannover Re concludes reinsurance transactions worldwide in numerous international currencies, the Group is in principle exposed to currency fluctuations.

Hannover Re uses derivative financial instruments to control these currency exposures as well as interest rate risks and market price risks arising out of the use of financial instruments (e.g. investments in variable-yield and fixed-income securities). Derivative financial instruments are used within the Hannover Re Group solely for hedging purposes.

The fair values of the financial instruments were determined on the basis of the market information available as at the balance sheet date and by using the valuation methods set out below. If the underlying transaction and the derivative cannot be reported as a single unit, the derivative is recognized under the "trading portfolio" item in the balance sheet.

## Notes / Other information

### Cash flow hedges

In the case of a cash flow hedge, the hedge-effective part of the changes in fair value is initially recognized under the stockholders' equity (cumulative comprehensive income). It is only reported in the statement of income when the underlying hedged transaction has been recognized in the statement of income. The hedge-ineffective part of the changes in fair value is recognized in the statement of income immediately. Furthermore, derivatives embedded in host contracts are to be reported separately.

Breakdown of nominal amounts by product type and period to maturity

	1 to 5 years	6 to 10 years	Total
Figures in EUR thousand			
Interest rate swaps	—	327,208	327,208
Currency swaps	3,977	–860	3,117

The fair value of derivatives used in cash flow hedges totaled –EUR 40.5 million. Derivatives recognized in the trading portfolio had a fair value of EUR 2.4 million.

Ten contracts matured in the year under review; this gave rise to profits on disposals of EUR 0.9 million and losses on disposals of EUR 0.1 million.

As at year-end the portfolio did not contain any forward purchase options or forward exchange transactions.

### Value of in-force business in life/health insurance

This refers to the present value of future technical profit flows before taxes of the major insurance (life insurers of the Aspecta Group, CIV Leben) and reinsurance subsidiaries (Hannover Rückversicherung AG, E+S Rückversicherung AG). It is arrived at after deducting the portfolio components attributable to retrocessionaires and taking account of consolidation effects. The amount was calculated before taxes on income, but after costs for solvency, on the basis of local capital adequacy requirements

Consolidated value of in-force business as at  
31 December 2003

Value of the in-force portfolio in EUR million	
Primary insurance	338.1
Reinsurance	907.2
Total	1,245.3

The results are based on different risk discount rates for primary and reinsurance business. A discount rate of 7 % was used for primary insurance business. In the case of reinsurance business, various discount rates were determined according to the region where the business originated – with a rate of 7.75 % used for the Eurozone.

The methodology used in the calculations has been approved by independent external actuaries. These actuaries have verified the assumptions and the results on the basis of the documentation furnished by Talanx AG.

## Notes / Other information

### Events subsequent to conclusion of the financial year

In a press release dated 18 February 2004 as well as an announcement pursuant to §§ 21, 22, 24 Securities Trading Act (WpHG) Talanx AG provided information about the sale of an interest in Hannover Re in the amount of 20.6 %, equivalent to roughly 24.8 million shares, to institutional investors. This transaction reduced the interest held by Talanx AG in Hannover Re to 51.2 % and increased the free float of the Hannover Re share from 28.2 % to 48.8 %.

In February 2004 Hannover Re placed subordinated debt in the amount of EUR 750 million on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter.

If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of three month EURIBOR + 263 basis points.

As part of the transaction Hannover Re bought back by 25 February 2004 under a tender offer altogether 92.5 % of its USD 400 million subordinated debt issued in 1999 by Hannover Finance Inc., Wilmington, USA, so as to take advantage of the currently highly advantageous EUR/USD exchange rate. Given the fact that Hannover Re will also repay the surplus debenture of approximately EUR 120 million due in November 2004, the net interest burden will only marginally increase.

No other events with significant implications for the Group's assets, liabilities, financial position and net income occurred after the balance sheet date.

### Rents and leasing

Summary of rental and leasing commitments in future years:

2004	2005	2006	2007	2008	Subsequent years
Figures in EUR thousand					
10,680	10,126	9,129	7,682	7,102	55,752

Rental and leasing contracts produced expenditures of EUR 9,550 thousand in the 2003 financial year.

Subsidiaries of Hannover Re in the USA and Africa have concluded multi-year lease contracts. Further commitments refer to lease contracts entered into by primary insurance companies in Germany.

## Notes / Other information

### Compensation of the management boards of the parent company

Total compensation of EUR 4,953 thousand was paid to the Board of Management, including an amount of EUR 25 thousand relating to the previous year.

The total compensation of the Supervisory Board amounted to EUR 405 thousand.

Former members of the Board of Management and their surviving dependants received total compensation of EUR 37 thousand.

An amount of EUR 542 thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

### Mortgages and loans

Employees who are not members of the Board of Management or Supervisory Board were granted mortgages and mortgage

loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

### Declaration of conformity pursuant to § 161 German Stock Corporation Act (AktG)

On 25 November 2003 the Executive Board and Supervisory Board of our listed subsidiary Hannover Rückversicherung Aktiengesellschaft (Hannover Re) submitted the declaration of

conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 German Stock Corporation Act (AktG) and made this declaration available to the stockholders by publishing it in its annual report.

Hannover, 1 June 2004

Board of Management

Baumgartl

Dettmer

Haas

Dr. Hinsch

Kox

Dr. Löffler

Ploemacher

Zeller

## Notes / Other information

### Independent Auditor's Report

The Board of Directors  
Talanx Aktiengesellschaft:

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, notes, the statements of changes in shareholders' equity/partners' capital and cash flows prepared by Talanx Aktiengesellschaft for the business year from 1 January to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch: German Commercial Code"] and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the consolidated financial statements are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Talanx Aktiengesellschaft as of 31 December 2003 and the results of their operations and their cash flows for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

Hannover, 7 June 2004

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib      Dr. Dahl  
Wirtschaftsprüfer    Wirtschaftsprüfer

In case of publication or transmission of the consolidated financial statements in a version different to the version confirmed by us (including translations into other languages), in so far as our audit opinion is quoted or our review referred to, a new statement is to be obtained from us. Please refer to § 328 HGB.

**ISSUER**

**Talanx Finanz (Luxemburg) S.A.**  
25A , Boulevard Royal  
L-2449 Luxembourg  
Luxembourg

**GUARANTOR**

**Talanx Aktiengesellschaft**  
Riethorst 2  
D-30659 Hannover  
Germany

**PRINCIPAL PAYING AGENT**

**Citibank, N.A.**  
5 Carmelite Street  
London EC4Y OPA  
United Kingdom

**LISTING AGENT AND  
LUXEMBOURG PAYING AGENT**

**Dexia Banque Internationale à Luxembourg**  
69, route d'Esch  
L-2953 Luxembourg  
Luxembourg

**LEGAL ADVISERS**

*To the Issuer and Guarantor*

*as to German law:*  
**Hengeler Mueller**  
Partnerschaft von Rechtsanwälten  
Bockenheimer Landstrasse 51  
D-60325 Frankfurt am Main  
Germany

*as to Luxembourg law:*  
**Elvinger, Hoss & Prussen**  
2, Place Winston Churchill  
B.P. 425  
L-2014 Luxembourg

*To the Lead Manager*

*as to German law:*  
**Freshfields Bruckhaus Deringer**  
Taunusanlage 11  
D-60329 Frankfurt am Main  
Germany