



*Dear Shareholders,*

In 2006 Allianz set an earnings record, yet at the same time went through a period in which, as seldom before, there was much disagreement as to the course of the company, especially in Germany. The response to the repositioning of our German subsidiaries was mixed. Some praised us for our courage in introducing far-reaching reforms at an appropriate time and for our systematic approach to implementing these reforms, while others voiced criticism, particularly for cutting jobs in Germany at a time of rising Group profits.

Neither of these viewpoints does justice to the truth; only time will tell whether we can summon up the energy when it matters to emerge victorious from the competition for customer, employee and investor loyalty. The steps we are taking are simply a response to this battle for market leadership, which is being played out on a global level and is becoming increasingly intense.

Will we be successful? What we can promise is that we will do everything within our power to secure an even better position as one of the best among the world's leading financial services providers. At the same time I have a great deal of confidence in the ability and commitment of everyone at Allianz to adapt to and help implement the necessary changes. A deeply rooted entrepreneurial spirit exists at all levels within the company and a great deal of energy is everywhere. There is a lot going on in the company, and the results of this activity will help us to achieve our goals in the years to come.

It is our intention to win this race, which is why we are ensuring right now that Allianz is viewed by customers, employees and investors as the most attractive choice among international financial services providers. This is not some vague, non-committal vision of what the future may hold but a reference to quite specific developments, the results of which have been reflected in our financial figures for some time now. A brief look at what has been achieved over the past three years shows us that from 2004 to 2006 operating profits improved by 48.4%, and in 2006 alone by 29.8% to € 10,386 million. The net income rose by 109.5% and in 2006 alone by 60.3% to € 7,021 million. Shareholders' equity has increased by 68.3% since 2004, and in 2006 alone by 27.8% to € 50.5 billion. Finally a look at Economic Value Added® (EVA®), which is value generated in excess of capital costs. Over the past three years this increased by 92.1%, and in 2006 alone by 37.6% to € 3,528 million. In the year under review all four business segments posted significantly better results than in the previous year. Even when one takes into account the fact that we were spared major natural disasters in 2006 and that the capital markets performed positively, these results indicate how robust our business has now become.

Perhaps you may still recall the promise my colleagues and I on the Board of Management made after the shock of 2002? We said we would make every possible effort to regain Allianz's position among the world leaders in its field. Significant milestones were reached along this path in fiscal 2006. We are now number one in property and casualty insurance, credit insurance and in assistance services. In asset management and life insurance we are among the top five worldwide. Our banking business in Germany has improved considerably and is generating healthy earnings for the company in excess of the cost of capital. Apart from that, we are the only European financial services provider operating with real success in Central and Eastern Europe, Asia-Pacific and the United States for its shareholders' benefit.

So what does this mean for you, the owners of Allianz? The value of the Allianz share rose by 21.0% to € 154.76 in 2006. In addition we propose to increase the dividend per ordinary share certificate from € 2.00 to € 3.80, an increase of 90.0%.

No matter how encouraging these results are, one cannot deny the fact that other international financial service providers have also done well. When comparing ourselves with the competition, what is important for us is not just the financial results, but the relationship between operating results and the trend in the market share. It is in this area in particular that we still have some work to do in order to continue building our position as leader in a sustainable manner. We did not perform as planned with the growth of our annuities business in the United States and with the marketing of life insurance products via bank cooperation agreements in Italy. We are therefore putting particular effort into both these endeavors.

In our view the most important event in fiscal 2006 was the merger of the Italian RAS into Allianz and the conversion of our company into a *Societas Europaea*. This has created an elegant and clear structure, reinforced the capital base and shortened cross-border processes, enabling us to perform even better and act with greater speed. If we will be able to complete the acquisition from minority shareholders of all the shares that we do not already own in our subsidiaries AGF and Allianz Leben, as announced in January 2007, our position in our European home market will continue to strengthen, creating the foundations of a company which, in terms of its coverage, customer orientation and performance, will be second to none. By taking this step we have not only created better conditions, leading to more growth and higher earnings, but have also demonstrated over recent years our ability to derive maximum benefit from these measures and to be systematic in our approach to and implementation of our projects. I am quite sure that a lean organizational structure centered on our customers will further improve our international competitiveness in the years to come.

The fact that our Customer Focus initiative is no longer just a catchphrase but reality, strengthens my belief in this. The introduction of a new operating model worldwide will also add considerable momentum to our plans and will result in our corporate culture being more consistent from the point of view of our customers. This will enable us, even more so than before, to pursue profitable growth even in saturated markets and higher revenue per customer through a combination of innovation, service and quality.

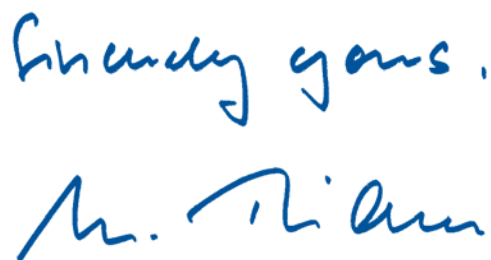
The sustainability initiatives I have reported in previous years are making substantial progress. The results of these initiatives can be seen in improved products, distribution and processes. This demonstrates once again the enormous increase in value that can be achieved by this company if it rolls out its best solution to a particular problem across its global operations. Although "I2s" (Ideas to success), our new innovation initiative, is still in its early stages, its first concrete results have already shown the wealth of ideas present among our employees.

The company has also made a breakthrough in China. Sales of insurance through branches of the Industrial and Commercial Bank of China (ICBC), in which we invested in 2006, have so far surpassed even our expectations. Meanwhile, growth in our insurance companies in India is accelerating almost daily. In fact, we are now number two among foreign providers in the country and are gaining 400,000 new customers each month. Given our majority holding in the Russian company Rosno we are now well equipped to repeat the success of our operations in the interesting markets of Central and Eastern Europe.

Implementation of our strategy is the key to success, and everyone in the organization knows it. In 2007 we will continue to work on creating value for your company. And what drives us, both now and in the future? The new business model is gradually becoming a reality, especially in Germany. We intend to continue expanding our market share and strengthening our financial results. We are also doing all we can to increase the willingness of our customers to recommend us to potential new customers and to refine our strategy for further growth and higher earnings.

This work plan shows we still have a long way to go before we become the world's leading financial services provider, a company that keeps promises and exceeds expectations. Yet all the men and women working within Allianz – more than 160,000 worldwide – are nevertheless confident, as I am, that we will have continued success along the way. Many of these people are also Allianz shareholders, which means they have an additional way of participating in the success of the company while at the same time having the same interest as you in excellent customer service and outstanding business results. In 2006 our employees showed you that they had understood the urgency of the task. They possess courage, skills and drive and are determined to see Allianz move forward. My sincere thanks goes out to our employees and representatives for their outstanding commitment – and I hope I may also offer this appreciation on your behalf.

We will continue to work hard on ways to improve our results on a sustainable basis, and we will pay close attention to our customers' changing requirements and new developments within the business. One thing is certain: our flexible strategy and the strength of our resources will enable us at all times to take advantage of new business opportunities. This is already the case today, and we will continue with the same passion tomorrow. We will never forget our ultimate commitment to you, which is to sustainably increase the value of your investment.



Michael Diekmann,  
Chairman of the Board of Management