**ANNUAL REPORT 2005 CONSOLIDATED FINANCIAL STATEMENT**

MACHT STARK.

# Life Is a Storm.

## ARAG Aktiengesellschaft

## Life Is a Storm.

Protection from the elements, whatever the weather: Reliable partnerships are the most important prerequisite when it comes to orientation and security. As an independent partner for legal matters and protection, the ARAG Group stands behind its customers through thick and thin – whatever life may bring. This vision defines not only the scope of services we provide, but our entire entrepreneurial commitment. That is why so many people place their trust in ARAG in the home German market, in Europe and in the United States – under the yellow shield of the strong ARAG brand.

# Overview

**Key data**

**ARAG AG**

| (in million euros) | 2005 | Change | 2004 | 2003 |
|---|---|---|---|---|
| **Sales** | | | | |
| Gross premiums booked | **1,304.1** | **1.4%** | 1,286.1 | 1,262.6 |
| Earned premiums for own account | **1,272.6** | **1.0%** | 1,260.0 | 1,230.8 |
| Sales revenues from non-insurance subsidiaries | **55.7** | **-18.1%** | 68.0 | 71.8 |
| **Costs** | | | | |
| Cost of claims for own account | **844.7** | **-0.6%** | 850.0 | 788.1 |
| Claims ratio (basis: earned premiums) | **66.4%** | **-1.1% pts.** | 67.5% | 64.0% |
| Cost of insurance business for own account | **417.5** | **-0.6%** | 419.9 | 428.2 |
| Cost ratio (basis: earned premiums) | **32.8%** | **-0.5% pts.** | 33.3% | 34.8% |
| **Overview of profit and loss** | | | | |
| Underwriting result for own account | **18.3** | **112.8%** | 8.6 | 22.7 |
| Income from capital investments | **252.6** | **27.7%** | 197.8 | 140.9 |
| portion included in underwriting result | 162.6 | 15.8% | 140.4 | 100.4 |
| Other income | **-53.8** | **39.7%** | -38.5 | -42.3 |
| Operating result before taxes | **61.2** | **119.3%** | 27.9 | 21.3 |
| Net Group profit before external components | **33.9** | **118.1%** | 15.5 | 4.7 |
| Underwriting reserves/earned premiums | **335.9%** | **6.3% pts.** | 329.6% | 325.1% |

# Contents



**ARAG companies in Germany and their products and services**

**ARAG Allgemeine Rechtsschutz-Versicherungs-AG**
- Legal insurance for motorists, employment, personal and home-related issues, for businesses, trades, self-employed professionals and associations

**ARAG Allgemeine Versicherungs-AG**
- Liability insurance
- Home effects insurance
- Accident insurance
- Accident disability pension
- Motor vehicle insurance
- Special service package
- Building insurance
- Business insurance
- Sport insurance

**ARAG Lebensversicherungs-AG**
- Term life insurance
- Risk life insurance
- Private pension insurance (incl. government-subsidized plans)
- Mutual-fund linked pension insurance
- Disability, survivors' and accidental-death supplementary insurance
- Company pension plans

**ARAG Krankenversicherungs-AG**
- Private full-cost health insurance
- Supplementary health insurance
- Statutory long-term care insurance
- Supplementary long-term care insurance
- Health insurance for travel abroad


# International subsidiaries

**ARAG Group**
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40472 Dusseldorf
www.ARAG.de

**ARAG Austria**
ARAG Allgemeine Rechtsschutz-Versicherungs-AG
Favoritenstraße 36
1041 Vienna
www.ARAG.at

**ARAG Belgium**
ARAG S. A.
Assurance en Protection Juridique
Avenue Louise 306, Bte. 16
1050 Brussels
www.ARAG.be

**ARAG Greece**
ARAG Hellas
Allgemeine Rechtsschutz-Versicherungs-AG
Fidippidou 2
11526 Athens
www.ARAG.gr

**ARAG Italy**
ARAG Assicurazioni Rischi
Automobilistici e Generali S. p. A.
Viale delle Nazioni 9
37135 Verona (VR)
www.ARAG.it

**FOYER-ARAG (Luxembourg)**
FOYER-ARAG S. A.
Protection Juridique/Rechtsschutz
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www.ARAG.com

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ARAG Nederland
Algemene Rechtsbijstand
Verzekeringmaatschappij N.V.
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3833 AN Leusden
www.ARAG.nl

**ARAG Portugal**
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Planta 13, Oficina A
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ARAG Compañía Internacional de
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**Winterthur-ARAG (Switzerland)**
Rechtsschutzversicherungs-Gesellschaft
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400 Locust Street, Suite 480
Des Moines, Iowa 50309
www.araggroup.com

# Structure of the ARAG Group

**Asset and Shareholding Management**
- **ARAG Aktiengesellschaft**

**Operative Group Holding**
- **ARAG Allgemeine Rechtsschutz-Versicherungs-AG**
  - **Central Group Functions**
  - **Group Finances**
  - **Group Sales National**
  - **Legal Insurance Underwriting/Services**
  - **Group IT/ Business Organization**
  - **Group International**

**Operative Insurance Companies**
- **ARAG Allgemeine Versicherungs-AG** – Composite Insurance
- **ARAG Lebensversicherungs-AG** – Life Insurance
- **ARAG Krankenversicherungs-AG** – Health Insurance
- **Interlloyd Versicherungs-AG** – Brokerage Specialist
- **International Companies** – Legal Insurance/ Legal Services

**Service Companies**
- **ARAG IT GmbH** – IT Services for the ARAG Group
- **Cura GmbH & Co. KG** – Insurance Agency Firm
- **ARAG Service Center GmbH** – Emergency Telephone Service
- **Interiura International AG** – International Claims Settlement


# Profile of the ARAG Group

**Overview** ARAG is the internationally recognized, independent partner for legal matters and protection. Right from its origins as a legal insurance pioneer, ARAG has always seen itself as a partner of its customers. Today, we apply this understanding of our mission to all insurance services which the Group offers. As the largest family enterprise in the German insurance industry, ARAG is totally committed to its entrepreneurial independence and continuity. These afford stability to the Group, open up long-term prospects and enable ARAG to make independent entrepreneurial decisions. ARAG provides its customers with orientation and security. And ARAG is assisting its customers in providing for their personal risks, both today and tomorrow – whether they be legal disputes, retirement savings or health – with an exemplary standard of professionalism by providing them with innovative products engineered to precisely meet their needs along with excellent performance on the part of our employees.

In the most recent reporting period, ARAG's approx. 3,800 employees generated a sales and premium volume of more than € 1.3 billion. ARAG Allgemeine Rechtsschutz-Versicherungs-AG is responsible for the strategic management of the Group and oversees the operative legal insurance business both domestically and internationally. All other insurance companies and the ARAG service companies are grouped below this holding level, and each bears responsibility for the operative management of its respective line of business. As the asset-managing holding company, ARAG AG represents the formal legal umbrella of the ARAG Group with its direct and indirect subsidiaries.

**Core legal insurance segment** The ARAG Group is among the world's leading legal insurance specialists. ARAG Rechtsschutz actively shapes the markets in this sector both domestically and abroad. At the end of 2005, this enterprise boldly repositioned itself in the German market as the Legal Navigator, which constitutes a groundbreaking shift in emphasis: ARAG is the first legal insurer to also provide an initial telephone attorney consultation as a contractually guaranteed benefit. The Group is successfully exploiting the know-how gained through decades of experience in the home legal insurance market in ten other European countries and in the USA. 50 percent of premium income of the legal insurance companies is earned in the international arena.

**Composite insurance** ARAG Allgemeine is the Group's composite insurer. In this hotly contested market, ARAG Allgemeine is flourishing as a strong provider of property, liability, accident and motor vehicle insurance. The Company is additionally Europe's largest sport insurer. Around 21 million leisure and competitive athletes benefit from ARAG's insurance coverage. Interlloyd Versicherungs-AG, a 100 percent subsidiary of ARAG Allgemeine, is focused on the private-customer segment, and complements the Group's service spectrum as an attractive brokerage specialist.

**Personal insurers** ARAG Leben and ARAG Kranken, the Group's life and health insurance arms, respectively, round out the Group's offerings in the personal insurance sector with new ideas in the retirement savings market and in private health insurance. In 2005, ARAG Leben introduced its mutual fund-linked pension insurance, an attractive, flexible retirement savings concept that has placed very highly in product comparisons. The attractive and needs-oriented products of ARAG Kranken, the Group's small but extremely effective health insurance unit, also place consistently in the top ranks.

# Foreword

Dr. Paul-Otto Faßbender

The ARAG Group looks back on the 2005 fiscal year as one of dynamic development, characterized by important improvement and innovation milestones.

Our efforts to increase the earning power of the Group even further met with unqualified success. The operating result before taxes almost doubled over the previous year.

At the same time, the Group had to absorb the full impact of the significant additional costs due to the new attorney compensation act RVG in the German market, which took effect in 2004, for the first time in the year under review. This generated additional costs of claims of € 34 million in our core legal insurance business. It says a lot for the earning power of the ARAG Group that it was able to shoulder this burden and still post significantly improved earnings.

The successful optimization efforts in the Group are also reflected in the Group's declining cost trend. Over the course of the year under review, the underwriting account of the ARAG Group improved noticeably compared to the prior year. ARAG's comprehensive fitness program has considerably shaped up our enterprise and will be pursued further. In particular, the core legal insurance segment will continue to require further optimization to allow us to better absorb the sustained burdens imposed by RVG.

On the basis of the numerous innovations and improvements that we have implemented within the Group, we have decided to adopt a new leadership and performance culture for our enterprise. With the ARAG Essentials, the Board of Management has implemented new, Group-wide guidelines that are binding on all ARAG subsidiaries, both domestic and international. We understand ARAG as the internationally recognized, independent partner for legal matters and protection. This guiding principle sets new standards for our enterprise. The ARAG Essentials mean that we actively seek to measure ourselves by the evaluations of customers, partners and analysts. We must improve in all areas in which we do not measure up. With this vision we are committing ourselves to a progressive performance culture which will generate lasting benefits for our customers and partners. The ARAG Essentials will also have a strong internal influence. They will forge the owners, the managers and the employees of this enterprise into a unified values and value-creation community. This will strengthen the Group, the largest family company in the German insurance industry, even further.

Paul-Otto Faßbender

Dr. Paul-Otto Faßbender

# The ARAG Essentials

In its current form, the ARAG Group is still a young enterprise. In a comprehensive project called “ARAG Essentials”, the enterprise has initiated a stronger and more efficient integration of all ARAG subsidiaries under the Group umbrella. To this end, a new, binding Group concept was developed that succinctly states the reality and prospects of the enterprise, compulsory for all subsidiaries. With the ARAG Essentials, the Group is documenting its consensus regarding its objectives and values.

Building on this foundation, enterprise management has defined a new development vision for the Group, and from this derived an enhanced enterprise mission.

In a joint process, the Board of Management and the managers have developed the new guidelines as an instrument for better integrating the organically developed business cultures of all ARAG subsidiaries, both domestic and international. With the ARAG Essentials, all subsidiaries are committing themselves to a common and binding understanding of objectives.

