

Annual General Meeting of Allianz AG 12 July 2000

Report of the Chairman of the Board of Management Dr. Henning Schulte-Noelle (item 1 of the agenda)

I. Ladies and gentlemen,

On behalf of the Board of Management I also warmly welcome you to this year's Annual General Meeting. I thank each and everyone of you – shareholders, shareholders' representatives, media representatives and numerous guests, as well as two school classes - for coming.

We are particularly pleased to welcome those among you who are taking part in our Annual Meeting for the first time as shareholders of our company. All in all, since the last AGM the number of our shareholders has grown by around 60,000 to currently 284,000. This clearly shows that interest in our stock is increasing markedly.

Ladies and gentlemen, behind us lies not only the beginning of a new millennium, but also a highly noteworthy decade. The nineties have changed Europe and the world more than any other period since World War II. The collapse of the Berlin Wall brought about Germany's reunification, and the disappearance of the Iron Curtain made the division of Europe a thing of the past. With these events the 20th century, towards its very end, bore witness to the end of disastrous doctrines of collective salvation, and the social model of pluralistic democracy and free market economy asserted itself once and for all. Other changes - such as the ongoing globalization of business and the development of a worldwide network of information and communications technology - have already drastically altered our economy and working world and will lead to even more profound restructuring beyond the threshold of this century.

What do these changing times hold in store for Allianz? Where does your company stand after the nineties, and what lies ahead?

In the first part of my report, I would like to discuss the 1999 business year and the development of the first months of the current year. I will then focus on our most important tasks for the future.

II. Highlights of 1999

With growth rates of 16% and 23% respectively, we were able to set new records for the Group's gross premiums written and profits.

The integration of AGF has changed our company as only few transactions have done in the past. Today, Allianz' position, especially in Europe and South America, is much broader and stronger than what we ourselves would have dreamed of only a few years ago. The merger of two major European financial groups, which was even more successful than we had anticipated, should serve as encouragement to those who, in a Europe that is growing together economically, still see national borders as virtually insurmountable barriers to cross-border mergers and acquisitions.

We achieved a significant breakthrough last year with our first successful takeover of a large insurance company in Asia. In a region where entry barriers and rigid market structures have so far allowed for only modest steps, the takeover of First Life in Korea, the sixth-largest insurance market, has catapulted us to a market-leading position.

We also made good headway in Taiwan and in the emerging markets of Central Europe and Latin America.

And finally, the acquisition of a majority stake in PIMCO, the third-largest listed asset manager in the USA - agreed last fall and formally concluded this May - propelled us into the world's asset management major league. I will come back to this subject a bit later on.

Ladies and gentlemen, our overall pleasing business performance in 1999 should also benefit you in the form of higher dividend payments.

The recommended increase from 1.12 to 1.25 euros per share corresponds to a rise of approximately 11%. For the shareholder who must pay tax in Germany the dividend is coupled with a corporate income tax credit of 54 cents per share, so that the gross dividend amounts to 1.79 euros. The total volume of dividend payments (without the corporate income tax credit) will increase from 276 euros to 307 million euros. Hence, the dividend has been increased five years running, another fact that evidences the positive business trend of the past years.

As Deutsche Bank AG sold part of its Allianz shareholdings, more than 50% of our shares are now in free float. We are aiming to further increase this portion, because widely dispersed shareholdings are traded more intensively and thus tend to perform better in the market.

Following the very good performance of our stock in 1998 (+ 33.3%) we had hoped for a more pronounced upward trend in 1999.

Insurance companies as a whole experienced a difficult stock-market year in 1999. The market indices for insurers performed considerably worse than the overall market.

Furthermore, in Germany the insurance sector also suffered under the widespread tax discussions.

In spite of this difficult environment, with + 5.5% the Allianz share fared noticeably better than the European insurance index Dow Jones EURO STOXX Insurance (+ 1.5%).

Throughout the nineties, the Allianz share, which is above all an interesting long-term investment, has undergone a positive development. For the period 1990 to 1999 its average annual increase was + 13.4%. Without last year's relatively poor performance it would have beaten the DAX, which grew by 14.5% in the same period.

