

## Report of the Executive Board

### **Report of the Executive Board on Items 6 and 7 of the Agenda pursuant to §§ 203 Para. 2 in conjunction with § 186 Para. 4 Sentence 2 Stock Corporation Act (AktG) (in conjunction with Article 9 Para. 1 Letter c) ii) of the SE Regulation)**

The company most recently adopted a resolution on authorised capital at the Annual General Meeting on 4 May 2010. Its period of validity expired on 3 May 2015. The Executive Board and Supervisory Board request the shareholders of the company under Items 6 and 7 of the Agenda to approve new authorised capital with an expiry date of 9 May 2021.

The new authorised capital, as in the past, is intended to provide the Executive Board with an effective means of responding promptly to current market developments, especially a favourable stock market situation. To the extent that this should become necessary to secure Hannover Re's competitive position and maintain its excellent rating, the proposed authorisation constitutes a flexible tool for improving the company's capital resources even in the short term. This should be viewed in particular in light of the fact that, given the current condition of capital markets and the state of the reinsurance industry, opportunities to improve the company's competitive position – such as through corporate acquisitions – as well as the associated requirements for capital measures may arise at short notice. In this event, the company must be able to respond quickly and flexibly without having to wait for the next Annual General Meeting.

In principle, shareholders are to be granted subscription rights with respect to such measures. The granting of subscription rights may also take the form of the new shares being assumed by a financial institution with the commitment to offer them to shareholders by way of a so-called "indirect subscription right". Under the proposed resolution, however, subscription rights may be excluded subject to the conditions of § 186 Para. 3 Sentence 4 Stock Corporation Act (AktG) (in conjunction with Article 9 Para. 1 Letter c) ii) of the SE Regulation) for the smoothing of fractional amounts, for the servicing of bonds or profit-sharing rights with conversion or subscription rights, as well as for the issue of shares against non-cash contributions.

The possibilities for excluding subscription rights are, however, limited in terms of amount in order to prevent possible dilution of the shareholders excluded from subscription rights. The sum total of shares issued on the basis of authorised capital subject to the exclusion of subscription rights may not exceed a pro rata amount of the share capital totalling EUR 24,119,426 (equivalent to 20 % of the current share capital); shares issued to service bonds and/or profit-sharing rights with conversion rights or warrants or a conversion obligation shall be counted towards this limit, insofar as the bonds and/or profit-sharing rights are issued subject to exclusion of subscription rights during the period of the authorisation requested under Items 6 and 7 of the Agenda; in addition, shares sold during the period of this authorisation on the basis of an authorisation to use treasury shares pursuant to § 71 Para. 1 No. 8 Sentence 5 Stock Corporation Act (AktG) subject to exclusion of subscription rights shall be counted towards this limit. To this extent, the company is precluded from issuing shares subject to exclusion of subscription rights on the basis of multiple authorisations, if in total the amount of 20 % of the current share capital will thereby be exceeded.

Specifically, an exclusion of subscription rights shall be possible in the following cases:

- The Executive Board shall be authorised, with the consent of the Supervisory Board, to exclude subscription rights for fractional amounts when issuing new shares while preserving in principle the subscription rights of shareholders. This may become necessary if a practicable subscription ratio cannot otherwise be achieved. The value of such fractional amounts is normally minimal for the individual shareholder. The potential dilutive effect is also negligible owing to the restriction to fractional amounts. The company shall strive to utilise spare fractional amounts in the best interests of the shareholders.
- Furthermore, the subscription rights shall be excluded, insofar as this is necessary, in order to also grant bearers of instruments with conversion rights or warrants or conversion obligations the subscription right to which they would have been entitled if they had already exercised their conversion or warrant or had already fulfilled their conversion obligation. Financing instruments of the type described here normally include so-called antidilutive provisions in their terms in case the company issues further such financing instruments or shares to which the shareholders have subscription rights. In order to ensure that the value of these financing instruments is not impaired by such measures, the bearers of such financing instruments will generally be compensated inasmuch as the conversion or subscription price will be reduced or they will additionally receive subscription rights to the subsequently issued financing instruments or shares. In order to retain the greatest possible flexibility in this regard, the option of excluding subscription rights should be available for this eventuality too. This will serve to make placement easier and hence ultimately safeguard the company's optimal financial structure.
- The Executive Board shall further be authorised, with the consent of the Supervisory Board, to issue shares in a pro rata amount of up to 10 % share capital existing at the time when this authorisation enters into force and when the resolution regarding exercise of the authorisation is adopted at near-market price subject to exclusion of subscription rights in accordance with § 186 Para. 3 Sentence 4 Stock Corporation Act (AktG) (in conjunction with Article 9 Para. 1 Letter c) ii) of the SE Regulation). This authorisation is intended to enable the Executive Board to exploit a favourable stock market situation and place shares at short notice, especially with institutional investors. The exclusion of subscription rights in this case facilitates quick and flexible action and placement of the shares close to market price. In comparison, the issue of shares while granting subscription rights may under certain circumstances be less attractive because the issue price must be fixed at a very early point in time in order to comply with the subscription period. Especially at a time when markets are highly volatile, this may give rise to a need to take substantial price markdowns.