The ARAG Essentials emphasize ARAG’s competence as a specialist in the legal insurance business. At the same time, they underscore the fact that this competence and expertise must be perceived as a strength for all product offerings of the Group more intensively than heretofore.

The ARAG Essentials make the entrepreneurial relevance of the independence of the ARAG Group more accessible to the employees. With the ARAG Essentials, employees, managers and owners are affirming their commitment to create a common community of values and value creation.

Under this new understanding, ARAG is the internationally recognized, independent partner for legal matters and protection.

With this core vision statement our enterprise is describing four defining characteristics:

### Internationally recognized

- A change in the perspective of the ARAG Group: The appreciation and recognition of the customer is the most important measure and the highest source of pride for our employees.
- Evaluating our performance more intensively from the point of view of customers, partners, the market and the competition.
- ARAG is measuring itself more openly than ever against international standards, thus becoming more transparent.

### Entrepreneurial independence

- Ensures long-term stability and enables us to make autonomous entrepreneurial decisions.
- This is the prerequisite that enables us to devote all our energies to meeting the needs of customers.
- Significance for employees: ARAG provides creative scope that demands responsible use of resources and above-average commitment.

### Partnership

- Treating customers as equals.
- Independence guarantees long-term, dependable orientation toward customer needs and expectations.
- Respectful, fair and results-oriented approach to interactions within the Group.

### Legal matters and protection

- Comprehensive commitment to perform for customers and integrative common denominator for all products.
- Redefines the specialist nature of the Group and transfers the competence and service quality earned in legal insurance to other insurance sectors.
- Dissolves historical barriers and opens up new development perspectives for the Group.

The ARAG Essentials mark an important and positive turning point in the history of the Group. But the real work begins after the new guidelines have been developed and implemented. The ARAG Essentials must be lived in the course of day-to-day work. This includes a commitment to a culture of progressive performance, for which the ARAG Essentials lay the foundation.

## Braving the Elements

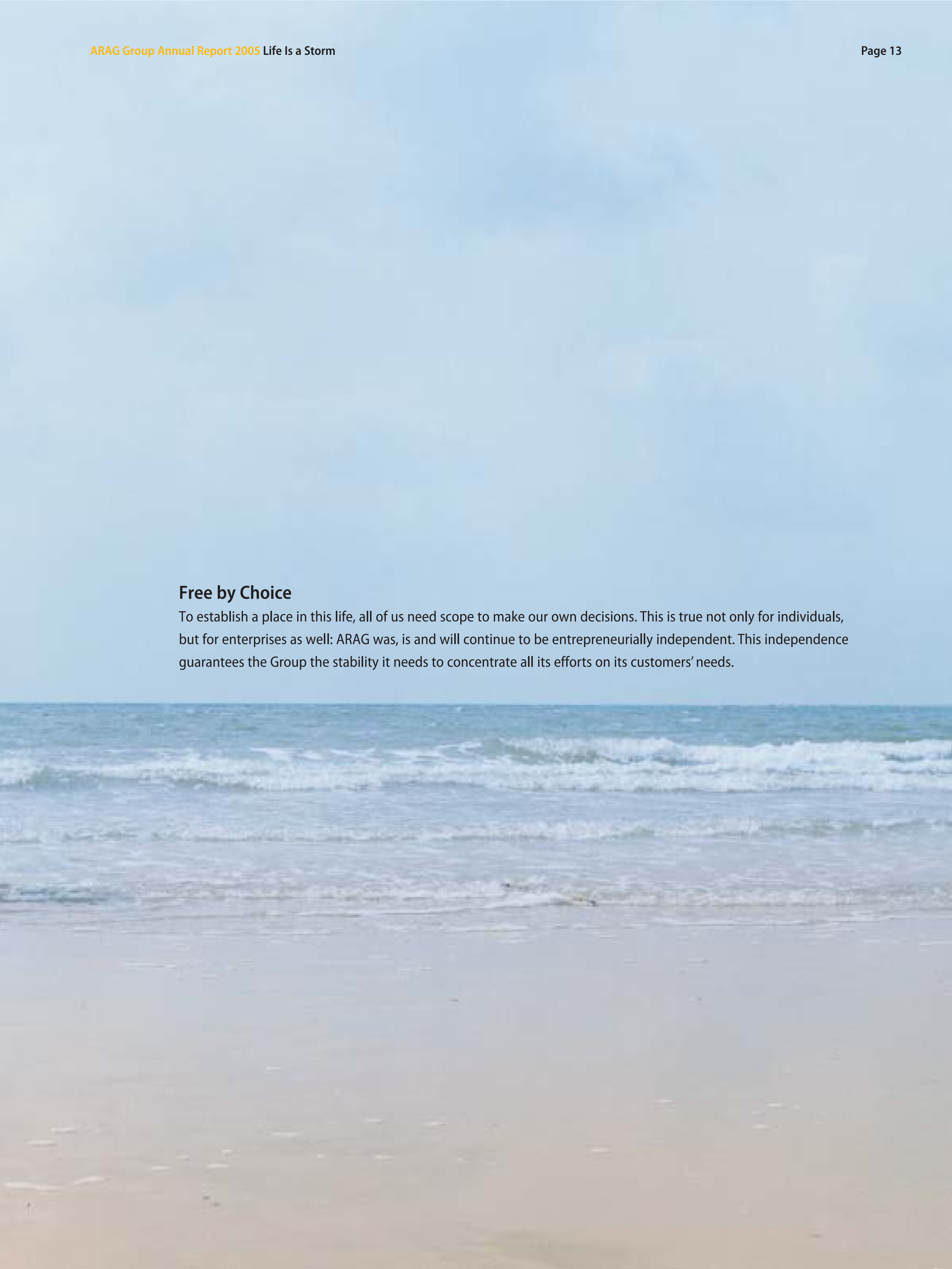
The importance of comprehensive protection does not become fully apparent until the times turn stormy. Ever since its founding, ARAG's mission has been to help people assert their legal rights – and not just those people who can afford it. Since then, this pioneering spirit has informed all products and services in every segment.

## A Pact between Equals

For every ARAG employee, extending security means standing beside our customers as a competent partner – not only in legal disputes, but in all the major life decisions. Regardless of whether customers want to provide for their future, their health or their personal risks, ARAG helps them to accurately assess their situation and opens up new courses of action.

## Almost Like Home

Sometimes, a can-do attitude is infectious. ARAG's success in the home German market has long since spread to its international markets. People all over Europe and in the US trust ARAG's know-how. The Group understands the special features of all the various legal systems – and knows how to use them for the benefit of its customers.



## Free by Choice

To establish a place in this life, all of us need scope to make our own decisions. This is true not only for individuals, but for enterprises as well: ARAG was, is and will continue to be entrepreneurially independent. This independence guarantees the Group the stability it needs to concentrate all its efforts on its customers' needs.

# Management Report

**Development of premium income and sales**

| (in million euros) | **2005** | 2004 | 2003 |
|---|---|---|---|
| **Legal insurance** | **641.6** | 617.5 | 609.2 |
| Domestic | 336.4 | 338.9 | 347.3 |
| International | 305.2 | 278.6 | 261.9 |
| **Composite** | **252.9** | 257.5 | 243.8 |
| Domestic | 220.3 | 228.7 | 219.3 |
| International | 32.6 | 28.8 | 24.5 |
| **Life** | **223.7** | 234.8 | 245.0 |
| **Health** | **185.9** | 176.5 | 164.5 |
| **Service Companies** | **55.7** | 68.0 | 71.8 |

- Earning power strengthened further
- All segments contributing positive value
- Operating result before taxes more than doubled
- Group net profit before deduction of external components increases significantly to € 33.9 million

# ARAG Group Management Report for Fiscal Year 2005

## I. Business and market conditions

The overall economic situation in Germany showed no perceptible improvement in fiscal 2005. While the global recovery continued to develop along relatively stable lines, German markets did not derive any significant stimulus from this. The German economy thus remained stagnant for the fourth year in a row. There was no sustained recovery in domestic demand. Private households withheld their purchasing power. The high unemployment also continued to undermine private consumption to a great extent. Additionally, as in the previous year, higher energy prices drained off purchasing power. This trend is diametrically opposed to the developments on the capital markets. These posted further gains in both the bond and the stock markets.

The ARAG Group has adapted to this challenging situation. The Group concentrated on further consolidating and improving its profitability. ARAG's efforts proved an unqualified success, with the Group again posting significant gains in earnings over the previous year. The Group profited from its comprehensive optimization achievements and from its forward-looking and conservative reserves policy in previous years. These enabled us to solidly absorb the first impact of the cost avalanche triggered by the new attorney compensation legislation RVG in the domestic market in our core business legal insurance. At the same time, the earnings situation of the personal insurers improved significantly. As part of its consolidation efforts, ARAG tightened its focus on its insurance competence and streamlined its business profile by divesting itself of ALLDATA SYSTEMS GmbH.

Companies that optimize their business processes run the risk of becoming too self-centered. By contrast, ARAG has always emphasized its customers and partners as the true beneficiaries of its determination to change. ARAG has underscored this principle with a product offensive. The new ARAG Legal Navigator marks the advent of a new service philosophy in the German legal insurance market. ARAG is one of the first legal insurers to introduce a new, unified rate generation that includes the initial telephone consultation.

In the personal insurance area, ARAG has developed an attractive mutual fund-based policy for retirement saving that immediately jumped to the top ten in all external performance comparisons.

In opposition to industry trends, the Group reintegrated its external telephone service center with its underwriting units as of 1 January 2006 under the ARAG Rechtsschutz umbrella. This step unified customer management while significantly reducing the multiplicity of responsibilities from the customer's viewpoint.

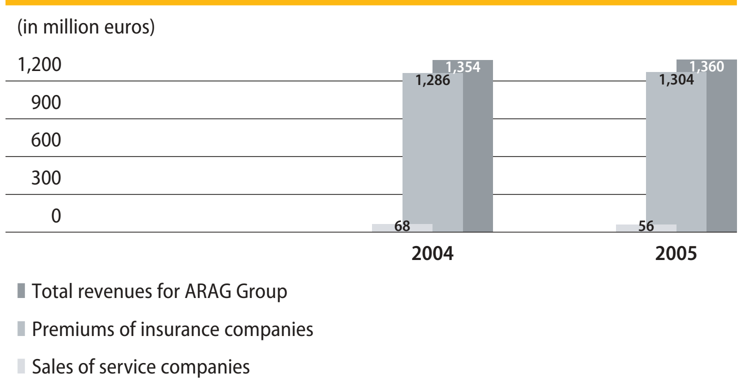
All these aspects document ARAG's commitment to total customer orientation. The Company has improved and upgraded its business processes in the right places. This benefits ARAG's customers significantly.

In all, ARAG looks back on a highly successful fiscal year. Following a phase of intensive changes, the Group regained its former earning power in the fiscal year under review. ARAG has noticeably gained strength.

## II. Earnings situation

**Premiums/sales** The ARAG Group continued to grow over the 2005 fiscal year. The premium revenues of the insurance companies grew by 1.4 percent, from € 1.29 billion to € 1.30 billion. The international legal insurance business and the health insurance business generated the greatest growth. Outside of the insurance business, revenues of the service companies declined by 18.1 percent. The drop in revenues is attributable to the sale of the IT consulting firm ALLDATA SYSTEMS effective 1 July 2005. Due to consolidation, the total volume of premiums and sales revenues of € 1.36 billion scarcely changed compared to the previous year.

