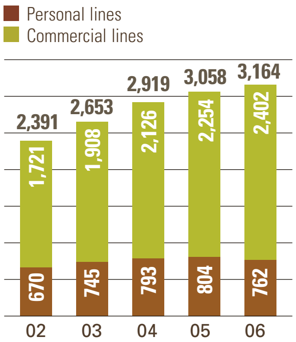
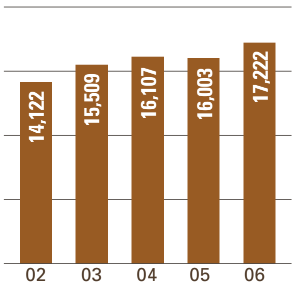
To Our Shareholders:

Property Casualty Net Earned Premiums
(Dollars in millions)



Property casualty net earned premiums increased 3.5 percent in 2006. On the statutory basis that facilitates industry comparisons, net written premiums rose 3.3 percent and the company continued its track record of outpacing industry growth, estimated at 2.6 percent.

Consolidated Assets
(Dollars in millions)



Over the past five years, assets grew at a 4.3 percent compound annual rate, primarily because of 3.6 percent compound annual growth in invested assets.

For better and for worse, your company set many records in 2007. Revenues rose to an all-time high, including record pretax investment income. Record new business premiums boosted total net written premiums. Market value appreciation contributed to record book value at December 31, 2006. We reported our highest ever realized gains on the sale of one large equity holding, leading to record net income of $930 million, or $5.30 per share.

Excluding those substantial investment gains, operating income declined 11.8 percent to $2.82 per share. Lower underwriting profits from property casualty insurance, our main business, reflected record catastrophe losses and record large losses in the $1 million-plus category. In addition, expenses rose more rapidly than premiums as we continued investing in people and infrastructure, including technology that makes it easier for independent agents to do business with our company.

We expect this higher level of catastrophe losses and expenses may continue in 2007. Further, price competition is accelerating in our industry, making it harder to achieve premium growth and underwriting profitability. While the industry overall was very profitable in 2006, A.M. Best Co. estimates that total premiums may be flat in 2007, and the industry combined ratio may rise 3.5 percentage points to 96.8 percent.

Our expectations for our own near-term results consider these trends. We anticipate a 2007 growth rate in the low single digits, reduced by an increase of $22 million in the reinsurance premiums that we pay. We also anticipate a combined ratio in the range of 97 percent to 99 percent, up from 93.9 percent on a statutory basis in 2006. This target considers a number of factors, including 5.5 percentage points on the combined ratio for catastrophe losses, just as high as in 2006.

We are not at all discouraged. We believe it's a great time to be in the insurance business. Through all markets – for better or for worse – we're going to continue growing ahead of the overall industry, balancing growth and profitability by careful underwriting and pricing, and identifying new ways to build on the strengths that give us a competitive edge.

Three commitments differentiate your company, making it possible over time to increase your shareholders' equity and shareholder dividends. We measure our achievements, opportunities and initiatives to tap those opportunities in terms of their ability to help us meet those commitments:

Strong Agency Relationships

We establish strong relationships with the most professional independent agencies in each community, supporting them with a team of field representatives authorized to make decisions at the local level.

Over the past 10 years, we have selectively added more than 400 highly professional agencies. We finished 2006 with 1,289 agency locations marketing our policies in 32 states, including 55 new agency appointments over the course of the year. As part of our plans for 2007, we expect to appoint at least 50 more agencies. We are working on plans to enter

New Mexico and eastern Washington, appointing our first agencies during 2007. By the fifth year following an appointment, we typically earn a prominent position among the carriers serving that agency, with annual premiums rising to an average of approximately $2 million.

Our agency-centered focus led to healthy commercial lines growth in 2006, with net written premiums up 6.7 percent and new business written by our agencies up 14.9 percent to a record $324 million. While pricing trended down over the year, agents appreciate the personal attention our field teams provide to their accounts. Agents gave us plenty of chances to quote new commercial accounts and to offer loss control or other value-added services that made the sale. Additionally, we made commercial renewals easier for policyholders and agents, in many cases, by extending the policy period under the same terms and conditions. Many policyholders respond positively to such policy extensions, choosing to keep their coverage with an insurer that brings stability to the marketplace, carries an A++ A.M. Best rating and has high standards for claims service.

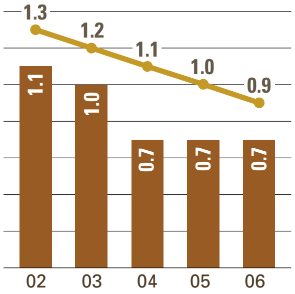
Personal lines net written premiums decreased 6.4 percent for the year; however, in the second half of the year, retention improved and new business growth reached 17.6 percent, rebounding after several quarters of lower new business.