In the first half of this year, the Allianz share performed significantly better than the indices. With + 12.6% it outpaced the German index DAX 30 (- 0.8%) as well as the European index Dow Jones EURO STOXX 50 (+ 4.9%) and the Dow Jones EURO STOXX Insurance (+ 9.0%). So far this year the Allianz share benefited above all from the anticipated tax exemption on gains from disposals. At the end of 1999, the stock market value of Allianz was 82 billion euros compared with 92 billion euros on 30 June 2000. This continues to rank Allianz as one of the absolute leaders among international financial services companies.

Now, ladies and gentlemen, just like us, you will have noticed that over the past few days the price of the Allianz share has come under pressure. On the one hand, this is presumably the result of the unfortunate course that the discussion on tax reform has taken – I will come back to this topic. On the other hand, however, a more technical factor has also played a role here.

As you've been able to read in the press, a well-known European index family, the Dow Jones STOXX indices, will change its weighting criteria. While to date the total market value of a company was the basis for a company's relative weighting in an index, in future only the so-called free float will be taken into account. The free float does not include equity interests of 5% or more. According to this definition the free float of Allianz amounts to 58%. This does not yet take into consideration the agreement with Munich Re that it will reduce its stake in Allianz by 5%.

As a consequence of this readjustment, the weight of the Allianz share will decrease in the STOXX indices. As many funds reproduce these indices more or less accurately,

the portfolio managers were forced to sell Allianz shares, which of course had a negative influence on their price. Here we are dealing with a temporary technical reaction which also affects other listed companies with major individual shareholders. As soon as the restructuring has been completed, the – unchanged - fundamental evaluation of the stock will again come to the fore.

Let me briefly come to the most important key figures of the 1999 financial year.

Gross Premiums written for the Group increased by 16.4% to 53.8 billion euros last year.

This positive development in premium volume was basically due to internal growth of 5.3% which exceeded our target. As a result of changes in the consolidated group, premium income increased by a further 4.1 billion euros. The most important change was the full-year inclusion of AGF, which in the previous year was only taken into account for three quarters.

The positive trend in premium income in 1999 has on the whole continued in the first few months of the current financial year.

In the first quarter gross premiums written grew by 7.2% to 16.8 billion euros.

The weakness of the euro, particularly in relation to the American dollar and the British pound, resulted in premium income rising by 0.3 billion euros in the euro account. The changes in the consolidated group also resulted in a premium volume increase of 0.3 billion euros.

From today's point of view we still think that we can achieve our target of a 4% increase in gross premiums written in the Group by the end of the year.

By taking a glance at our lines of business with the largest volume we can see that in property and casualty insurance we were able to improve gross premiums written by almost 17% in 1999. The highest growth rates were achieved in Italy and Spain, where our companies managed to push through urgently needed price increases in auto insurance.

In view of the prevailing market situation in many countries, we are also satisfied with the 5.3% growth in premium income achieved in the first quarter of this year.

Gross premiums written in life and health insurance rose by 16.3% to 18.5 billion euros in 1999. This increase was mainly attributable to the positive development in Germany. Under IAS, products with a predominant investment character are not recorded. From this segment we achieved additional premium income of 6.8 billion euros, so that in the

overall segment we achieved a business volume of 25.2 billion euros. This corresponds to a 22% growth rate.

Precisely in this area of unit-linked products, growth was again particularly dynamic, recording a first quarter upswing that was well into double-digit figures in the current year. But even without this business, with 12% the IAS-based increase maintained a remarkable level. Admittedly, however, it also benefited from currency and consolidation effects. As expected, the very high new business volume in our German life insurance sector in 1999 was not able to be maintained in the first months of this year.

Ladies and gentlemen, with an increase in gross premiums written across all business areas, which we are once again anticipating for this year, we will be able to maintain our Group's gratifying growth momentum of the last decade.