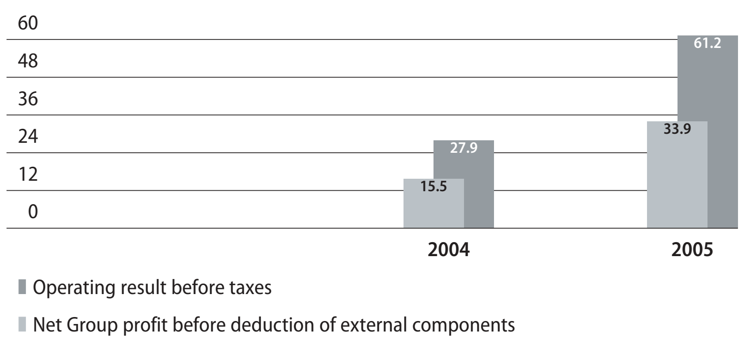
**Total revenues**




In all, the Group's portfolios comprise some 6.5 million policies. Our international business accounts for 2.3 million of these. The domestic sport business (composite sector) comprises a further 20.5 million insured risks, insured through 15 state sport associations.

**Group performance**

(in million euros)




**Profit situation** The Group significantly boosted earnings again in fiscal 2005, once more exceeding targets. All segments of the Group turned in improved, and sometimes greatly enhanced, value contributions. The operating result before taxes more than doubled over the previous year, rising from € 27.9 million to € 61.2 million. The Group net profit before deduction of external components also increased substantially, from € 15.5 million to € 33.9 million. Since the start of 2003, ARAG has optimized practically all business processes in its organization. This comprehensive change work had an impact on all parts of the Group in the fiscal year under review. Accordingly, the underwriting result advanced, and improved considerably from € 8.6 million in the previous year to € 18.3 million in the year under review. The cost ratio was reduced further, declining from 33.3 percent to 32.8 percent.

However, the Group's overall underwriting balance sheet was severely impacted by the high additional costs in the German legal insurance business entailed by the new attorney fees legislation RVG. The additional costs for claims settlements amounted to € 34.3 million in the year under review. Although the cost of claims declined slightly by 0.6 percent, it remained at a high level of € 844.7 million. The slight decline is primarily due to the expansion and improvement of the ARAG Attorney Network in the German market. This contributed greatly to a significant standardization and simplification of benefits processing. In all, the Group's claims ratio fell slightly from 67.5 percent to 66.4 percent.

The fact that a notable increase in profits was achieved in spite of the unchanged high claims ratio is testimony to ARAG's excellent profitability.

The greatest part of the improvement in the Group's earnings is attributable to the income from capital investments. This figure rose by 27.7 percent to € 252.6 million from the previous year's level of € 197.8 million. This major increase in earnings over the previous year is essentially due to the disposal gains from the sale of capital investments and the write-up on investment fund shares attributable to the favorable developments on capital markets.

## III. Financial situation

The aim of the financial management and capital requirements of the Group is to ensure that the obligations arising from our insurance activities can be fulfilled at any time, and that the regulatory requirements respecting solvability set forth in Art. 53c of the German insurance oversight statute VAG and the regulations issued appurtenant to this respecting the capital requirements for insurance groups are not only met, but that a significant surplus coverage is established as well. Furthermore, the Group constantly strives to provide for risk capital that is adequate to comply with the expected requirements of Solvency II at all times. The expansion of the business volume of the Group represents a further significant demand for more funds available for coverage.

In the fiscal year under review, ARAG Rechtsschutz, the operative holding company of the ARAG Group, successfully placed a lower-ranking bond in the amount of € 50 million. This bond is for an indefinite term and can be terminated by the Company after ten years. Under the provisions of Art. 53c (3) No. 3b VAG, this bond may be stated in the accounts as funds available for coverage. This issue further strengthens ARAG's sound capital base and creates scope for future growth of the Group.

In comparison with the previous year, the Group's funds available for coverage and guarantee funds developed as follows:

| (in million euros) | 2005 | 2004 |
|---|---|---|
| Subscribed capital – paid in | 50.4 | 50.4 |
| Reserves | 103.1 | 82.4 |
| Capital shares of minority shareholders | 24.7 | 22.2 |
| Group net profit after external components | 30.2 | 12.9 |
| **Total equity** | **208.4** | **167.9** |
| Lower-ranking bond | 50.0 | 0.0 |
| Funds available for coverage | 258.4 | 167.9 |
| Underwriting reserves | 4,274.6 | 4,130.1 |
| **Guarantee funds** | **4,533.0** | **4,298.0** |

The guarantee funds are covered by capital investments in the amount of € 4,698.4 million. To ensure that the Group can meet all payment obligations from its insurance policies at any time, the Group has at its disposal, in addition to current account balances at financial institutions amounting to € 41.2 million, in particular capital investments totaling € 4,227.0 million that can be liquidated on the capital and financial markets on short notice.

For details respecting the scope of capital investment and intangible assets undertaken in the fiscal year and the development of the Group's liquidity in the fiscal year under review, please refer to the Statement of Cash Flow on page 65.

## IV. Asset situation

The capital investment portfolio of the Group increased in fiscal 2005 by 5.4 percent, from € 4,457.8 million to 4,698.4 million. The current values of these capital investments amounted to € 4,982.6 million as of the day of accounting.

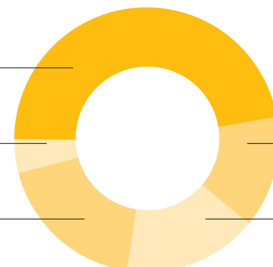
The capital investment structure in comparison to the previous year is as follows:

| Type of capital investment (in million euros) | 2005 | | 2004 | |
|---|---|---|---|---|
| I. Real estate and buildings | 367.7 | 7.8% | 379.1 | 8.5% |
| II. Shares in affiliated companies and holdings | 91.0 | 1.9% | 96.5 | 2.2% |
| III. Lending to affiliated companies and holdings | 8.6 | 0.2% | 8.4 | 0.2% |
| IV. Stocks and investment fund shares | 1,960.0 | 41.7% | 1,985.6 | 44.6% |
| V. Bearer bonds | 409.7 | 8.7% | 345.6 | 7.8% |
| VI. Mortgages receivable, other similar rights | 279.0 | 6.0% | 295.8 | 6.6% |
| VII. Registered debentures, promissory notes | 1,191.5 | 25.4% | 972.1 | 21.8% |
| VIII. Bank deposits | 146.9 | 3.1% | 134.5 | 3.0% |
| IX. Other lending | 155.7 | 3.3% | 156.9 | 3.5% |
| X. Other capital investments | 84.2 | 1.8% | 80.0 | 1.8% |
| XI. Portfolio assets | 4.1 | 0.1% | 3.3 | 0.1% |
| | **4,698.4** | **100.0%** | **4,457.8** | **100.0%** |

# V. Segment reporting

**Premiums and sales by segments**

(in million euros)




The Group comprises the operative segments

- Legal insurance business
- Composite insurance business
- Life insurance business
- Health insurance business
- Services and asset management

| Gross premium revenues | | |
|---|---|---|
| (in million euros) | 2004 | **2005** |
| Legal insurance companies | 618 | **642** |

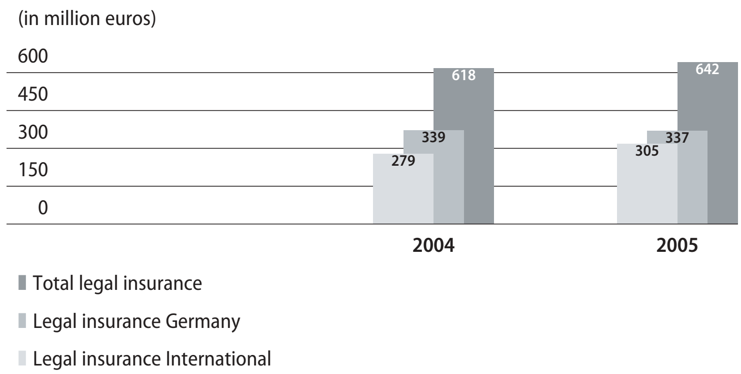
**Legal insurance business** The core activity of the ARAG Group continued on a clear growth track. Gross premium revenues in the legal insurance segment increased by a significant 3.9 percent overall (previous year 1.4 percent) from € 617.5 million to € 641.6 million. This means that almost half of all premium revenues of the Group are generated in the legal insurance business.

In spite of the tight market situation, German legal insurance business continued to be strong and resistant. ARAG Allgemeine Rechtsschutz-Versicherungs-AG has essentially neutralized the reassessment of legal insurance risks conducted in 2004 and opened up new, more profitable portfolios. At € 336.4 million, gross premium revenues are 0.7 percent below the previous year's level of € 338.9 million. The significant drop in premiums (-2.4 percent) posted in the previous year was reclaimed to a large extent.

The legal insurance business in the international markets reaffirmed its role as a growth engine in the Group. In 2005, ARAG's international subsidiaries posted their largest increase in premiums in four years. Gross premium revenues were boosted from € 278.6 million in the previous year to € 305.2 million in the fiscal year under review. This 9.5 percent leap upward is significantly above the target.

An additional € 32.6 million in premium revenues are attributable to the comparable special service package business of ARAG Spain, which was booked under the composite insurance segment. Including this value, total revenues achieved in the international legal insurance companies amounted to € 337.8 million. Consequently, over one half of premium revenues in ARAG's core business are attributable to the international subsidiaries.

**Uninterrupted growth in international legal insurance business**




In the legal insurance segment, the costs of insurance claims fell slightly, from € 374.8 million to € 369.0 million. The claims ratio decreased correspondingly, from 60.4 percent to 58.2 percent.

Although the underwriting result of the legal insurance business improved from a loss of € 18.3 million to a loss of € 7.1 million, it remained clearly in the red. As anticipated, the underwriting account of this segment was impacted by the high additional costs entailed in the RVG legislation. In fiscal 2005 alone the additional costs amounted to € 34.4 million. However, ARAG was not unprepared for this development. The optimization program initiated in 2003 and our long-term, forward-looking reserves policy enabled the Group to absorb the greater part of the cost avalanche unleashed by this law.

The significantly improved underwriting account for the international subsidiaries also had a positive effect. A major part of this improvement is due to the successful earnings-boosting initiative "Strengthening ARAG International" (STAR International), which was implemented jointly by the managers of the international ARAG subsidiaries and the Board-level Group International function.

The income from capital investments grew from € 54.0 million to € 78.5 million. Income from normal business activity in legal insurance thus increased significantly overall and amounted to € 30.7 million, as opposed to € 20.6 million for the previous year.