That second half improvement led from our July introduction of policy credits that incorporate insurance scores into pricing of homeowner and personal auto policies. With more competitive rates, our agents found it easier to again sell Cincinnati service and value to their preferred clientele. We don't expect to quickly solve our personal lines challenges, but personal lines is moving in the right direction. Our pricing is more competitive; our Web-based processing system is active in 13 states and deploying to several more in 2007; and our product portfolio is expanding with several new or improved coverage endorsements. Identity Theft Expense and Advocacy Services Coverage is available now in the 25 states where 794 agency locations actively market homeowner policies. Replacement Cost Auto and Personal Auto Plus will be available later this year in the 22 states where we have 772 agency locations actively marketing personal auto policies.

John J. Schiff, Jr., CPCU, chairman and chief executive officer, and James E. Benoski, vice chairman, president and chief operating officer

Property Casualty Statutory Surplus Ratio

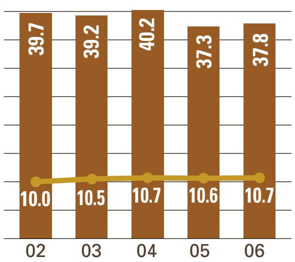
Net written premiums to surplus
Estimated industry net written premiums to surplus (A.M. Best)



The company historically has maintained its ratio of net written premiums to statutory surplus below the industry average. The lower the ratio, the stronger a property casualty insurer's security for policyholders and its capacity to support business growth. In 2004, the company transferred equity securities to the property casualty subsidiary. The transfer accounted for most of the reduction in the ratio in the past three years.

Life Statutory Capital and Surplus Ratio
(Percent)

Adjusted capital and surplus to liabilities
Estimated industry adjusted capital and surplus to liabilities (A.M. Best)



The ratio of statutory adjusted capital and surplus to liabilities for Cincinnati Life remained at more than three times the estimated industry average in 2006. The higher the ratio, the stronger a life insurer's security for policyholders and its capacity to support business growth.

In Florida, we requested in February 2007 that our agents hold off on sending us new business of any type due to uncertain market conditions. We are renewing and servicing policies already on the books, but prefer to take a wait-and-see approach until there is more free market competition that supports stable insurance markets.

Over the years, we have increased our share of business from each of the agencies that markets our policies by offering a full line of coverages that meet the needs of their clients. In recent years, they have indicated a desire to offer our products and services to commercial accounts that require the flexibility of excess and surplus lines. Generally, excess and surplus lines insurance carriers provide insurance that is unavailable to businesses in the standard market due to market conditions or due to characteristics of the insured risk that are caused by nature, the insured's history or the nature of their business.

We have studied the option of putting some of our capital to work by starting a new company for this purpose, and we believe it can contribute to our long-term objectives. We have started the process of incorporating a new subsidiary, determining its structure and forming a team to research and develop appropriate policy terms and conditions, rates and underwriting guidelines. While we don't anticipate premiums from excess and surplus lines this year, we do expect our increased ability to compete for additional commercial accounts to contribute to long-term growth.

Our three non-property casualty insurance subsidiaries also operate primarily to extend the capabilities of our agents to provide full service to the families and businesses in their communities. In 2006, The Cincinnati Life Insurance Company focused mainly on term insurance, introducing a return-of-premium product series that was well received by agents. The company's two financial services subsidiaries continued to successfully leverage our insurance relationships and broaden our offerings. As of December 31, 2006, CFC Investment Company, which offers equipment and vehicle leases and loans, reported 2,897 accounts representing $108 million of contract receivables. CinFin Capital Management Company, which offers asset management services, reported $960 million under management in 64 accounts. Together, the CFC Investment and CinFin Capital Management Companies contributed 2 cents to 2006 earnings.

Superior Claims Service

Prompt, fair claims service with a human touch proves the value of our insurance programs and validates the agent's decision to make us the carrier of choice for value-oriented clients.

Again in 2006, policyholders had ample opportunities to benefit from the Cincinnati relationship. Severe weather in 2006, mainly across the Midwest, contributed to $175 million of catastrophe losses. As a result, policyholders reported approximately 13,000 claims through February 28, 2007. Our field claims representatives have closed 95 percent of the claims, their prompt responses and personal approach reflecting positively on our agents.