The interests of shareholders are safeguarded in this instance by ensuring that the new shares may not be issued significantly below market price, as a consequence of which the value of the subscription right is reduced to practically zero in such cases. This authorisation is restricted to the limit of 10 % of the share capital envisaged in § 186 Para. 3 Sentence 4 Stock Corporation

Act (AktG). Those shares that have already been issued or sold subject to exclusion of subscription rights in direct or analogous application of § 186 Para. 3 Sentence 4 Stock Corporation Act (AktG) during the period of the authorisation requested under Items 6 and 7 of the Agenda on the basis of a corresponding authorisation are to be counted towards this 10 % limit. Irrespective of whether corresponding authorisations with the option of excluding subscription rights are used individually or cumulatively, the overall limit of 10 % of the share capital in accordance with § 186 Para. 3 Sentence 4 Stock Corporation Act (AktG) shall not be exceeded. The various authorisations with the option of excluding subscription rights in accordance with § 186 Para. 3 Sentence 4 Stock Corporation Act (AktG) are intended to enable the Executive Board to select in a specific situation the financing instrument that is most appropriate to serving the interests of the company and the shareholders.

- Finally, it is envisaged that the subscription rights can be excluded in order to be able to issue shares against non-cash contributions in the future too. The authorisation to issue shares against non-cash contributions is intended to enable the company to also use shares of the company in connection with the acquisition of assets. This can be particularly practical in the context of the acquisition of companies, parts of companies or interests therein. In such instances, sellers frequently insist on receiving consideration in a form other than cash or cash only. Instead of or in addition to cash contributions, it may then be an interesting alternative to offer shares. This option creates additional flexibility and improves the company's chances of making successful acquisitions.

Both the authorisation to make an issue against non-cash contributions and the exclusion of subscription rights in this regard shall, however, only be used if the acquisition of the object in question is in the overriding interest of the company and acquisition by other means, especially by way of purchase, is legally or de facto impossible or is possible only on less favourable terms. In such instances the company will nevertheless always examine whether an equally appropriate means of acquiring the object is available, the effects of which interfere less markedly in the position of shareholders. Thus, where non-cash contributions are acquired, it will normally be necessary to check whether, for example, instead of excluding subscription rights it is also possible to grant the shareholders not participating in the contribution transaction parallel subscription rights against cash contributions. The interests of shareholders are further protected by the fact that the Executive Board will carefully check whether the value of the non-cash contribution is proportionate to the value of the shares.

By means of the authorisation to use part of the authorised capital in accordance with Item 7 of the Agenda the Executive Board shall also be empowered, with the consent of the Supervisory Board, to issue new shares to employees of the company (employee shares). For this purpose it is similarly necessary that such shares be excluded from the statutory subscription rights of shareholders. The company has offered employee participation programmes on multiple occasions in the past. The exclusion of the subscription rights of shareholders is justified by the benefits that an employee participation programme offers for the company and hence also for its shareholders. The Executive Board and Supervisory Board consider the issue of shares to employees to be an important instrument for promoting long-term employee loyalty and it is therefore of particular

interest to the company. In addition, the granting of employee shares as a form of remuneration is tax privileged through tax-exempt amounts. A normal concession may be granted on employee shares when fixing the issue price. For shareholders, however, this does not result in any relevant dilution of shares since less than 1% of the current share capital is affected by the exclusion of subscription rights.

The Executive Board will report on any use made of these authorisations at the next Annual General Meeting.