**Gross premium revenues**

| (in million euros) | 2004 | **2005** |
|---|---|---|
| Composite insurance | 258 | **253** |

**Composite** In the composite segment, the strong growth trend of previous years did not carry over into fiscal 2005. Premium revenues fell from € 257.5 million in the previous year to € 252.9 million. One major factor here was the consolidation of the automotive offerings in domestic composite business underwritten by ARAG Allgemeine. In the previous year, the direct motorist rate K-Direkt had generated a significant growth spurt. In 2005, however, large volume providers triggered a low-price offensive in the automotive insurance sector. ARAG remained true to its earnings-oriented business policy and refused to follow this price-cutting trend, deliberately refraining from this revenue.

The brokerage specialist Interlloyd-Versicherungs-AG, a 100 percent subsidiary of ARAG Allgemeine, was also affected by the aggressive market entry of large composite insurers into its business sector. In spite of that, this subsidiary again expanded its business, by 11.7 percent, and made a positive contribution to the development of our property and accident insurance business.

In the special sport insurance segment, our pilot project to expand our sport business internationally has yielded extremely satisfactory results. Starting in January 2004, sport insurance was offered in the Spanish market via the brokerage partner PontGrup. This has fulfilled our initial expectations. Locally, ARAG benefits primarily from its good image as the leading legal insurer.

The underwriting account of the composite sector improved slightly. This sector posted a profit for the year of € 8.2 million as compared to a profit of € 7.7 million in the previous year. Income from normal business activity increased from € 16.6 million to € 25.6 million on account of the greatly improved income from capital investment.

**Gross premium revenues**

| (in million euros) | 2004 | **2005** |
|---|---|---|
| Life insurance | 235 | **224** |

**ARAG Leben** The Group's personal insurers implemented their optimization actions more rapidly and intensively than other segments of the Group. The ambitious recovery course of the preceding two years further increased the profitability of ARAG Lebensversicherungs-AG, the Group's life insurance unit, in 2005. At the start of the fiscal year under review, this unit also increased its surplus participation to 3.5 percent. However, the company still lost premiums due to the yield trimming decision. Premiums of € 223.7 million were booked, as against € 234.8 million in the previous year. This significant decline is due in particular to the loss of one-time premiums. However, numerous improvements were achieved. With the mutual fund policy introduced in October 2005, ARAG has brought to market an innovative, attractive and flexible retirement savings concept which, to judge by the trend of its first months, has the potential to put the company back on the path to growth. The company additionally further expanded its hidden reserves. As of 31 December 2005 these reached a nine-figure level for the first time, totaling € 102.3 million. The optimized risk-return position in capital investments also continued to contribute positively. Capital investments totaling € 2.8 billion generated a net return of € 146.1 million. This represents an increase of 22.6 percent over the previous year's value of € 119.2 million. The net return increased from 4.5 percent to 5.2 percent. The optimization efforts continue to produce positive effects on the cost side. ARAG Leben succeeded in reducing its administrative costs (excluding commissions) by 8.2 percent compared to 2004. The underwriting result clearly improved from € 14.1 million to € 18.5 million. The income from normal business activity amounted to € 17.0 million, following earnings of € 12.2 million in the previous year. The subsidiary increased its gross profit by 63 percent, and transferred € 55.7 million, or 91.0 percent of the gross profit, to income-dependent reserves for premium rebates.

| Gross premium revenues | | |
|---|---|---|
| (in million euros) | 2004 | **2005** |
| Health insurance | 177 | **186** |

**ARAG Kranken** ARAG Krankenversicherungs-AG, the Group's health insurance arm, continues on its success and growth track. As a premium-quality private health insurer, this company, with its focus on supplementary health insurance benefits, has established an excellent position in the market. The Group's health insurance business grew further in 2005. Booked premiums grew from € 176.5 million in the previous year by 5.4 percent, to € 185.9 million. Due to its unchanged conservative underwriting policy, the company continues to grow while remaining highly profitable. An excellent underwriting pre-tax profits ratio of 11.7 percent (previous year 10.9 percent) was again achieved, although insurance benefits rose by 6.3 percent over the previous year. The capital assets managed appreciated significantly, to € 563.9 million, and generated an income from capital investments of € 23.0 million, as opposed to € 20.7 million in the previous year. The net return dropped slightly over the previous year, from 4.6 percent to 4.4 percent. However, this is still significantly greater than the calculatory return. ARAG Kranken also expanded its hidden reserves further. As of 31 December 2005, these totaled € 34.2 million. The consolidation course embarked on by ARAG Kranken is also showing a sustained positive effect on the cost side. The administrative cost ratio continued to drop, from 2.55 in the previous year to 2.44 percent, and is once again below the average for the industry. These factors resulted in a further improvement in the earnings situation. The underwriting result amounted to € 5.9 million, greater than in the previous year (€ 5.2 million). Normal business activities showed a profit of € 5.3 million (previous year € 4.8 million). The satisfactory earnings situation enabled transfer of an additional € 20.2 million (previous year € 18.4 million) to the reserve for premium rebates.

| Sales revenues | | |
|---|---|---|
| (in million euros) | 2004 | **2005** |
| Service companies | 68 | **56** |

**Services and asset management** The ARAG Group bundles all non-insurance activities under this heading. In addition to the holding companies, of which ARAG AG is one, this sector comprises asset management and housing development companies, as well as wholly owned IT consulting firms. The insurance agency firm Cura GmbH & Co. KG and the Group's call center activities are included here as well. The sales revenues of these non-insurance units with external customers and the other Group segments dropped by 44.5 percent to € 93.8 million, after € 169.1 million in the previous year. After adjusting for intra-Group revenues of the service companies, consolidated sales amounted to € 55.7 million as opposed to € 68.0 million in 2004. The drop in revenues is attributable mainly to the sale of the IT consulting firm ALLDATA SYSTEMS effective 1 July 2005. In accordance with its strategic orientation, the ARAG Group has divested itself of external IT services as an independent line of business to concentrate on its core competence as an insurer.

## VI. Product development, employees and other performance factors

**Product development** For the ARAG Group, 2005 was a year characterized by a number of successful new market rollouts. In German legal insurance, ARAG has once again rolled out bold new innovations. In line with its new product and performance philosophy "from cost reimburser to Legal Navigator", ARAG now offers its customers initial telephone consultation with an attorney from the ARAG Attorney Network. ARAG is one of the first legal insurers to include the initial telephone consultation as a contractual benefit in its insurance policy. Furthermore, customers can also utilize this consultation for areas of law that are not insured or not insurable. Customers can additionally access the powerful legal database "ARAG Online Legal Service" to generate customized contracts, research legal issues and more. With this comprehensive range of services, ARAG, the Legal Navigator, stands by its customers in all situations, providing competent assistance well in advance of any legal dispute. The new legal insurance rate is also convincing customers in direct comparisons with other legal insurance products: In a survey of the consumer-affairs magazine ÖKO-TEST (2/2006), the ARAG Individual legal insurance policy (rate 2005) placed second out of all 43 legal insurance policies evaluated, of which eight scored the highest overall mark of "good".

As an internationally recognized, independent partner for legal matters and protection, the ARAG Group also underscores its innovative performance on behalf of its customers in areas outside of its core business. For example, in the year under review ARAG Lebensversicherungs-AG responded to the new challenges in the German retirement savings arena by rolling out an entirely new product line: a suite of mutual fund-linked pension insurance products covers all three components of retirement savings provided for by German retirement income legislation. ARAG's mutual fund policy operates on an account-based policy management structure, which offers customers extensive flexibility in how they pay premiums. The basis for the high earning power and flexibility of the mutual fund policy – for example, extra payments and one-time payments are both possible – is the underlying Global Allocation Fund (EUR) of UBS, which the professional journal "funds europe" named "European Fund Launch of the Year" in November 2005. ARAG Lebensversicherungs-AG is the first German life insurer to base its retirement savings concept on this mutual fund asset management. The new product line is also standing up well under direct comparisons: the ratings agency Franke & Bornberg awarded the mutual fund-linked ARAG PrivatRente product its highest rating, "FFF". Comparison calculations using the analysis tool of Morgen & Morgen GmbH also produce excellent results. Here, ARAG Leben's PrivatRente product places among the top ten products out of a total field of 46.

Following the successful launch of its entry-level full-coverage health insurance rate E 900 in the previous year, ARAG Krankenversicherungs-AG launched another winning product. In the strategically important market for supplementary health insurance, the company has responded optimally to the demands of both customers and Sales with two new supplementary dental rates. The attractiveness of these two rates is affirmed by independent comparisons such as those in the magazines Focus Money, 49/2005 issue, and Finanztest, 10/2005 issue.

**Further performance factors** Our customers and their needs are the object of all of our efforts not only in product development, but in the restructuring and optimization of the ARAG Group as well. In our home German market, this is reflected in particular in the new unit “ARAG Customer Service” of the ARAG property insurers, located at the Group’s Dusseldorf headquarters, whose mission is to ensure rapid, end-to-end resolution of all customer issues by a single customer representative. The success of the optimization efforts of ARAG Rechtsschutz in prior years can be measured in the German “Customer Satisfaction Barometer” for 2005. As part of a broad, multi-sector study by an independent market research institute, a representative sample of ARAG Rechtsschutz customers was surveyed. 55 percent of respondents stated that they were “completely” or “very satisfied” with ARAG’s performance overall. With this value, ARAG Rechtsschutz has made significant gains over previous years, and is now above the industry average of 53 percent.

The advertising campaign that kicked off in July 2005, with a coordinated media mix of print, online and television advertising, resulted in a significant increase in sympathy ratings for the ARAG brand in Germany. According to a first review of the advertising effectiveness, the previously defined goals were clearly achieved, with ARAG making noticeable gains in 12 of the 14 measured image dimensions.

The performance standard of the sales organization is a further key success factor of any insurance company. For this reason, ARAG subjected its German exclusive sales organization to a benchmarking process in 2005, and compared the ARAG sales associates with the sales organizations of competitors according to various key criteria. The results showed that the performance of the ARAG associates was clearly above the average in virtually all categories.

| Employees | | |
|---|---|---|
| (permanent staff) | 2004 | **2005** |
| Consolidated companies | 4,229 | **3,694** |
| Entire Group | 4,306 | **3,773** |

**Employees** The number of employees in the ARAG Group again declined according to plan as part of our cost saving actions. As of 31 December 2005, the Group employed a total of 3,694 persons in the consolidated companies on a permanent basis, as opposed to 4,229 as of 31 December of the previous year. Including companies outside the scope of consolidation, 3,773 persons were employed as of 31 December 2005 (previous year 4,306). The enterprise thus shed over 530 jobs in the year under review. A large part of this reduction in force is due to the sale of our IT consulting firm ALLDATA SYSTEMS.

In its optimization and reengineering efforts, the Group can rely on an excellent staff. Our employees are characterized by a high level of loyalty to and identification with the enterprise. They appreciate the scope for initiative within the organization. As most of our employees have served with us for many years, they possess a profound knowledge of their areas in both the domestic and international insurance business. Over 34 percent of the Group’s employees (1,291) are employed outside of Germany. ARAG offers its employees exceptional opportunities for personal development and continuing education. The employees appreciate our excellent corporate culture and the forthright atmosphere in this family company. In return, ARAG is considered a challenging employer with a high performance standard and a corresponding workload. At the same time, our enterprise invests in the quality of its employees in the form of extensive audits, which in future will be extended beyond the executive levels.

