

We have learned the lessons from last year's loss and adapted our strategy to the new market and risk situation. The result is our "Three Plus One" program. It continues the earlier Allianz initiatives for securing and increasing profits, makes them more precise and defines the framework for our actions until 2005. It is designed to sharpen the focus of the Group's business activities, boost its competitiveness and strengthen its orientation towards the sustainable creation of value.

The "Three Plus One" program comprises four mutually complementary, cross-linked initiatives that are implemented simultaneously. The first three are aimed at restoring the known financial strength and performance of Allianz in all relevant entrepreneurial dimensions. The fourth point, the "Plus One," goes beyond these initiatives. Its purpose is to make sure that our future competitiveness is the key driver in the implementation of all these measures.

The four strategic concepts of "Three Plus One" are the following:

The "Three" stands for protecting and strengthening our capital base, for a significant boost of our operating profitability and for a focused portfolio – and thus a reduction of complexity. That is the program with which we will fortify the foundation of our business activity. In the "Plus One" concept, we are focusing on the fundamental strengthening of our competitiveness and increasing value.

What stands behind this program and what progress has already been achieved?

## 1 Protecting and strengthening our capital base

If we want to remain a reliable business partner for our customers and be able to implement our ambitious growth and profitability plans, we must have adequate equity and risk capital. That was the purpose of our substantial capital increase in April 2003. We are pressing ahead with the extension of a company-wide risk management system that protects the capital base by setting risk standards and limits that are applicable worldwide. At the same time, all business activities are brought into line with our internal risk capital model, which places particular emphasis on diversification. This is based on the fact that

the risk capital required for an entire risk portfolio is less than the sum of the capital needs of all the individual risks it contains, because the probability that various worst-case scenarios will occur at the same time is extremely low. To limit our exposure to stock market fluctuations, we scaled down shareholdings such as those in Beiersdorf and Munich Re, which concentrated risk because of their size, and reduced the overall share of stocks in our investment portfolio from 19 to 16.4 percent. At the same time, the proceeds from these transactions and from the sale of sub-critical activities strengthened our shareholders' equity. Overall, our equity capital grew by 6.9 billion euros to 28.6 billion euros.

## 2 Significant boost of our operating profitability

Here, it is a matter of making sure that Allianz operates and grows profitably. We adjusted the prices and conditions in the insurance business to the actual risk situation, exposed ourselves to fewer additional capital market risks, continually ramped up the efficiency of our operations and eliminated those risks from our existing portfolio which were not matched by an adequate profit potential. The major successes in the reporting year were the acceleration and deepening of the turnaround programs at Fireman's Fund, Allianz Global Risks, AGF and Dresdner Bank, as well as the improvement of the combined ratio in property and casualty insurance from 105.7 to 97.0 percent. In Life insurance, we brought down the expense ratio, and we reduced the cost-income ratio in asset management and at Dresdner Bank. These indicators are the most effective levers for improving operating income.

Important prerequisites were rigorous cost management in all segments, especially in life insurance, and, where necessary, a radical reform of our business models with a clear profitability target. Having already completed this work in the U.S.A., Australia and Austria, we continued to pursue it vigorously in

the reporting year in Switzerland, in our asset management segment, at Dresdner Bank and in France. Divesting subcritical activities and risks with no corresponding profit opportunities is another key element of the “Three Plus One” program.

### 3 A leaner portfolio and reduction of complexity

In the past decades, we have used openings in the market to build up a far-reaching international business portfolio. That made good sense, because such opportunities can vanish with unexpected speed. Now, we are subjecting this portfolio to a painstaking analysis with the objective of disposing of those interests which did not meet our original expectations.

By now, the number of disposals has reached 18. That freed up approximately 0.9 billion euros in risk capital and 1.9 billion euros in liquidity. But our primary concern is not just to free up risk capital; rather, we are striving for proximity to the customer and efficient management. We do not want to tie up valuable resources in businesses that offer no prospects of achieving our ambitious goal of sustainable profitable growth.

Down the line, the reduction of complexity will increase efficiency, for example by pooling IT procurement worldwide. In the reporting year, we generated savings of about 55 million euros from the part of our global purchasing volume analyzed thus far (160 million euros). That is 35 percent of the budget considered. Increased efficiency and better service are also the objectives of merging similar businesses or placing them under central control. Allianz Marine & Aviation and Allianz Risk Transfer, Mondial and Euler Hermes, as well as Allianz Global Risks, are units that were born of this logic.

The reduction of complexity and the concomitant increase of earnings are also served by efficient synergy management. That is why last year we regrouped the units Allianz Knowledge Management, International Department Health, and Synergy Projects in “Allianz Group Business Services”. The mission of this Group Center is to support the operating units worldwide in increasing their earnings power through an even more targeted transfer of know-how, best practice exchanges, and the exchange of experts.

## Plus 1 Sustainable increase of our competitive strength and value

This element of our strategy, the “Plus One,” is our “On Top Fitness and Outperformance Program”. By that we mean the sustainable increase of our competitiveness and our company value beyond the usual parameters: by strengthening our core business, refining management instruments and accelerating profitable growth. The efficiency gains from the first three program components of “Three Plus One” are invested in business areas that are best suited to reaching these objectives. These can be individual markets, our sales organization or the sharpening of our customer focus.

The central concepts linked to this component are “Customer Satisfaction” and “Sales Culture”. The quality of our services and products, our marketing drives, our customer interfaces and the back office processes supporting them must all converge in one point: we want to be the consumer’s first choice and not compete on price alone. Our objective is to create life-long customer relations that are beneficial to both partners.

In order to reinforce the entrepreneurial outlook of the company, we have changed the process of capital allocation (more about this topic on page 25 of this Annual Report). The holding has now taken on the role of a capital market in which each operating unit competes for additional capital. And only those units that present the best business plans and can prove the highest creation of added value will qualify for more risk capital. In keeping with this concept, we have reduced the volume of risk capital in those units of Dresdner Bank that are non-strategic or unprofitable, for example in the credit restructuring unit IRU and in the investment portfolio. Instead, this risk capital was allocated to segments that generated higher income. Overall, this redirection of capital resources has strengthened the profitability of Allianz and increased the normalized return on capital employed across all segments from 3.1 to 12.6 percent<sup>1</sup>. The internal capital market thus created will enhance the entrepreneurial spirit of the entire organization, because it rewards those whose local strategies are successful with their customers while at the same time generating an attractive return on investment. And that is very much in the interest of our shareholders.

We are convinced that this customer relations oriented approach creates added value and secures the basis for sustainable profitable growth. That makes it the decisive vector for the implementation of the entire “Three Plus One” initiative, right up to our highest strategic objective: we want to be the leading international financial services provider for insurance, private pensions and asset management, we want to be the one company that people can really trust.

<sup>1</sup> In this calculation, investment income is determined by means of a normalized performance rate. We thereby smooth out the influence of fluctuations in the capital markets and of profit taking. At present, we are normalizing stock performance at 8.5 percent.