If we include gross premiums written from unit-linked life insurance products, premium income in the nineties rose by a total of 14% per annum on average. This was also one of the factors that strongly pushed ahead the process of internationalisation of our Group. While only 8 billion euros or 44% of premium income was generated abroad in 1990, last year it was 39 billion euros or nearly 64%. This means that we achieved an almost five-fold increase of gross premiums written outside of Germany, equivalent to a growth rate of 20% per annum. But in Germany too we managed to more than double premium income over the past 10 years to 22 billion euros and thus maintain our market position.

As far as net income for 1999 is concerned, ladies and gentlemen, we have again achieved double-digit growth figures.

Pre-tax profit and amortization of goodwill rose by 11.6% to 4.8 billion euros in 1999. From an expenditure point of view, property and casualty insurance did not experience a good year. Claims expenditure was up significantly in this sector, above all due to an increase in the claims frequency and the average compensation for bodily injuries in auto insurance as well as considerable burdens arising out of natural catastrophes.

The two storms "Lothar" and "Martin" alone caused expenditures amounting to 260 million euros after reinsurance. Furthermore, last year we were affected by the earthquakes in Turkey, Greece and Taiwan. Claims expenditure resulting from natural catastrophes reached a record level for the Allianz Group last year. In the 1999 financial year the combined ratio, i.e. between claims expenditure and costs to premiums earned, rose by 3.7 percentage points to 104.5%. This was more than offset by the net investment income. We took advantage of the positive situation on the capital markets to realize several stock price gains.

After deducting amortization of goodwill and minority interests in earnings, *net profit* after taxes was 2.2 billion euros.

Growth includes extraordinary influences like extraordinary depreciation and the effects of fiscal changes in Germany and Italy that we have explained in our Annual Report.

However, I should like to address *one* special influence here. This relates to our contribution to the Compensation Fund for Victims and Surviving Dependents of the Holocaust. We have set aside 76 million euros as the full reserve which was agreed between the insurance companies in accordance with the distribution formula.

As you know, ladies and gentlemen, this *Foundation Initiative* received our complete support right from the start. We were involved in this initiative from its very inception. We are therefore all the more pleased that the difficult negotiations with the representatives of the victims have been brought to a successful conclusion and that the German Parliament passed the necessary legislation a few days ago.

Now the task ahead is to activate the agreements and get the first payments to the victims as soon as possible. In order for this to happen, the lawsuits and administrative measures instituted against German companies primarily in the USA must be ended immediately. We, in turn, must keep to the promise made by German industry to contribute five billion marks.

There are still far too many companies standing on the sidelines. Not everybody has understood yet that the Foundation is no longer about accountable actions taken by individual companies at that time – this issue remains a matter for individual companies, in the process of striving for clarity and truth in corporate history. No, the focus here is on an act of solidarity by German industry that acknowledges joint responsibility towards the victims in the consciousness that all of us, state, society, company and citizens, bear a collective inheritance from the time of the Nazi regime.

Together with many others, I too would therefore like to take this opportunity to appeal to all companies to join in the Foundation initiative and make their contribution.

Ladies and gentlemen, let us return to the financial results for 1999. Taking into account the extraordinary influences referred to, the *adjusted net profit* posted an increase of 11% to 2.0 billion euros. This puts us squarely on target with our plans and forecasts.

We also anticipate meeting our targets for the current year. We have planned an increase in earnings of around 10% of the total adjusted earnings for 1999.

As always, this is on the proviso that no major burdens from natural catastrophes and very large losses occur and the capital markets experience no big turbulences.

This would in turn continue our *improvement in earnings from the nineties*.

Profit was not just generated by virtue of accounting principles based on the German Commercial Code (HGB), it actually tended to increase after the transfer to publishing accounts according to International Accounting Standards (IAS) from 1997. Net profit for the year has increased over the past ten years by an average of 23% per year. This growth is even stronger than that shown by gross premiums written at 14%.

Earnings performance has taken off since 1995 in particular, while at the beginning of the nineties initial losses in the new *Länder* and the massive reduction in income from automobile insurance in Germany depressed earnings.

Earnings per share over ten years have increased in tandem with net profit, at an average of almost 20% per year. We achieved 9.11 euros in 1999. Until 1997 earnings per share were determined on the basis of the accounting principles promulgated by the German Association of Financial Analysts (DVFA) in cooperation with the Association of German Insurers (GDV).