## VII. Supplementary report

No events of particular importance occurred following the end of the fiscal year under review. The business development of the 2006 fiscal year is proceeding as expected to date.

## VIII. Risk report

The aim of risk management is to fulfill the legal obligations arising from Art. 91 (2) AktG. To this end, risk capital required for the business is to be quantified under consideration of the current risk structure with the aid of an internal model that conforms with the German Insurance Association (GDV) model. The risk is calibrated such that the return requirements of the providers of the risk capital are met.

Risk management additionally serves as preparation for the anticipated new solvency requirements (Solvency II).

Risks are classified according to risk types, which are described in the following:

Underwriting risks in property and accident insurance: Due to the product and client structure, our insurance portfolio does not hold any extraordinary risks regarding possible major claims that would endanger the Company's continued existence. Suitable reinsurance has been taken out to minimize the risks of large claims in the property, liability and accident business. The claims situation is actually influenced more by the effects of changing legal, economic and social parameters. Furthermore, our claims expenditure can increase as a result of changes to laws and statutory instruments or legal charges and fees – even for claims that have already been reported. We counter these risks by constantly monitoring legal and social developments and analyzing their impact on our insurance portfolio. Insurance rates and terms are adapted where necessary and the claims provisions provide for sufficient safety margins. The variable premium rates clause of our domestic legal insurance also allows insurance premiums to be adjusted in line with claims development.

The steady nature of our insurance business as well as the continually appropriate apportionment of claims provisions may be seen in the data given below for the gross claims trends for self-contracted business for our German legal insurance subsidiaries as well as our property and accident insurance subsidiaries over the last ten years.

| Fiscal year | Claims ratio for self-contracted business, gross, total | | | | | | Settlement result self-contracted business | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ratio for fy | | | Balance | | | in % of initial reserves | | |
| | Legal | Property/ liability/ accident | Domestic, total | Legal | Property/ liability/ accident | Domestic, total | Legal | Property/ liability/ accident | Domestic, total |
| 2005 | 69.1 | 63.7 | 67.0 | 63.3 | 59.1 | 61.7 | 3.5 | 4.4 | 3.7 |
| 2004 | 66.6 | 59.0 | 63.6 | 65.5 | 55.2 | 61.5 | 0.7 | 4.3 | 1.7 |
| 2003 | 65.2 | 67.8 | 66.2 | 57.5 | 45.9 | 53.1 | 4.9 | 20.2 | 9.4 |
| 2002 | 66.2 | 74.9 | 69.4 | 58.9 | 66.2 | 61.5 | 4.8 | 8.7 | 5.9 |
| 2001 | 64.5 | 65.4 | 64.8 | 60.5 | 60.3 | 60.4 | 2.8 | 5.3 | 3.4 |
| 2000 | 62.4 | 67.0 | 64.0 | 58.4 | 51.2 | 56.0 | 2.9 | 17.0 | 6.6 |
| 1999 | 64.3 | 67.7 | 65.4 | 60.4 | 55.8 | 58.8 | 3.0 | 13.6 | 5.7 |
| 1998 | 65.3 | 68.2 | 66.3 | 60.5 | 51.0 | 57.4 | 3.9 | 19.6 | 7.9 |
| 1997 | 68.6 | 71.2 | 69.5 | 63.6 | 57.8 | 61.6 | 4.1 | 16.3 | 7.2 |
| 1996 | 68.6 | 69.9 | 69.0 | 64.4 | 61.4 | 63.5 | 3.4 | 11.4 | 5.3 |

Underwriting risks for life insurance and health insurance: The underwriting risk is the danger that the key payment flows of the insurance business deviate from the expected values. This risk might be due to the fact that the premium amounts fixed at the start of the policy and guaranteed for the policy's duration are not sufficient to finance the guaranteed insurance benefits (premium/insurance benefit risk), that the net earnings on capital investments are not sufficient to fulfill the interest guarantees (interest guarantee risk), or that the underwriting reserves established are not adequate to fulfill future insurance benefits (reserves risk).

Among other strategies, these risks are countered by calculating the premiums and insurance benefits and the corresponding provisions to be made in accordance with recognized actuarial principles under observance of all statutory requirements.

With regard to the biometric basis for calculation (death probabilities, disability probabilities, etc.), only recognized withdrawal tables provided by the German actuarial association DAV and BaFin (German Federal Financial Supervisory Authority) are considered sufficiently reliable.

In addition, the anticipated values arrived at using the withdrawal tables are regularly compared with actual claims in order to verify the appropriateness of the biometric calculation basis. In the case of pension insurance, the evaluation of the longevity risk is particularly important. The effects of increasing life spans correlates with a reduction of the safety margins in the pension tables used to date in calculating the actuarial provision.

Cancellation probabilities are not considered in calculating the actuarial provision. In addition, the provisions of the German directive regulating the accounting of German insurance companies, RechVersV, require that reserves must at least equal the surrender value. For life insurance policies in which the claims against the policyholders are capitalized, the risk of cancellation is provided for by means of suitable corrections.

Risks from default on debts in the insurance business: Losses due to default on debts in the insurance business are minimized by an efficient and persistent dunning system. The residual default risk is anticipated by setting aside general provisions for bad debt against receivables in the financial statement.

As of 31 December 2005, receivables in insurance business more than 90 days past due amounted to € 15,826,151. The average default rate for receivables in 2003 through 2005 amounted to 0.39 percent with reference to booked premiums.

Risks from capital investment: On the capital market, the upward trend in prices on both the bond and stock markets that commenced in 2004 continued unabated throughout the year under review, with only a few interruptions. The yield of ten-year bonds of EMU nations declined by almost 3.5 percent in the last quarter, while comparable dollar interest rates increased by one quarter point. The long-term interest rates in the euro zone have thus fallen to their lowest levels in around one hundred years.

As of 31 December 2005, the exchange or market values were not exceeded in stating the securities holdings in the balance sheet.

For any insurance company, the assumption of risks and their professional monitoring and handling are an important element of capital investment controlling. Specifically, the risks of capital investments comprise the market risk, the credit risk and the liquidity risk. A broad diversification of the portfolio limits the individual risks by broadly spreading the capital investments on the basis of investment types, debtors and regions.

The market risk is countered by a venture-capital-based controlling concept that enables a capital investment early warning system in conjunction with continuing market monitoring and timely reporting. In addition, the risk situation and the financial stability of the domestic insurance subsidiaries are reviewed on a regular quarterly basis in the form of internal tests based on the same criteria as the official stress tests of financial regulators. The stress tests examine whether the companies would be able to meet their obligations to their insurance customers in spite of extreme crisis situations on the capital markets without recourse to extraordinary measures. In the stress tests, which have been expanded to four scenarios, the following simultaneously occurring losses in value are assumed:

| Scenario | R10 | A35 | RA25 | AI28 |
|---|---|---|---|---|
| Bonds | -10% | – | -5% | – |
| Stocks | – | -35% | -20% | -20% |
| Real Estate | – | – | – | -8% |

As a result of these analyses it may be stated that as of the accounting date, all domestic subsidiaries have passed all stress tests mandated by regulatory authorities without restriction.

Strict requirements with respect to the financial strength of debtors and the avoidance of a concentration on individual debtors reduce the credit risk of the ARAG Group to a great extent. The restriction of fixed-interest securities almost exclusively to investment-grade instruments is the logical consequence of this principle.

The liquidity risk is limited by revolving financial planning which identifies the payment flows in good time and allows them to be matched through asset-liability management. In addition, the high fungibility of our capital investments ensures that these can be liquidated on short notice.

The use of derivative instruments is regulated by our general principles and internal guidelines and is restricted exclusively to hedging purposes.

The Group counters the risks from shareholdings by constant monitoring of and reporting by the holding companies. Management of operative risks is sufficiently provided for by the holding companies themselves.

Operational risks: The operational risks include all risks that pertain to staff, processes, organization, IT, natural disasters, technology and external circumstances. The portfolio of operational risks was determined and updated on a quarterly basis. Risks are controlled through the implementation of actions for the purpose of risk protection, risk avoidance or risk reduction.

As the operative Group holding company, ARAG Allgemeine Rechtsschutz-Versicherungs-AG has installed planning and controlling systems in order to guarantee efficiency and performance. These systems include detailed short, medium and long-term plans and budgets as well as timely information for decision makers.

One significant risk is that of partial or total failure of the information systems. To guard against this risk the Company has implemented numerous technical and organizational safeguards (strict access control, off-site custodianship of programs and data, firewalls, etc.); these are reviewed on a regular basis and upgraded as developments warrant.

ARAG Rechtsschutz guards against the risk of administrative failures through rules and audits in the respective departments.

Internal controlling measures and the continuing deployment of internal auditing minimize the risk of serious working errors and acts of embezzlement.

Other risks: One significant risk for 2007 which must be discussed is the intention of the German federal government to raise the value added tax. This would affect claims payments as well as all other payments subject to value-added tax. The planned simultaneous increase of three percentage points in the insurance tax rate would additionally make insurance coverage in legal insurance as well as in property and accident insurance significantly more expensive. It is anticipated that these price boosts in ARAG products would make it more difficult to conclude new policies and lead to cancellation of existing policies. On the other hand, the ruling of the German Federal Court respecting fiduciary proceedings issued on 12 October 2005 can affect the repurchase values of terminated life insurance policies. For the affected non-contributory policies, the actuarial provision was increased on a lump-sum basis in this accounting. In the health insurance segment, the new statutory health care financing model currently under discussion can have a negative impact on the full-service health insurance business.

Aside from this there are no particular concrete risks. At present, the overall risk situation does not indicate any trends that could endanger the existence of individual subsidiaries of the Group or severely impair the Group's asset, financial or earnings situation.

Quantification of overall risk situation/solvability: The risk capacity of the Group's German insurance companies is regularly determined by comparing the available risk capital with the risk capital necessary for the conduct of the business under consideration of the current risk structure. This is performed on the basis of the current draft of the Solvency II-compatible German Insurance Association (GDV) model in the version of 22 April 2005. A supplementary company-internal model is currently under development.

The risk portfolio comprises the risk from capital investment, the underwriting risk, the ALM risk and operational risks. The risk capital requirement for the capital market risks is quantified on a three-month basis, otherwise on an annual basis; the confidence level was determined as 99.5 percent (GDV standard model) and 99 percent using the internal model.

In fiscal 2005, the affected companies of the ARAG Group fulfilled the solvability requirements in accordance with the current Solvency II-compatible GDV model. The risk capital required by these provisions is covered by the Group's own funds.

# IX. Future perspectives

On account of the overall economic circumstances, significant impulses for the German insurance industry will remain unlikely through 2006 as well. Trends in consumer spending of private households will not increase appreciably, as real disposable income shows little gain. Additionally, it is not expected that the current tight employment market will noticeably improve. It is also to be expected that the planned increases in the value added tax and insurance tax that are scheduled to take effect on 1 January 2007 may lessen consumer willingness to take out insurance.

