



ULRICH WALLIN
Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The 2009 financial year closed with a very good result for your company, Hannover Re. For the first time we generated an operating profit (EBIT) in excess of one billion euro. What is more, the fact that we were able to boost the shareholders' equity of Hannover Re by more than 30% in 2009 is of special significance to the sustainable positive development of your company.

Both business groups, namely non-life reinsurance and life/health reinsurance, were instrumental in driving this favourable development. The performance of life and health reinsurance was also assisted by positive non-recurring effects. These materialised in part in connection with our acquisition of a large US life reinsurance portfolio, and can also be attributed to the reduced risk premiums for corporate bonds. Even if these one-off effects – which doubtless will not be repeated on this scale – are factored out, the outcome of the 2009 financial year was quite outstanding both for the life and health reinsurance business group and for Hannover Re as a whole.

The reinsurance industry in general displayed remarkable fortitude in the face of the financial and economic crisis. This also served to make very evident the value of reinsurance covers for risk management purposes. And this, in turn, ultimately prompted stronger demand for reinsurance on both the non-life and life/health sides. Thanks to our robust financial strength and our good market position – also vis-à-vis our competitors – we were able to reap particularly rich rewards from this stronger demand. This is borne out by the above-average organic growth of more than 15% in both business groups. After several years of shrinking premium income, we were thus able to again markedly increase our premium in the year under review.

With a view to turning the positive tendency that manifested itself in the year under review into a long-term trend, we are continuously refining our business models in non-life and life/health reinsurance and exploring new business opportunities. With this in mind, we put in place in the year under review the structures needed to systematically and consistently identify such opportunities and hence generate attractive new business.

The passing of the baton at the top of your company and the reshuffling of responsibilities on the Executive Board associated with this changeover passed off smoothly. Reflecting the division of responsibilities on the Board, we now split our non-life reinsurance portfolio into three segments – namely Target Markets, Specialty Lines and Global Reinsurance. In this context, we continue to systematically execute our strategy based on a sustainable, profit-oriented business policy.

In the non-life reinsurance business group I would like to highlight above all the good underwriting result that we achieved without infringing on our principle of highly prudent loss reserving. This testifies, firstly, to the good quality of our business, although it was also assisted by the rather modest burden of catastrophe losses in the year under review. The most expensive loss events for our company in 2009 from natural disasters were the bushfires in Australia and winter storm “Klaus” in Europe. A number of sizeable individual losses, such as in aviation business, were also incurred. Overall, though, the burden of major claims and catastrophe losses was below the expected level.

As you, our valued shareholders, are aware, the transfer of insurance risks to the capital market has also long played a special role for our company in the management of peak exposures. Although conditions on capital markets were still difficult in the year under review, we were able to renew our “Eurus” catastrophe bond – issued for the first time in 2006 – with an increased volume. We use this transaction to protect our account against the risk associated with European windstorm events.

In addition, 2009 marked the first time that we transferred a portfolio of facultative reinsurance risks to the capital market. This did not involve the protection of our own portfolio, but rather the direct transfer of our clients' business to the capital market.

In life and health reinsurance, as I have already mentioned, not only healthy double-digit organic growth but also an acquisition brought about a vigorous surge in premium income and results. The assumption of a large portfolio of US life reinsurance risks additionally marked a milestone in our strategic orientation: the transaction with an annual premium volume in excess of one billion US dollars in the year under review and subsequent years considerably strengthens our business segment of risk-oriented reinsurance in the United States – in which we had previously been under-represented. Yet the acquisition will also bring about even better diversification of our revenue streams, because life reinsurance – which is characterised by greater stability – will account for an even greater share of the total portfolio. The sharp surge in profitability in life and health reinsurance derives from the good performance of our worldwide activities in this area. The already mentioned non-recurring positive effects were a further factor here.

Our investment income is determined by our conservative asset allocation. More than 90% of our investments are made in fixed-income securities with a concentration on government bonds or bonds backed by government guarantees as well as corporate bonds of very good quality. In view of the current low level of interest rates, this risk-averse investment policy led, on the one hand, to a diminished return relative to the previous year. On the other hand, the write-downs taken were considerably lower than in the previous year as financial markets moved back towards normality. It should also be mentioned that the investment income positively reflected the one-off effect associated with the reversal of unrealised losses on so-called ModCo derivatives. Furthermore, we expanded our investments in real estate as planned in the year under review. In contrast, we refrained from investments in listed equities in the year under review, for two reasons: firstly, we do not yet consider the environment to be sufficiently stable and, secondly, investments in listed equities would result in a substantial capital commitment in the capital models used by rating agencies. In light of our good opportunities to acquire attractive reinsurance business, we decided to use the capital on the underwriting side rather than to invest in stocks.

Having fallen in 2008 against the backdrop of the financial crisis, our share price developed favourably in the year under review with an increase of 45%. To all intents and purposes, the price has climbed back to the level seen prior to the outbreak of the financial crisis.

As you, our valued shareholders, will recall, we announced a dividend of at least two euro per share prior to the end of the third quarter. In view of the good result, the Supervisory Board and Executive Board will propose to the Ordinary General Meeting that you should be paid a dividend of 2.10 euro per share.

We assess our point of departure for the current financial year as highly favourable. We believe that our positioning gives us a thoroughly realistic opportunity to build on the good performance of 2009 – adjusted for non-recurring effects. This is, of course, conditional on the burden of catastrophe losses remaining within the expected bounds and subject to the capital market being spared any fresh distortions.

The treaty renewals as at 1 January 2010 passed off satisfactorily for our company overall, although it should be noted that modest rate erosion was observed – especially in property lines. In credit and surety reinsurance as well as aviation reinsurance, on the other hand, we were able to obtain further rate increases. All in all, we still expect conditions to be commensurate with the risks, and this should enable us to generate our targeted margins. In life and health reinsurance, too, we have already been able to tap into promising business opportunities in many areas at the outset of 2010. Overall, at constant exchange rates we again expect to be able to generate moderate growth in our premium income for 2010.

I would like to thank you, our valued shareholders, for your confidence in Hannover Re. Rest assured: my colleagues and I on the Executive Board, working in concert with the staff of Hannover Re, will do everything in our power to equip your company to handle the opportunities and risks that lie ahead.

Yours sincerely,



Ulrich Wallin
Chairman of the Executive Board