Ladies and gentlemen, the success of our enterprise in 1999 did not just fall into our lap like manna from heaven. It was generated by more than 114,000 employees and 62,000 agents on all five continents of the earth. This is the time to thank them for their dedication and for their loyalty to our Group. I should also like to extend my thanks to our sales partners, in particular to our many agents.

III. Ladies and gentlemen,

Now we have put the nineties behind us, we have survived a millennial change without any earth-shattering events – also as an insurer – and we should now address the following question: What is the position of Allianz in its 111th financial year, poised at the start of a new decade?

The answer is: in a really *strong starting position*. This is a statement devoid of hyperbole, and most observers confirm our view:

- Allianz is one of the leading global insurance groups, no. 1 measured by premium income, calculated on a comparative basis, and no. 2 by market capitalization.

- It has a presence on all continents, with operational units in virtually all important insurance markets.
- It is the clear market leader in our domestic market in Europe, with around 50 million customers in this region, 46,000 tied agents, around 11,000 bank branches selling our products, and TOP 1 to 5 market positions in 14 countries.
- It is one of the biggest asset managers in the world with a total volume of around 645 billion euros in assets under management including PIMCO.
- And to cap it all, Allianz is one of the few Triple A companies with a rock-solid balance sheet and financial standing.

Where are the other special strengths of our Group?

- In our corporate strategy that has always been directed towards the long term. We are not one of those companies which reformulate their objectives with increasing frequency, often influenced by management methodology. Our five strategic goals, which we have again described on p. 18 to 20 of the Annual Report, have maintained their validity for years.
- In the clear focus on our three core business areas: Protection, Provision, Performance.
- In a consistently deployed principle of local management throughout the Group which gives Group companies the essential ingredient of entrepreneurial autonomy, while at the same time committing them to clear Group targets related to corporate value, to integrated strategies for achieving Group synergies, and to a policy of transparency.
- In a rich pool of knowledge that draws on the experience gained from all our activities throughout the world.
- And finally in a wealth of strategic options for action that are not simply based on our substantial financial reserves but also on our large distribution networks and many international partnerships.

This is a strong position indeed, but we have no intention of resting on our laurels. Nothing is more dangerous, especially for a successful company, than the insidious poison of complacency. Anyone who sits back in the fast-moving age of virtual reality is gambling away their own future.

No, we want to use our own strong position at the beginning of a new decade *for a new entrepreneurial departure*. We want to strengthen our efforts in many areas, and quicken our tempo. We want to – we must – get better, in satisfying our customers, in the efficiency of our business methods, in the use of the new opportunities offered by e-business, in the qualification of our managers and employees and in strengthening our market position.

We are embarking on this project in a new era:

- An era in which change is almost the rule and is becoming a constant, in which globalization is unstoppable and yet is increasingly running up against the boundaries of human acceptance,
- A new era of e-business, in future also m-business, in which industries and companies will undergo radical change,
- An era in which technological advance has finally crowned the customer “King” with previously unknown opportunities for information and choice,
- And an era in which social phenomena such as value change, decollectivization (individualization) and an ageing population are presenting politics and business with radical new challenges.

It therefore appears to us all the more urgent to prepare and adapt our company in good time and effectively meet these changes. In line with our corporate creed we do not want to be driven by developments of that nature or run after them. We want to play a proactive role in shaping events in order to make good use of the opportunities that present themselves.

Where do we perceive the *most important functions* for us in this scenario? I will only deal with crucial aspects here by addressing the following five points:

- 1) First of all we want to *sharpen our internal and external corporate profile* and etch this profile with clearer contours. In an age when a click of the mouse brings up any company on screen, the profile of a brand needs to be clear and positive in the customer’s eyes. It must be distinct from other brands.

As Allianz we have an awareness level of 98% in Germany and it is virtually impossible to improve on that. In other regions of the world, in particular in America and Asia, the situation is very different.

Our international advertising campaign based on opinion multipliers is now running for its second year. We are making good progress with this campaign by increasing our

level of awareness in this target group and communicating what the Allianz Group stands for as a global provider.