The ARAG Group will continue to leverage the successes of its optimization campaign and wholeheartedly pursue its cost-saving and optimization efforts. In the home German market, the enterprise has implemented a number of actions and initiatives that have set the Group on a path of successful development going forward. By means of substantial targeted investments, we have upgraded our sales organization into one of the most modern exclusive sales forces in the insurance industry. Our business processes have been made more efficient, cost-effective and customer-friendly, which is paying off not least in rising customer satisfaction. The optimization of our business processes is supported by ARAG's newly developed portfolio and claims system – a cross-segment IT platform that will provide all relevant data from a central repository for rapid, accurate access. In addition, the Group has a high-performance, highly modernized product portfolio.

All these factors together are an important prerequisite for achieving the ambitious aims established for ARAG by the Group planning. These objectives call for increasing total premium revenues from € 1.3 billion to € 1.7 billion over the medium term. At the same time, the Group is putting all necessary effort into enhancing its profitability. And the enterprise will continue its policy of equity enhancement so as to enable the Group to exploit new business opportunities and development potential.

In German legal insurance, the ARAG Group is pursuing its successful Legal Navigator product and performance philosophy and will proactively seek further development opportunities to provide its customers with even more flexible and comprehensive legal service in all important areas of life in the years to come. The Company intends to profit from this leadership position and will continue to expand it. On the cost side, German legal insurance will continue to be burdened by the additional charges imposed by the new legal costs legislation and the increase in value-added tax. The Group was able to absorb the initial impact of the cost avalanche by realizing savings potential through its optimization program and with the aid of its conservative reserves policy. However, we anticipate that the drastic rise in costs will make premium increases inevitable over the medium term.

The positive trend in international legal insurance – the growth engine along with ARAG Kranken – will continue through fiscal 2006. ARAG is in an excellent starting situation for this. Outside of Germany, the Group is active in ten other European nations – and we are the leaders in the major markets Spain and Italy. The enterprise is among the leaders in all other markets. Additionally, ARAG is the only European insurer offering legal insurance in the United States. The Group is thus well positioned in the relevant markets to profit from the strong growth of international legal insurance business. Optimum growth and further increases in earnings will be assured by actions already in progress as well as the additionally planned initiatives undertaken within the context of "In-House Consulting International", the successor to STAR International.

With a portfolio of over 1.3 million policies, the Group's composite sector, led by ARAG Allgemeine, has enormous customer potential, which the Group will exploit more intensively in future, integrating the other segments. ARAG can interface its high-quality composite business with legal insurance by offering an enhanced range of services. For four years now, the Group has been offering its homeowner bundle product "Recht & Heim", which unites legal insurance, liability and household effects insurance in a single policy for enhanced customer utility. ARAG Allgemeine remains strong in its role as Europe's largest sport insurer. Around 21 million athletically active Germans enjoy ARAG insurance coverage through their clubs. With the ongoing pilot project on the Spanish market, the Group is currently running a trial of the international expansion of its attractive sport insurance business. In this undertaking, ARAG is utilizing the excellent experience gained over many years as well as the positive image of the Group's international subsidiaries in their respective markets.

With respect to the Group's personal insurers, it is expected that the positive trend of the year under review will continue into the current fiscal year. The thorough and rapidly executed cost-cutting and process optimization actions have significantly strengthened these two companies, and will be pursued vigorously in future. Both companies are continuing to expand their hidden reserves. ARAG Leben responded to the changed situation in its market, and invested in a complete revitalization of its product portfolio by developing new, account-based products. The company has thus initiated a change in strategy; instead of acting as a full-range provider, the company will present itself in future exclusively as an excellent product specialist with a clear focus on the private-customer segment. With the introduction of a flexible, mutual-fund linked pension insurance, ARAG Leben raised the bar in the market. With its new product line, ARAG Leben is aligning itself with the strategic approach of ARAG Kranken, which for many years now has been pursuing a course of steady development with its exceptional product and service expertise. Going forward, ARAG Kranken will continue to act as a high-quality and attractive provider of health insurance services, placing a strong emphasis on needs-oriented supplementary health insurance rates. The company is optimally specialized in this area. This is also underscored by the consistently superior ratings of the ARAG supplementary rates in product comparisons. The performance and high competence of ARAG Kranken was most recently affirmed in June 2006 by the class A rating of the ratings agency Assekurata.

As a complement to the enterprise growth objectives, ARAG implemented new, binding guidelines for all subsidiaries of the Group at the start of 2006. As part of its new corporate code, the ARAG Essentials, the Group has adopted a binding entrepreneurial vision: "ARAG is the internationally recognized, independent partner for legal matters and protection." In this vision, the Board of Management, executives and employees document their comprehensive dedication to performance with respect to all products of the Group. The ARAG Essentials redefine the specialist nature of our enterprise and transfer the competence and service quality acquired in legal insurance to the other segments. At the same time, the ARAG Essentials are a commitment to a modern culture of superior performance, in which each employee is part of a Group-wide value and value-creation community.

In the fiscal year just past, the ARAG Group has gained significant strength and will continue to pursue this course in 2006 with all determination. The top priority is on increasing the Group's profitability even further. As the largest family enterprise in the German insurance industry, ARAG is well aware of the entrepreneurial challenges entailed in this. This role is a great motivation for developing the business model further with new impulses and ideas.

# Consolidated Financial Statement

ARAG Aktiengesellschaft

## Consolidated Financial Statement

# Consolidated Balance Sheet as of 31 December 2005

## Assets

**A. Outstanding contributions to subscribed capital of parent company**

**B. Intangible assets**
1. Costs for start-up and expansion of business activity according to Art. 269 (1) sen. 1 HGB
2. Goodwill
3. Other intangible assets

**C. Capital investments**

I. Real estate, comparable rights and buildings including those on third-party property

II. Capital investments in affiliated companies and shareholdings
1. Shares in affiliated companies
2. Lending to affiliated companies
3. Holdings in associated companies
4. Other holdings
5. Lending to companies with which a shareholding relationship exists

III. Other capital investments
1. Stocks, investment fund shares and other non-fixed interest securities
2. Bearer bonds and other fixed-interest securities
3. Mortgages receivable, other similar rights and fixed-interest debts
4. Other lending
   a) Registered debentures
   b) Promissory notes and loans
   c) Loans and advance disbursements on insurance policies
   d) Other lending
5. Bank deposits
6. Other capital investments

IV. Portfolio assets from assumed reinsurance business

**D. Capital investments for the account and risk of life insurance policyholders**

**E. Accounts receivable**

I. Accounts receivable for self-contracted insurance business from:
1. Policyholders
   a) Claims due
   b) Claims not yet due
2. Insurance agents
   portion from affiliated companies: € 19,874.13 (previous year € 267,114.15)

II. Settlement receivables from reinsurance business

III. Other accounts receivable
portion from affiliated companies: € 3,481,254.48 (previous year € 4,016,480.12)
portion from companies with which a shareholding relationship exists: € 2,637,733.25 (previous year € 763,296.43)

**F. Other assets**

I. Real estate intended for sale and other assets of non-insurance companies

II. Tangible assets and supplies

III. Current bank balances, checks and cash in hand

IV. Other assets

**G. Accrued income**

I. Deferred interest and rents

II. Other accrued income

**H. Tax deferment item in accordance with Art. 306 in conjunction with Art. 274 (2) HGB**

**Total assets**

| Appendix | in euros | in euros | in euros | 2005 in euros | 2004 in euros |
|---|---|---|---|---|---|
| | | | | **149,610,000.00** | **149,610,000.00** |
| 32 p. 60 | | | | | |
| 1 p. 53 | | | 0.00 | | 482,957.00 |
| 2 p. 53 | | | 46,103,330.33 | | 64,781,382.38 |
| 3 p. 53 | | | 9,484,149.51 | | 11,831,787.85 |
| | | | | **55,587,479.84** | **77,096,127.23** |
| 32 p. 60 | | | | | |
| 4 p. 53 | | | 367,720,067.45 | | 379,125,868.44 |
| 5 p. 53 | | | | | |
| | | 5,416,890.18 | | | 4,658,454.77 |
| | | 5,420,827.10 | | | 5,192,725.22 |
| | | 33,656,928.34 | | | 35,224,680.09 |
| | | 51,871,897.53 | | | 56,567,022.60 |
| | | 3,216,831.20 | | | 3,216,831.20 |
| | | | 99,583,374.35 | | 104,859,713.88 |
| | | | | | |
| 6 p. 53 | | 1,959,969,449.89 | | | 1,985,609,893.12 |
| 6 p. 53 | | 409,675,740.64 | | | 345,608,462.68 |
| 7 p. 53 | | 279,006,003.74 | | | 295,759,203.08 |
| 7 p. 53 | | | | | |
| | 445,072,728.72 | | | | 279,193,118.89 |
| | 746,436,625.68 | | | | 692,877,787.62 |
| | 83,840,679.07 | | | | 79,634,930.86 |
| | 155,742,459.86 | | | | 156,948,166.80 |
| | | 1,431,092,493.33 | | | 1,208,654,004.17 |
| 9 p. 54 | | 146,939,457.45 | | | 134,497,109.63 |
| 7 p. 53 | | 313,930.09 | | | 293,680.09 |
| | | | 4,226,997,075.14 | | 3,970,422,352.77 |
| | | | 4,123,948.98 | | 3,358,488.48 |
| | | | | **4,698,424,465.92** | **4,457,766,423.57** |
| 8 p. 54 | | | | **28,313,137.29** | **22,630,366.44** |
| 10 p. 54 | | | | | |
| | | | | | |
| | | | | | |
| | 50,325,609.00 | | | | 52,513,608.25 |
| | 13,428,069.04 | | | | 19,692,999.90 |
| | | 63,753,678.04 | | | 72,206,608.15 |
| | | 24,054,016.16 | | | 24,680,425.99 |
| | | | 87,807,694.20 | | 96,887,034.14 |
| | | | 13,581,202.60 | | 17,356,794.35 |
| | | | 26,156,192.58 | | 31,911,274.16 |
| | | | | **127,545,089.38** | **146,155,102.65** |
| | | | | | |
| | | | 36,528,314.11 | | 50,878,491.48 |
| 11 p. 54 12 p. 54 | | | 26,619,481.18 | | 27,636,546.20 |
| | | | 41,246,868.94 | | 48,908,620.55 |
| 13 p. 54 | | | 36,676,019.84 | | 30,778,202.89 |
| | | | | **141,070,684.07** | **158,201,861.12** |
| 14 p. 54 | | | | | |
| | | | 63,348,281.65 | | 55,326,135.34 |
| | | | 3,859,470.73 | | 4,815,129.91 |
| | | | | **67,207,752.38** | **60,141,265.25** |
| 15 p. 54 28 p. 57 | | | | **10,637,415.44** | **6,191,315.67** |
| | | | | **5,278,396,024.32** | **5,077,792,461.93** |

