



*Dear Shareholder,*

When I took over as chairman of your company on May 1, 2003, the day after our Annual General Meeting, your outspoken criticism of our disappointing results was still ringing in my ears. Equally great was the disappointment among those investors with whom my colleagues and I had already met before the General Meeting in order to convince them of the appropriateness of the planned capital increase. I could understand your discontent and I take this message very seriously.

My colleagues on the Board of Management and I know that there is no task more important for the management team, our employees and myself than to restore the stability of the company and to bring it back into the league of the most respected international financial services providers. That is why we promised you at that time that we would not shy away from making hard, unpleasant changes. As Allianz shareholders, you must be able to rely on the company to grow its earnings and revenues so that your investment will generate solid, sustainable profits.

By proposing a capital increase, we asked you to support us in this process. And you agreed. I hope that you are satisfied with your decision and the results that the company has achieved since then. We are back in the black, and our share price has followed the upturn in our earnings. At the end of the year, the Allianz share broke through the 100-euro threshold.

Although the Company is much stronger today than it was in the crisis year 2002, and we are certainly pleased to have reached the first milestone on the path to sustainable, profitable growth, it must also be said that we have been helped not only by the indisputable operating improvements but also by the recovery of the financial markets.

Nevertheless we have made considerable progress. The risk position has clearly improved. Our financial position has stabilized. Our business models have been strengthened. Allianz is again winning respect. And each day, we are working with greater momentum.

That is directly attributable to our nearly 174,000 employees world-wide as well as to our agents and to our business partners. To all of them, I would like to express my sincere thanks for their outstanding effort and their trust. The business success of 2003 also demonstrates the ability of the company as a whole to carry out the decisions that were necessary to restore its competitiveness. At the same time, the turnaround in the earnings performance shows that, while Allianz continues to face great challenges, it already has the necessary potential that will continue to make it attractive in the future.

After the loss in 2002, which was one of the worst years in our proud history, we generated a profit of 1.6 billion euros. At the end of the year, our market capitalization stood at 36.7 billion euros. In view of this turnaround, we propose to distribute a dividend on each ordinary share in the same amount as last year. Due to the higher number of Allianz shares, the dividend payout will increase 47 percent to 551 million euros.

Since we live in an age where simple numbers have lost much of their meaning as indicators of success, I would like to explain to you the crucial components of our results and to point out what they mean for the future of the company.

The fundamental improvements stem from the efficiency gains in all four business segments and in essentially all Group companies. Cost savings in the reporting year alone came to an impressive 2.4 billion euros. This development is important because its effects are for the most part long lasting. Its true significance is borne out by the fact that it is now, in the first quarter of 2004, already becoming more difficult to impose rate increases for all our products. By way of price adjustments and a very disciplined underwriting policy, mainly in the property and casualty business, we were able to bring down the claims ratio worldwide. This trend was also supported by a favorable loss experience. In asset management and at Dresdner Bank, we significantly improved the cost-income ratio, even though the overall earnings performance of the bank did not meet our expectations. Nevertheless, the progress in the operating business of Dresdner Bank is considerable, in view of where we started. In addition, Dresdner Bank's balance sheet has been adjusted in material areas to reflect the current risk environment. But the results also show very clearly that we still have some distance to go. In view of the improvements already visible at this time, I am convinced that the implementation of the "New Dresdner" program will be successful as planned and the bank will again earn its cost of capital in 2005.

There are two additional aspects that are important for understanding the results of 2003. First of all, in life and health insurance we had to absorb retroactive changes in the German tax law. At the same time, we cleaned up the balance sheet by taking an unscheduled write-down on our South Korean life insurer. And secondly we succeeded, along with improving profitability and the risk profile of our business portfolio, in once again increasing our market share in a number of important markets.

The uncompromising implementation of the “Three Plus One” program by 2005 is the most important task for our management team, for every individual employee of Allianz, and for me. This “Three Plus One” program includes four initiatives designed to promote our business model and to achieve sustainable, profitable growth. Three of these initiatives are primarily aimed at restoring our financial strength by protecting and strengthening our capital base, by substantially improving operating profitability and by reducing complexity. The fourth point of the program has farther-reaching implications. With this point, we are focusing on the fundamental strengthening of our competitiveness and increasing value with the aim of regaining our position as one of the world’s leading financial services providers. In the “Strategy” chapter on pages 22 and 23 of this Annual Report, we outline the progress we have made in this endeavor during the reporting year.

For me personally, the continuing development of our corporate culture is extremely important. I want to see us work together as a team, to be truly customer-focused and to offer the best products. Furthermore, I would like for us to concentrate on the right businesses and markets and to work efficiently in every respect. To this end, we have built up our team noticeably in many key positions of the Allianz Group because only that will enable us to be really at the top of the international financial services market. That is why we introduced binding “Leadership Values” worldwide in the reporting year. As benchmarks for orientation and evaluation, they are designed to promote a corporate culture that is based on commitment to implementation, team work and customer orientation.

The path to further strengthen our financials is outlined in the first three points of the “Three Plus One” program. But can we maintain profitable growth beyond that? Yes, I think so, and I will give two reasons why I am so certain of that.

First of all, demographic and economic data show without a doubt that the era in which everyone could count on an adequate state pension is coming to an end. Reflecting the paradigm shift, the public debate about the future of our social security systems started very late, but it has now moved to the top of the agenda all across Europe. Our broad-based study “Life Goals” reveals that people are very much interested in long-term financial planning and want a financial services provider whose advice they can trust over a long period of time. If we analyze the business environment of financial services providers, one thing becomes clear: almost everything indicates that this industry stands at the beginning of a growth cycle rather than at the peak of its maturity. When it comes to your company, Allianz, I am absolutely certain that this is so. Our local companies are trusted partners of their customers because they stand for strength and solidity in their markets.

My optimism also stems from the fact that, in one Group, we have everything that is needed for a successful insurance, private pension and asset management business, including the strategic asset of Dresdner Bank. We have the right strategies and are committed to execute them. We have the resources to implement these strategies, including solid and well-positioned operating units worldwide, motivated and committed employees, capital, customer-oriented multi-channeled distribution organizations, and product development capacities that combine our expertise in insurance and financial markets. Finally, the last few years have given us the added experience that will help us to capitalize on these strengths. In that pursuit, we are guided by the following insights.

We must earn trust, customer by customer, project by project, and day after day.

We know that the preoccupation with sheer size can become the enemy of excellence.

Our strategy also includes the ability to say no, in those cases where the balance between risk and earnings is no longer acceptable.

We limit and control the overall risk and make full use of all value drivers in our sphere of influence to generate a sustainable profit.

We are guided not just by our internal benchmarks; we are also determined to become the best in our industry. In a time of great uncertainty, we want Allianz to be the one brand that stands for trust. That is an ambitious goal, particularly in view of declining guaranteed interest rates and profit participation, and the positioning of Allianz to create more value for you, the owners of this company. And yet, this goal can be reached if we continue to strive relentlessly for efficiency and to motivate our outstanding employees, agents and intermediaries.

There is still a lot of work ahead of us, if we wish to make use of all the possibilities. But I believe in the ability of our people to develop business opportunities and execute them, and I feel the strong change in attitude since the outbreak of the crisis. Your company has become “hungrier” and more enterprising. We want to be the leading international financial services provider for insurance, private pensions and asset management; we want to be the company that people really trust. Please stay with us on this path and keep your faith in Allianz. I am confident that our business model will stand the test of time and that our actions will increase the value of your investment in this company.

*Sincerely yours.*



Michael Diekmann  
Chairman of the Board of Management