Our new commitment to Formula 1 allows us to reach a much larger group of individuals – more than 300 million people worldwide on a racing weekend. Many of you, ladies and gentlemen, will be surprised at our new venture. You may have asked yourself – just as we did – whether we should be associating the Allianz slogan “Hopefully insured with Allianz” with every conceivable situation in a race of this nature.

Not every situation, naturally enough. But it is also clear that there is no better value for money in a global marketing campaign like this than Formula 1. This sport also represents engineering excellence, peak performance and modernity. We found it an exciting challenge to engage in cooperation on issues relating to the active and passive safety of vehicles by linking up through additional agreements with our partner BMW-Williams and FIA – the supreme authority of world motorsport and the representative for the interests of more than 100 million drivers worldwide. Our customers will be able to derive considerable benefits from the partnership.

Anyone who wants to project a clear corporate profile to customers on the outside must also create a clear internal profile among managers and employees. This internal profile relates to common basic positions, group targets and the gameplan for interpersonal communication. Issues of corporate identity and culture are at this moment becoming increasingly relevant in groups which are growing through international acquisitions. They are also gaining a high priority with us.

We are expending considerable effort on developing suitable schemes, to strengthen communication and interaction between our managers worldwide, and commit them to joint strategies and objectives. The commitment to increasing the corporate value of our Group constitutes part of these joint strategies. The benchmark here is *Economic Value Added*. Since last year we have been introducing this performance parameter step by step as a decisive quantitative objective in the bonus structure for board members and executive managers in our largest Group companies.

The clear orientation to increasing corporate value is also reflected in the new version of a *Long-Term Incentive Plan* based on the model that we introduced for the first time in 1999 and presented to you at last year’s Annual General Meeting. This plan currently covers 350 top executives throughout the Group worldwide. Our aim is to increase this circle of individuals significantly in the future.

A growing number of employees and agents – now totalling nearly 40,000 – will also benefit from increases in prices for Allianz shares. The last issue of employee shares in 1999 again generated a comparatively high take-up of 57%. This autumn will again see us giving our staff the opportunity to purchase shares on attractive terms. For the first

time we want to extend this option beyond our borders to include a number of international companies.

- 2) Ladies and gentlemen, apart from strengthening internal bonds within the Group, developing a clear orientation towards common objectives, and projecting an attractive corporate and service profile to the outside world, this is also a period of change in the area of *training and professional further qualification*.

Here we are facing a constant challenge in the wake of the ongoing increases in requirements for our managers and employees. We are able to build on an already high level of service in many of our Group companies, but primarily in Germany. We have invested 300 million euros in further training alone for our employees and representatives across the Group.

However, we are aware that we have to work harder in recruiting employees with specialist knowledge and management trainees, in the training of our young insurance sales staff and our employees in sales, in the further expansion of our trainee and other special schemes, in the internationalization of our promotion and development programmes for managers, etc.

We charted our course at the start of the year, with the main aim of improving coordination and promoting overarching group initiatives and processes in these areas. Anchoring this function at the level of the holding company will ensure that this objective is met.

We are aware that we have to be successful in the recently much-quoted “war for talent” if we want to maintain our leading position over the long term. We are already well on our way.

- 3) And this brings me to a third key function, ladies and gentlemen, and the biggest corporate challenge of our times – a company must successfully manage the development of *e-business* in cyberspace at the right time.

The new economy shaped by the Internet will change our customer relations and our world of work fundamentally, and fast. We are convinced that the Internet cannot simply be reduced to the issue of its success as a sales channel. It is essential to exploit the opportunities offered by the Net along the value-added chain and consistently position ourselves as a financial service provider in the new economy.

The Internet is creating a completely new dimension for customer relations and customer orientation. Alongside personal or telephone contact, customers now have a new communication and interaction channel available. They can access the information they want, and obtain services and products independently of their location and round

the clock. For us as a service provider, this means that we must integrate the Internet into our work processes.

The technology developed in conjunction with the Internet is also acting as a standardization machine. It permits faster development of applications and global exchange of software packages with other Group companies. This is the only way of realizing short innovation cycles.