# Consolidated Balance Sheet as of 31 December 2005

| Liabilities |
|---|
| **A. Equity** |
| I. Subscribed capital |
| II. Revenue reserves |
| 1. Statutory reserves |
| 2. Other revenue reserves |
| 3. Currency exchange rate reserves |
| 4. Difference according to Art. 309 (1) HGB |
| |
| III. Group profit/loss |
| 1. Group net profit |
| |
| IV. Balancing item for shares of other shareholders |
| |
| **B. Difference from capital consolidation** |
| **C. Lower-ranking liabilities** |
| **D. Special reserve item** |
| **E. Underwriting reserves** |
| I. Unearned premiums |
| 1. Gross amount |
| 2. less: portion for reinsured business |
| |
| II. Actuarial provision |
| 1. Gross amount |
| 2. less: portion for reinsured business |
| |
| III. Provision for outstanding claims |
| 1. Gross amount |
| 2. less: portion for reinsured business |
| |
| IV. Provisions for profit-dependent and profit-independent premium rebates |
| V. Fluctuation reserve and similar provisions |
| VI. Other underwriting reserves |
| 1. Gross amount |
| 2. less: portion for reinsured business |
| |
| |
| **F. Underwriting reserves for life insurance, to the extent that the investment risk is borne by the policyholders** |
| I. Actuarial provision |
| II. Other underwriting reserves |
| |
| Carryover: |

| Appendix | in euros | in euros | 2005 in euros | 2004 in euros |
|---|---|---|---|---|
| 29 p. 58 37 p. 66 | | | | |
| | | 200,000,000.00 | | 200,000,000.00 |
| | | | | |
| | 885,062.01 | | | 343,538.01 |
| | 136,013,590.80 | | | 127,926,338.34 |
| | 2,228,105.80 | | | 0.00 |
| | -35,998,430.58 | | | -45,837,733.99 |
| | | 103,128,328.03 | | 82,432,142.36 |
| | | | | |
| | 30,243,024.33 | | | 12,901,455.75 |
| | | 30,243,024.33 | | 12,901,455.75 |
| | | 24,696,490.27 | | 22,249,259.03 |
| | | | **358,067,842.63** | **317,582,857.14** |
| 30 p. 58 | | | **13,888,174.45** | **13,888,174.44** |
| 17 p. 54 | | | **50,000,000.00** | **0.00** |
| 16 p. 54 | | | **4,957.87** | **244,990.50** |
| | | | | |
| 18 p. 55 | | | | |
| | 213,362,185.75 | | | 209,237,943.94 |
| | -6,951,937.79 | | | -6,928,003.71 |
| | | 206,410,247.96 | | 202,309,940.23 |
| 19 p. 55 | | | | |
| | 2,786,544,086.25 | | | 2,709,510,655.89 |
| | -71,978,401.00 | | | -70,881,996.00 |
| | | 2,714,565,685.25 | | 2,638,628,659.89 |
| 20 p. 55 | | | | |
| | 1,083,956,146.87 | | | 1,067,167,339.73 |
| | -45,829,313.81 | | | -42,231,553.38 |
| | | 1,038,126,833.06 | | 1,024,935,786.35 |
| | | 232,068,704.72 | | 183,859,581.85 |
| 21 p. 56 | | 77,933,767.00 | | 72,875,140.00 |
| 22 p. 56 | | | | |
| | 5,485,455.95 | | | 7,459,344.19 |
| | 0.00 | | | 0.00 |
| | | 5,485,455.95 | | 7,459,344.19 |
| | | | **4,274,590,693.94** | **4,130,068,452.51** |
| | | | | |
| | | 1,702,824.18 | | 973,675.09 |
| | | 26,610,313.11 | | 21,656,691.35 |
| | | | **28,313,137.29** | **22,630,366.44** |
| | | | **4,724,864,806.18** | **4,484,414,841.03** |

## Consolidated Balance Sheet as of 31 December 2005

| Liabilities |
|---|
| Carryover: |
| **G. Other reserves** |
| I. Reserve for pensions and similar obligations |
| II. Reserve for taxes |
| III. Reserve for anticipated tax liability for subsequent fiscal years according to Art. 274 (1) HGB |
| IV. Other reserves |
| |
| **H. Portfolio liabilities for reinsured insurance business** |
| **I. Other liabilities** |
| I. Liability from self-contracted insurance business to: |
| 1. Policyholders |
| 2. Insurance agents<br>portion to affiliated companies: € 0.00 (previous year € 0.00) |
| |
| II. Settlement liabilities from reinsurance business |
| III. Debts to banks |
| IV. Other liabilities<br>portion from taxes: € 15,937,635.37 (previous year € 17,422,326.60)<br>portion attributable to social security: € 3,093,428.89 (previous year € 3,944,094.46)<br>portion to affiliated companies: € 945,349.66 (previous year € 1,668,142.64)<br>portion to companies with which a shareholding relationship exists: € 2,138,533.55 (previous year € 1,201,680.89) |
| |
| **J. Deferred liabilities** |
| **Total liabilities** |

| Appendix | in euros | in euros | 2005 in euros | 2004 in euros |
|---|---|---|---|---|
| | | | **4,724,864,806.18** | **4,484,414,841.03** |
| | | | | |
| **23** p. 56 | | 163,729,397.01 | | 161,883,877.18 |
| | | 18,869,853.04 | | 17,093,891.37 |
| **28** p. 57 | | 0.00 | | 0.00 |
| **24** p. 56 | | 71,182,242.39 | | 72,770,649.97 |
| | | | **253,781,492.44** | **251,748,418.52** |
| **25** p. 57 | | | **81,373,276.91** | **79,616,765.28** |
| **25** p. 57 | | | | |
| **26** p. 57 | | | | |
| | 81,964,088.23 | | | 93,364,442.64 |
| | 24,519,509.52 | | | 26,315,815.83 |
| | | 106,483,597.75 | | 119,680,258.47 |
| **26** p. 57 | | 1,109,965.03 | | 1,872,558.90 |
| | | 47,708,009.08 | | 63,863,147.49 |
| | | 59,151,439.71 | | 71,374,950.71 |
| | | | **214,453,011.57** | **256,790,915.57** |
| **27** p. 57 | | | **3,923,437.22** | **5,221,521.53** |
| | | | **5,278,396,024.32** | **5,077,792,461.93** |

# Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2005

| Item |
|---|
| **I. Underwriting account for property and accident insurance business** |
| 1. Earned premiums for own account |
| a) Gross premiums booked |
| b) Premiums for reinsured business |
| |
| c) Change in gross unearned premiums |
| d) Change in reinsurers' portion of gross unearned premiums |
| |
| |
| 2. Technical interest earned for own account |
| 3. Other underwriting earnings for own account |
| 4. Cost of claims for own account |
| a) Payments for claims |
| aa) Gross amount |
| bb) Reinsurers' portion |
| |
| b) Change in provision for outstanding claims |
| aa) Gross amount |
| bb) Reinsurers' portion |
| |
| |
| 5. Change in other net underwriting reserves |
| a) Net actuarial provision |
| b) Other underwriting reserves |
| |
| 6. Cost of profit-dependent and profit-independent premium rebates for own account |
| 7. Cost of insurance business for own account |
| a) Gross cost of insurance business |
| b) less: commissions and profit-sharing received from reinsured insurance business |
| |
| 8. Other underwriting costs for own account |
| **9. Subtotal** |
| 10. Change in fluctuation reserve and similar provisions |
| **11. Underwriting result for own account in property and accident insurance business** |

| Appendix | in euros | in euros | 2005 in euros | 2004 in euros |
|---|---|---|---|---|
| | | | | |
| | | | | |
| 31 p. 59 | 894,473,774.29 | | | 874,935,394.74 |
| | -20,371,325.62 | | | -23,313,105.77 |
| | | 874,102,448.67 | | 851,622,288.97 |
| | -5,306,594.89 | | | 3,365,093.37 |
| | 403,617.00 | | | 53,525.00 |
| | | -4,902,977.89 | | 3,418,618.37 |
| | | | **869,199,470.78** | **855,040,907.34** |
| | | | **575,898.48** | **494,072.00** |
| | | | **2,493,062.82** | **2,441,480.67** |
| | | | | |
| | | | | |
| | 509,896,802.86 | | | 468,609,827.37 |
| | -8,374,247.20 | | | -10,538,507.32 |
| | | 501,522,555.66 | | 458,071,320.05 |
| | | | | |
| | 9,615,672.03 | | | 48,608,250.05 |
| | -3,647,627.97 | | | 3,071,208.64 |
| | | 5,968,044.06 | | 51,679,458.69 |
| | | | **507,490,599.72** | **509,750,778.74** |
| | | | | |
| | | 0.00 | | 62.00 |
| | | 1,984,772.86 | | 425,375.09 |
| | | | **1,984,772.86** | **425,437.09** |
| 36 p. 63 | | | **8,495.00** | **4,136.00** |
| 35 p. 63 | | | | |
| | | 364,719,270.24 | | 359,231,053.48 |
| | | -5,252,888.91 | | -8,931,647.73 |
| | | | **359,466,381.33** | **350,299,405.75** |
| | | | **1,186,293.54** | **1,371,367.41** |
| | | | **6,101,435.35** | **-3,023,790.80** |
| | | | **-5,058,627.00** | **-7,671,622.00** |
| | | | **1,042,808.35** | **-10,695,412.80** |

# Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2005

| Item |
|---|
| **II. Underwriting account for life and health insurance business** |
| 1. Earned premiums for own account |
| a) Gross premiums booked |
| b) Premiums for reinsured business |
| c) Change in gross unearned premiums |
| d) Change in reinsurers' portion of gross unearned premiums |
| 2. Premiums from gross reserve for premium rebates |
| 3. Earnings from capital investments |
| a) Earnings from shareholdings<br>portion from affiliated companies: € 0.00 (previous year € 0.00) |
| b) Earnings from associated companies |
| c) Earnings from other capital investments<br>portion from affiliated companies: € 114,559.44 (previous year € 45,303.11) |
| aa) Income from real estate, comparable rights and buildings including those on third-party property |
| bb) Earnings from other capital investments |
| d) Gains from write-ups |
| e) Gains from sale of capital investments |
| f) Gains from dissolution of special reserve item |
| 4. Unrealized gains from capital investments |
| 5. Other underwriting earnings for own account |
| 6. Cost of claims for own account |
| a) Payments for claims |
| aa) Gross amount |
| bb) Reinsurers' portion |
| b) Change in provision for outstanding claims |
| aa) Gross amount |
| bb) Reinsurers' portion |
| 7. Change in other net underwriting reserves |
| a) Net actuarial provision |
| aa) Gross amount |
| bb) Reinsurers' portion |
| b) Other underwriting reserves |
| 8. Cost of profit-dependent and profit-independent premium rebates for own account |
| 9. Cost of insurance business for own account |
| a) Cost of sales |
| b) Administrative costs |
| c) less: commissions and profit-sharing received from reinsured insurance business |
| 10. Costs of capital investments |
| a) Costs for administration of capital investments, interest costs and other costs for capital investments |
| b) Write-downs on capital investments<br>portion for extraordinary write-downs according to Art. 253 (2) sen. 3 HGB:<br>€ 9,413,440.28 (previous year € 6,578,424.14) |
| c) Losses from sale of capital investments |
| 11. Unrealized losses from capital investments |
| 12. Other underwriting costs for own account |
| **13. Underwriting result for own account in life and health insurance business** |

