



Dear Shareholder,

When we look back on fiscal 2005, it is fascinating to observe the close interaction of light and darkness. Please forgive me if I cannot resist turning first to the brighter side. There are strong reasons for doing so.

Although this year will go down in history as the year in which natural disasters caused the highest amount of insured damage ever, Allianz has kept all of its promises. We exceeded our objectives, significantly increased the value of your investment and made decisions that are of great importance to the future of your company.

There is, however, a side that glows less brightly. While we experienced in relative terms moderate losses from the hurricanes in the U.S., we were in absolute terms still too heavily exposed to this risk. It is also true that the gain you made on your Allianz shares followed the general market trend, meaning that their performance was not really exceptional. Finally, I view as a negative that our restructuring plans for the German insurance business were so critically received by the public, specifically by the German public. Why were we not able to generate enthusiasm among our employees

in Germany for the pending changes? As the owners of Allianz, should you be concerned that our brand is not as compelling as it used to be, or that we will not be able to implement the improvements sought with these measures?

Along with my colleagues on the Board of Management, I am convinced that we will master the challenges ahead. Your company has since reclaimed its position at the top among its international competitors. Now the objective is to build on this position. Why do we think we will be successful in doing so?

We already have all the strengths we need for this. We are now positioning ourselves so that our competitive advantages will be used considerably more effectively than they have been to date and achieve even better results for you, our shareholders. The size, reach and multi-local competence of this company give us an exceptionally effective tool for winning market share profitably and being successful in new markets and generating competitive advantages for us as a financial services group. In the meantime, our sustainability program and, closely related to that, our customer focus project, are gaining momentum. Both initiatives seek to improve our competitiveness and increase the value of the company in a sustainable manner, i. e., the “+One” in our “3+One” program.

We are systematically exploiting the expertise that we already have to become even better. We will never stop testing whether the good we have achieved is good enough. Perhaps there is still just a bit more potential somewhere that can be harnessed to create additional value for you, our investors. The most obvious change, even to a casual observer, let alone a watchful insider, is the change that Allianz is undergoing as a team. The company has become more transnational and more nimble; we are now able to work together effectively and smoothly, across borders, units and hierarchies. This is good news for you, the shareholder.

In fiscal 2005, this idea not only started to take shape at Allianz, but also found acceptance in the financial markets. Our concept of a closely cooperating cross-border Group that continuously seeks out the best business practices and the most effective way to implement them Group-wide is being acknowledged and received with approval by the market. Since my last letter to you, the value of the Allianz share has risen by 46.2% to € 135.4 by the end of February 2006, and analysts are forecasting even higher prices. I take this as a sign that our key idea has been understood and that we are considered capable of actually implementing what we say.

In the 2004 shareholder letter I made a few announcements. I promised additional impetus for our “3+One” program in fiscal 2005 and set the objective that our insurance agents in Germany would win 300,000 new bank customers. In the outlook section of the annual report, we forecast operating results of at least the 2004 level, a combined ratio in property and casualty insurance of under 95% and operating results of at least € 1.5 billion in life/health insurance. Dresdner Bank pledged to earn its cost of capital, and we aimed for an increase in operating results of 10% in asset management.

Today I am very pleased to report that we have exceeded all of these goals. Operating results rose to a respectable €7.7 billion, and the combined ratio again improved to 92.3% in spite of an unprecedented series of natural disasters, including Hurricane Katrina, which resulted in the biggest amount of insured damage to date. Life/health insurance achieved excellent results with earnings of € 1.6 billion, and asset management increased this figure by no less than 32%. The bank earned its cost of capital for the first time since its acquisition by Allianz, establishing a solid basis for strong increases in earnings in the coming years. Our insurance agents in Germany have demonstrated, with 360,000 new bank customers at year-end, how much power the idea of an integrated financial services provider can generate. All of these factors, along with favorable conditions in the capital markets, contributed to a significant strengthening of our capital base, which totalled €39.5 billion at year-end. This renewed financial strength allows us to strategically develop your company and to invest in profitable growth.

When I write about promises kept, I do not forget that we were able to keep these promises only because our 177,625 employees in more than 70 countries, many of them Allianz shareholders themselves, once again worked unusually hard, showing commitment and professionalism, as was the case with our sales force and brokers. They have earned my most heartfelt thanks. Under difficult conditions, in a time of fundamental changes, they have worked together to bring back the company to its former position of strength and to broaden its business perspectives. I salute them for what they have done; it makes me proud when I hear the high regard in which our people are held by other market participants. This strengthens my confidence that we will also be able to master the next difficult steps.