How is Allianz rising to the Internet challenge? These are our key initiatives:

- Setting up a global Allianz portal.
- Organizing systematic and continuous knowledge transfer within the Group.
- Creating a lean and empowered groupwide e-business task force for fast, strategic implementation of innovations and efficient promotion of strategic processes.
- Targeting annual investments of hundreds of millions of euros for product and service innovations, technology platforms and application developments.
- Forging strategic partnerships with companies in the "New Economy" such as CISCO and S1.

Implementation of this *5-point plan* has top priority in the Group and in all its companies. A whole range of projects is already being taken forward or being processed at top speed. At this point I cannot possibly explore all aspects of this issue, but I should like to refer to the items highlighted on page 21 of our Annual Report.

- 4) Ladies and gentlemen, preparing your company for the future when it comes to personnel and technology is important enough. But we want to expand the strategic room for manoeuvre from the financial perspective as well. The main objective here is to expand our core business areas by releasing financial resources.

We have all been aware that *investment policy at Allianz* has recently had a higher profile in the public eye. The tax reform plans floated by the German government have aroused a wide range of expectations for the structure of our product investment portfolio.

As an insurance company, we are an institutional investor. One of our functions is to invest the money of our customers and shareholders as profitably as possible, while at the same time providing a high level of security. For that reason we have invested a substantial proportion of our financial resources in equities and participations. This form

of investment has performed well above average and will remain one of our mainstays in the future.

However, overall the future will see us taking a more flexible approach to our investments in the expectation that there will be a tax reform eventually. This approach will be geared more directly to performance. The introduction of the euro has additionally permitted us to spread our investments from the German market to the European plane without incurring currency risks. This opens up additional investment options and improves the diversification of the entire portfolio.

Two different projects can be addressed in the context of increasing room for restructuring. We have the opportunity to reduce the oft-quoted '*excess capital*' of Allianz AG. This can be selectively invested in our strategic core businesses of Protection, Provision and Performance. Secondly, it is possible to structure the straight financial investment already referred to more efficiently. In other words: we will be in a position to pursue our role as an institutional investor even more professionally in the future in the interest of our clients and our shareholders.

Excellent examples of the consistent expansion of our core business areas by deploying existing '*excess capital*' include the planned *reduction of reciprocal holdings between Allianz and Munich Re* and the planned restructuring of shareholdings in companies held jointly up to now.

This move is a logical continuation of the strategy started in 1992 and continued in subsequent years, whereby shareholdings that were originally held jointly have been assigned firmly to Allianz or Munich Re.

The *failed merger between Deutsche Bank and Dresdner Bank* would have been a further logical extension of this strategy of investing '*excess capital*' in our core areas. Allianz regrets the withdrawal by the two banks from their mutual agreements and consequent retraction from the agreement in principle with us. We were – and we remain – convinced of the strategic benefits of the planned transactions for all the parties involved. Preparations in the areas where Allianz was directly involved in negotiations, that is Bank 24, Herold, DWS and Finanza e Futuro, were business-like and overall went without a hitch. The fact that the two banks were unable to come to an agreement on reasonable integration of the investment banking activities – and Allianz had no interest in this area and was therefore not involved in any way – is difficult for outsiders to appreciate. However, we must accept the outcome.

We must wait and see whether there will be other solutions to the need for restructuring the largest German banks – in itself, hardly a controversial matter. *Deutsche Bank* has made it known publicly that they are interested in discussions with feasible partners for

Bank 24. *Dresdner Bank and Commerzbank* have also confirmed in public that they are holding talks on the possibilities of linking up.

Our position as a shareholder in Dresdner Bank means that it is quite normal for us to be kept informed on the progress of the exploratory discussions being held to the extent that our interests are affected. So far, we have not been involved in direct discussions. This is also in line with our consistently maintained understanding of our role – even though this has occasionally been misunderstood. The ideas and the drive for restructuring and renewal in the banking sector must come from the executive officers responsible for running the banks. The function of fundamentally reviewing all the possible problem areas and timely development of reliable initiatives to create solutions cannot be taken seriously enough, as the failure of the projected merger between Deutsche Bank and Dresdner Bank has shown all too clearly. However, this cannot be part of our role as a financial investor and strategic partner.