Our claims management system and new tools, such as tablet computers, add speed and efficiency to all of our claims processes, and that was especially beneficial in these catastrophe situations. We focus in the following pages of this report on our claims operation, catastrophe response and claims technology. Here, we will simply note that the promotion in May of our senior claims officer, Jim Benoski, to president and chief operating officer of Cincinnati Financial and president and chief executive officer of The Cincinnati Insurance Company speaks a thousand words about the centrality of our claims operation to our business structure and strategy.

Also in May, Chief Financial Officer Ken Stecher was named executive vice president of Cincinnati Financial and The Cincinnati Insurance Company, and chairman of the latter. Ken's leadership extends beyond his areas of responsibility, influencing our company's success as he continues to capably oversee the continuous improvement of our financial data, transparency and estimates, including reserves for not yet paid claims.

Successful Total Return Investing

We use available cash flow to cover current insurance liabilities by purchasing fixed-maturity securities, then purchase equity securities with the potential to bring us increasing dividend income and long-term appreciation.

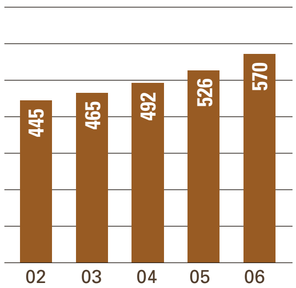
Our buy-and-hold equity investing strategy led to another year of record pretax net investment income, up 8.4 percent to $570 million. Our outlook for 2007 is for continued growth in the range of 6.5 percent to 7.0 percent.

Our equity investments also drive the company's long-term net worth, financial flexibility and stability. Your shareholders' equity rose to an all-time high of $6.808 billion, or $39.38 per share, at the end of 2006, an increase of 12.9 percent on a per share basis. While the sale of our Alltel Corporation common stock holdings early in the year accounted for a large portion of the increase in 2006 net income, it was not a factor in the increase in book value. That increase was attributable to the contribution of insurance operations and investment income, along with significant appreciation over the course of the year in the rest of the equity portfolio.

The equity portfolio supports the accumulation over time of unrealized gains that build book value for shareholders. This cushion of financial strength and flexibility also benefits agents and policyholders, supporting a long-term perspective that leads us to behave consistently in the marketplace; make prompt, fair claims payments; set adequate reserves; and continue investing in the infrastructure for growth. Our insurance strategies and investment strategies are a good match, and we believe their combined results will continue bringing you value in 2007.

During 2006, three independent ratings organizations affirmed our high financial strength ratings. A.M. Best awards our property casualty companies its highest rating, A++ (Superior), assigned to fewer than 2 percent of insurers. Fitch Ratings awards the

Consolidated Pretax Investment Income
Less expenses
(Dollars in millions)



Consolidated pretax investment income rose 8.4 percent in 2006. Common stocks in the portfolio announced dividend increases during 2006 that should add $16 million to investment income in 2007.

AA (Very Strong) rating to all of our insurance companies. Standard & Poor's assigns the AA- (Very Strong) rating to the insurance companies, and revised its outlook to stable from negative in July. Moody's Investors Service maintains an excellent Aa3 rating on the property casualty insurance companies.

Working for You

We look beyond 2006 and 2007 with confidence. We remain committed to providing a stable market for our agents' high-quality business, underwriting this business carefully and producing steady value for our shareholders, as represented by the board of directors' recent decision to increase our 2007 indicated annual dividend by 6 percent, which would mark the 47th consecutive year of increase in that measure. Their action reflected our belief that we can achieve above-industry-average growth in written premiums and industry-leading profitability over the long term by building on our proven strategies: strong agency relationships supported by local decision making; superior claims service including solid reserves; and total return investing that drives financial strength.

The board also announced director transitions in 2006. Michael Brown and John M. Shepherd, current directors, will not stand for re-election on May 5, 2007, due to the company's guidelines on director age. Gregory T. Bier, CPA (Ret.), appointed by the board in November, will stand for election at the annual shareholders' meeting this spring. The board determined that 10 of the current 15 members meet the applicable criteria for independence.

Early in 2007, the board formalized several current company practices with updates to the corporate governance guidelines on board membership criteria, director elections and stock ownership guidelines for directors and officers. Your company's management and directors purposefully align business decisions with our mission, which includes fulfilling the company's obligations to independent agents, policyholders and shareholders as well as associates, suppliers and communities we serve. We are working diligently to act with integrity and to assure we will meet those obligations far into the future.

Respectfully,

/S/ John J. Schiff, Jr.	/S/ James E. Benoski
John J. Schiff, Jr., CPCU Chairman Chief Executive Officer	James E. Benoski Vice Chairman President Chief Operating Officer Chief Insurance Officer

March 1, 2007