We have achieved a lot in 2005 and I hope we have demonstrated to you that your Allianz management team is not a storehouse of old values but rather a factory that creates new values for shareholders. But 2005 is now over, and of course we have long been looking at the future. In spite of the great progress we have made, we see that going forward we are still facing considerable challenges.

You may very well ask:

- › Why Allianz?
- › Why now?
- › What comes next?

Those are very good questions. I asked myself those same questions 17 years ago when I joined Allianz, and once again after I was named Chairman of the Board of Management. To answer them, I must take into consideration additional aspects that go beyond the internal advantages

of our Group. In the end it is this diversity of factors that makes an investment in this company worthwhile. In this respect, our actions are driven by four key insights:

- 】 We know that the long-term and sustainable increase in the value of your equity stake is not only a critical mandate but also the basis for all future positive measures that a company can initiate for employees, clients and society. Here I am specifically speaking about the creation of value in an appropriate timeframe, not overnight. If Allianz is healthy and profitable in this respect, then this would have a positive effect on all stakeholders. An example: in 2003, which will remain unforgettable to us all as a rather unsatisfactory year for business, our tax payments in Germany financed on average the annual operating costs of 8 hospitals. In 2004, thanks to a considerably more robust and improved business model, we paid enough taxes for about 55 hospitals to operate for a year, and in 2005 this rose to 69. But if we get bogged down and unintentionally neglect the spirit and content of our employment contract with you, the owners of Allianz, we are endangering jobs, wasting opportunities and will not be able to serve our clients and society the way we would like to.
- 】 We know that we are neither in a position to direct the global economy nor do we have the power to influence the weather or to influence the erratic movements in the financial markets. But what we can control are our own business policies and the way that your money is spent. We are maintaining our cost containment policy and are not being tempted into trying to gain market share by competing on price. We charge a fair price for our services and we know when to say “NO” if the premiums do not reflect the risks. Consequently, we are only seeking growth where there are real opportunities for profitable growth.
- 】 We want to rid ourselves of excessive complexity because it is inimical to growth. With the conversion of Allianz AG into a company under European law and with the purchase of the outstanding shares of the Italian RAS Group, we are the first DAX company to pass this innovation milestone. We are creating the legal and organisational framework for eliminating overlaps, achieving trans-European synergies and growing into a pan-European structure that is marked by efficiency, transparency and growth dynamic. Our principal bodies – the Supervisory Board and the Board of Management – will be significantly more international in the future.

In Germany we are also working with a complex structure that has become artificial and impractical. The existing structure is: Too difficult for customers to understand; too difficult for our agents to deal with; and too difficult for our managers to steer. In short: too difficult. Now we are acting before time and market forces prevent us from doing so and because we also want to achieve strong organic growth and gain market share in Germany again. The incorporation of Allianz Deutschland AG is a great opportunity in the medium and long term also for our employees to benefit from our market positioning.

Finally, we have decided to restructure certain aspects of the international commercial and industrial insurance business and within Dresdner Bank: some of these changes are already being implemented. The purpose of this is to make the organization more transparent and leaner, allow for increased effectiveness in the daily business and direct the attention of management more towards opportunities for profitable growth.

» We know that the steady trend towards an ageing society around the world creates a demand for providers like us and that the concept of an integrated financial services provider will take off, even if it takes a while until all aspects of the business and earnings are satisfactory. The sales success of our agents with bank products in 2005 and the dynamic growth and the solid increases in operating results in life insurance and in asset management provide you with an idea of what sort of growth trend can result from the demographic changes and the integrated business model.

This means that in spite of the impressive results, there is still much to do. After entering 2006 with optimism and a thirst for action, we look back once again on what we have accomplished. Allianz has fundamentally changed its approach. We have our risks under control. Business is again fundamentally strong. Our management is disciplined in the implementation of our plan for profitable growth. These are all prerequisites for smart investors to put our stock on their buy list. I hope that 2006 and the following years will be profitable for you and that all stakeholders will benefit from the continued success of Allianz. We shall not rest.

*Sincerely yours,*



Michael Diekmann  
Chairman of the Board of Management