Any new attempt at a solution, including a link-up between Dresdner Bank and Commerzbank, must be in the interests of the shareholders of both institutions and hence also in the interests of our shareholders. We will only form a definitive opinion on this matter when we know all conceivable options in detail and have reviewed their feasibility and potential for value-added. Until that point, we should like to stick to our line of not commenting on rumours, conjecture and speculation in this context.

I should just like to clarify one point to help provide *more insight into our strategic interests*. As I have already stated, we remain focused on our three core business areas of Protection, Provision and Performance.

Within this framework we intend to offer our customers an optimum range of products, services and sales channels with numerous options to meet individual needs. This multi-channel/multi-product concept is intended to give customers the flexible option of choosing between different access channels and sales channels: agents, bank branches, financial services centres and investment forums, Internet and telephone, financial adviser and broker. Strategic partnerships with banks are designed to expand the existing and successful network of our own sales organizations by using other proven sales options for insurance and investment products. We need reliable partnership models with potential for expansion to realize this endeavour.

Ladies and gentlemen, perhaps you will permit me to conclude the subject of managing our portfolio of shareholdings with a comment on the current *discussion on corporate tax reform*. Trade and industry has been awaiting a fundamental tax reform for many years now. There is a unanimous view that reform is required – in business, academia and politics. However, following the collapse of structured negotiation we are extremely concerned at the risk that the reform will be flogged to death – as happened in 1997 – or at any rate unnecessarily delayed.

The imminent reform has already been prefinanced by business and is long “overdue” following the considerable expansion of the basis for assessment over recent years. However – and this is even more important – it is urgently necessary to reduce tax rates to a more competitive level on the international stage. An effective burden of around 53% on retained profits, today’s tax level quite simply acts as a deterrent. The target tax burden of 35% supported by government and opposition is already the current average for Europe.

Moreover, the planned tax exemption for gains from disposals of shares and participations is not a tax privilege. From the international perspective, gains on disposals are not “new territory”. Some of our neighbours have been selectively deploying this tool and other similar tools with great success for many years now. Exemption of gains from disposals is also correct in terms of fiscal logic, because the half-income procedure envisaged is the only way of avoiding double and multiple taxation of corporate gains. The notion that this would constitute arbitrary favouritism for stock corporations, in particular the insurance industry, is incorrect. The public seems to have forgotten the fact that the insurance industry was burdened with financing the 1999 tax-reduction package to the tune of tens of billions. Victimizing one sector in this way was totally unjustified in objective terms.

However, the decisive factor is that tax exemption for gains from disposals provides an important and long overdue incentive for unravelling the complex structure of shareholdings in Germany. In the future, capital and resources can be deployed efficiently for the expansion of core business areas and hence for the creation of new jobs. If the objective is to have an efficient capital market, it must be possible to make better use of the proceeds of disposals – particularly in the case of unravelling shareholdings – in the form of payouts to shareholders if this is appropriate. This is why any alternative proposals - e.g. reinvestment reserve, reduced tax rate on gains from disposals or specifying a quota for minority interests – will not achieve the objective. This must be taken into account if the imputation system of taxation is retained.

One thing that seems to get totally lost in this political debate is the fact that the proposed tax reform could make Germany one of the most attractive locations for international holding companies. Given further potential cross-border corporate

mergers, particularly within Europe, such a relative advantage vis-à-vis other countries can't be valued highly enough.

The reform cannot and must not fail in delivering on the basic system, i.e. on switching to the half-income procedure or retaining the imputation system of taxation. It is important that the level of corporate income tax and income tax comes down significantly. Once the debate goes beyond basic issues of income tax rate, the question of the taxation system only has academic interest.

Only a courageous reform that unburdens business as a whole - and quickly - will make corporate Germany a competitive centre on the international stage. This is the only way of breathing life into investment activities and creating new jobs. We challenge the politicians from all parties to reach out to each other and finally adopt this essential tax reform. Germany as an industrial and financial centre would otherwise suffer immense damage from the internal and external ramifications.

- 5) Courageous reforms and awareness of political responsibility – this brings me to my fifth and last point, ladies and gentlemen. These are also called for in the other great project of our times. The coalition in Berlin has presented suggestions for *reform of the pension system*. Great challenges await us if these plans come to fruition.

For the first time, politicians have admitted that long-term stabilization of statutory pension insurance entails departing from the idea that state provision alone is sufficient to guarantee good living standards in old age. The intention is for fully-funded old-age provision to plug the gaps that have opened up in the system with the aim of maintaining the current level of provision into the future. The idea is to promote private provision with state subsidies for individuals on low to medium incomes, and with tax incentives for the remainder of the population.

This concept signifies a step in the right direction because it acknowledges the inevitable demographic trend in Germany. We live in hope that this initiative for reform will hold sway over the increasingly populist note that is to be heard in the political debate.

The products required have to meet two quality criteria. They must ensure that individuals do not come to the end of their working life empty-handed, because they have either lost their capital in speculation or used up their capital prematurely. Providers must guarantee payment of a life-long pension and at least the invested capital, that is a sum amounting to the premiums paid in. We believe additionally that it is necessary to ensure that in cases of inability to work, old-age provision should be guaranteed for the affected individual. There should be free competition within the scope of these quality criteria between different forms of investment, financial products and providers.

This concept will ensure today's level of provision for statutory pension insurance in the future. However, as is the case today, the individual is generally dependent on more extensive private provision. It is therefore essential that the framework of the impending reform complement existing measures aimed at promoting company and private old-age provision rather than replacing them.

The current developments here and beyond our borders serve to strengthen our conviction that private old-age provision is one of the largest growth markets in Germany and Europe. Current projections indicate that if the rate of contributions to the statutory pension insurance scheme were frozen at current levels, a capital pool of one trillion euros would accumulate by the year 2030 for the replacement fully-funded old-age provision. This is double the total of all the current investments of the German life-insurance industry. Allianz is ideally positioned to play a leading role in this dynamic market with its new range of products for individual old-age provision.

Ladies and gentlemen, in this context it is also necessary to consider *capital accumulation* as a means of making long-term financial provision in the broadest sense. The trend in recent years and all the forecasts have shown that the range of services, i.e. asset management, will continue to have outstanding growth prospects, particularly in Europe and Asia. We at Allianz want to have a piece of the action, and that's why we made asset management a core business three years ago.

We have come a long way in our endeavour. In 1999 we increased the assets managed for third parties by 31% to virtually 30 billion euros. At the close of 1999, the total value of assets under management in the Allianz Group totalled 384 billion euros. Taking PIMCO into account this figure leapt to 645 billion euros.

With the aim of strengthening our competitive position in Germany, Allianz Asset Management (AAM) started to introduce new products in 1999 which structured the range of products for their customers much more attractively. They introduced the Flexi Family and launched the first fund-of-funds products based in Luxembourg. The active sale of the Horizon Fund from May of this year and the millennium and regional products next September will again significantly expand the product range for our customers. Building up the area of individual asset management will also create products for affluent private customers and complete our product range at the top.

The worldwide growth potential of the business area of asset management and the knowledge base and volume already available within the Group mean that our objective must be to become one of the leading asset managers in the world. Acquisition of a majority stake in PIMCO has been a giant leap forward.

This Group has been one of the strongest performers in asset management on the bond market for many years now. Allianz and PIMCO are an ideal strategic match.

PIMCO has a strong position in the US market and is our passport to the biggest capital market in the world. At the same time Allianz opens the door to the European growth market for PIMCO. And we will be joining forces to develop the increasingly important Asia Pacific market.

Ladies and gentlemen, I am now coming to the end of my presentation. I have attempted to show you the exciting pathway ahead and our outstanding prospects. This is a path with many challenges and opportunities for the future, and we should like to continue charting our course together with all of you. The joint successes of the past should give you the confidence to continue as our shareholders. We will make every effort to fulfil your expectations and lead our alliance in Allianz to further successes in the future.

(The spoken word takes precedence.)