| Appendix | in euros | in euros | 2005 in euros | 2004 in euros |
|---|---|---|---|---|
| | | | | |
| | | | | |
| 31 p. 59 | 409,663,672.24 | | | 411,242,931.75 |
| | -7,163,148.21 | | | -7,385,827.40 |
| | | 402,500,524.03 | | 403,857,104.35 |
| | 1,312,646.22 | | | 1,038,673.52 |
| | -447,082.92 | | | 68,080.13 |
| | | 865,563.30 | | 1,106,753.65 |
| | | | **403,366,087.33** | **404,963,858.00** |
| | | | **10,511,168.95** | **4,363,963.85** |
| | | | | |
| | | | | |
| | | 2,996,308.31 | | 2,683,356.43 |
| | | 1,561,123.54 | | 1,788,776.87 |
| | | | | |
| | | | | |
| | | | | |
| | 13,856,698.23 | | | 14,481,823.96 |
| | 137,863,356.75 | | | 129,072,062.69 |
| | | 151,720,054.98 | | 143,553,886.65 |
| | | 22,056,555.47 | | 9,690,670.46 |
| | | 4,300,299.64 | | 2,707,663.08 |
| | | 0.00 | | 0.00 |
| | | | **182,634,341.94** | **160,424,353.49** |
| 34 p. 62 | | | **5,985,899.57** | **2,019,688.20** |
| | | | **525,058.22** | **657,577.15** |
| | | | | |
| | | | | |
| | 338,512,648.51 | | | 349,174,850.79 |
| | -7,255,661.53 | | | -10,430,000.79 |
| | | 331,256,986.98 | | 338,744,850.00 |
| | | | | |
| | -5,874,403.15 | | | -1,512,609.30 |
| | -49,867.54 | | | 32,017.08 |
| | | -5,924,270.69 | | -1,480,592.22 |
| | | | **337,181,257.67** | **340,225,442.22** |
| | | | | |
| | | | | |
| | -77,761,951.45 | | | -60,231,259.46 |
| | 1,096,405.00 | | | -3,065,910.00 |
| | | -76,665,546.45 | | -63,297,169.46 |
| | | -5,743,737.28 | | -1,941,075.61 |
| | | | **-82,409,283.73** | **-65,238,245.07** |
| 36 p. 63 | | | **75,822,002.62** | **52,874,551.87** |
| 35 p. 63 | | | | |
| | 43,745,500.34 | | | 55,767,902.36 |
| | 15,073,691.85 | | | 15,348,738.77 |
| | | 58,819,192.19 | | 71,116,641.13 |
| | | -796,639.19 | | -1,519,858.02 |
| | | | **58,022,553.00** | **69,596,783.11** |
| | | | | |
| | | 6,480,543.39 | | 9,278,905.89 |
| | | | | |
| | | | | |
| | | 14,121,339.84 | | 10,771,209.43 |
| | | 15,572.56 | | 427,858.52 |
| | | | **20,617,455.79** | **20,477,973.84** |
| | | | **2.39** | **0.00** |
| | | | **11,697,855.24** | **4,699,020.33** |
| | | | **17,272,145.57** | **19,317,424.25** |

## Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2005

| Item |
|---|
| **III. Non-underwriting account** |
| 1. Underwriting result for own account |
| a) In property and accident insurance business |
| b) In life and health insurance business |
| |
| 2. Earnings from capital investments, where not stated under II. 3. |
| a) Earnings from shareholdings<br>portion from affiliated companies: € 569,170.00 (previous year € 1,159,665.00) |
| b) Earnings from associated companies |
| c) Earnings from other capital investments<br>portion from affiliated companies: € 328,173.54 (previous year € 298,188.35) |
| aa) Income from real estate, comparable rights and buildings including those on third-party property |
| bb) Earnings from other capital investments |
| |
| d) Gains from write-ups |
| e) Gains from sale of capital investments |
| f) Gains from dissolution of special reserve item |
| |
| 3. Costs of capital investments, where not stated under II. 10. |
| a) Costs for administration of capital investments, interest costs and other costs for capital investments |
| b) Write-downs on capital investments<br>portion for extraordinary write-downs according to Art. 253 (2) sen. 3 HGB:<br>€ 4,385,183.40 (previous year € 10,471,196.53) |
| c) Losses from sale of capital investments |
| d) Costs from assumption of losses |
| e) Transfers to special reserve item |
| |
| |
| 4. Technical interest earnings |
| 5. Sales revenues from non-insurance subsidiaries |
| 6. Production costs of performing the services for achieving the sales revenues of non-insurance subsidiaries |
| 7. Other earnings |
| 8. Other costs<br>portion for write-downs on goodwill from consolidation of capital:<br>€ 18,245,477.63 (previous year € 6,096,446.28) |
| |
| 9. Non-underwriting result |
| 10. Income from normal business activity |
| 11. Extraordinary earnings |
| 12. Extraordinary expenses |
| **13. Extraordinary operating result** |
| **14. Operating result before taxes** |
| 15. Taxes on income and earnings |
| 16. Other taxes |
| |
| **17. Profit/loss for year before minority interests** |
| 18. Profit attributable to other shareholders |
| 19. Loss attributable to other shareholders |
| |
| **20. Net income** |

| | | | | 2005 | 2004 |
|---|---|---|---|---|---|
| | in euros | in euros | in euros | in euros | in euros |
| | | | | | |
| | | | 1,042,808.35 | | -10,695,412.80 |
| | | | 17,272,145.57 | | 19,317,424.25 |
| | | | | **18,314,953.92** | **8,622,011.45** |
| | | | | | |
| | | 821,540.03 | | | 1,263,528.83 |
| | | 1,406,420.35 | | | 1,998,949.72 |
| | | | | | |
| | 14,176,161.03 | | | | 13,512,252.79 |
| | 73,723,645.57 | | | | 65,625,543.30 |
| | | 87,899,806.60 | | | 79,137,796.09 |
| | | 15,333,925.15 | | | 4,814,327.77 |
| | | 9,841,343.69 | | | 2,900,880.84 |
| | | 195,908.39 | | | 0.00 |
| | | | 115,498,944.21 | | 90,115,483.25 |
| | | | | | |
| | | 11,278,717.73 | | | 11,040,078.79 |
| | | | | | |
| | | 10,679,891.22 | | | 19,127,253.91 |
| | | 2,311,763.11 | | | 1,628,947.11 |
| | | 0.00 | | | 0.00 |
| | | 0.00 | | | 0.00 |
| | | | 24,270,372.06 | | 31,796,279.81 |
| | | | | **91,228,572.15** | **58,319,203.44** |
| | | | | **-575,398.00** | **-494,072.00** |
| | | | | **55,743,703.19** | **67,970,495.14** |
| | | | | **-56,304,325.83** | **-72,944,591.45** |
| | | | 26,360,911.75 | | 28,650,760.14 |
| | | | | | |
| | | | 79,562,045.80 | | 62,225,608.05 |
| | | | | **-53,201,134.05** | **-33,574,847.91** |
| | | | | **36,891,417.46** | **19,276,187.22** |
| | | | | **55,206,371.38** | **27,898,198.67** |
| | | | 5,980,099.04 | | 0.00 |
| | | | 0.00 | | 0.00 |
| | | | | **5,980,099.04** | **0.00** |
| | | | | **61,186,470.42** | **27,898,198.67** |
| | | | 26,454,966.27 | | 11,594,682.44 |
| | | | 858,710.90 | | 773,332.79 |
| | | | | **27,313,677.17** | **12,368,015.23** |
| | | | | **33,872,793.25** | **15,530,183.44** |
| | | | -4,327,978.31 | | -4,217,333.85 |
| | | | 698,209.39 | | 1,588,606.16 |
| | | | | **-3,629,768.92** | **-2,628,727.69** |
| | | | | **30,243,024.33** | **12,901,455.75** |

# I. Notes on Scope of Consolidation as well as Accounting, Valuation and Consolidation Methods

**Legal basis for preparation of the consolidated financial statement** The year-end consolidated financial statement of ARAG Aktiengesellschaft for fiscal 2005 and the Group management report were prepared according to the provisions of the German Commercial Code (HGB) for large corporations, under observance of the supplementary requirements for insurance companies promulgated 8 November 1994 (RechVersV) under particular consideration of the accounting regulations for conglomerates as set forth in Art. 341i, 341j HGB and Art. 58 to 60 RechVersV as well as the German accounting standards ("Deutsche Rechnungslegungsstandards") (applicable as principles of orderly accounting within the meaning of Art. 342 (2) HGB). The latter were applied insofar as the necessary information could be obtained under consideration of economy and internally set deadlines.

In accordance with Art. 58 (1) RechVersV, forms 1 and 4 were used for the structure of the consolidated financial statement. The forms were expanded to reflect special features of the Group as well as items for non-insurance business.

**Scope of consolidation** The consolidated financial statement reports on 54 subsidiaries in accordance with Art. 301 (1) HGB. Four companies within the scope of consolidation were included as associated companies within the meaning of Art. 311 HGB. One company was withdrawn from the scope of consolidation as of 30 June 2005, a second one was merged with another subsidiary included in the scope of consolidation.

As of 31 December 2005, the consolidation scope comprises 16 insurance companies, two service enterprises in the field of information technology and business organization, 17 real estate management companies, 15 miscellaneous service companies and seven holding and asset management companies (including the top-level parent company).

The consolidated financial statement does not include 36 Group subsidiaries, as on account of the minor significance of these companies their omission from the scope of consolidation in no way impairs the asset, financial or earnings situation of the Group.

**The following companies were included in the consolidated financial statement:**

| | Name of company | Group share in % |
|---|---|---|
| 1 | Advisory Communications System Inc., Des Moines, Iowa/USA | 94.93 |
| 2 | AFI Verwaltungs-Gesellschaft mbH, Dusseldorf | 89.86 |
| 3 | ALLDATA SYSTEMS GmbH, Dusseldorf (until 30 June 2005) | 89.91 |
| 4 | ALV Vermögens- und Beteiligungs-Verwaltungs AG, Munich | 79.35 |
| 5 | ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich | 79.35 |
| 6 | ARAG 2000 Grundstücksgesellschaft bR, Dusseldorf | 91.98 |
| 7 | ARAG Aktiengesellschaft, Dusseldorf | 100.00 |
| 8 | ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Dusseldorf | 94.93 |
| 9 | ARAG Allgemeine Versicherungs-AG, Dusseldorf | 94.97 |
| 10 | ARAG Assicurazioni Rischi Automobilistici e Generali S.p.A., Verona/Italy | 94.93 |
| 11 | ARAG Association LLC, Des Moines, Iowa/USA | 94.93 |
| 12 | ARAG Compañía Internacional de Seguros y Reaseguros S.A., Barcelona/Spain | 94.93 |
| 13 | ARAG Insurance Company Inc., Des Moines, Iowa/USA | 91.23 |

| | | |
|---|---|---|
| 14 | ARAG International Holding GmbH, Dusseldorf | 94.93 |
| 15 | ARAG IT GmbH, Dusseldorf | 94.94 |
| 16 | ARAG Krankenversicherungs-AG, Munich | 79.35 |
| 17 | ARAG Lebensversicherungs-AG, Munich | 79.35 |
| 18 | ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Dusseldorf | 94.93 |
| 19 | ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Dusseldorf | 94.95 |
| 20 | ARAG LLC, Des Moines, Iowa/USA | 94.93 |
| 21 | ARAG North America Inc., Des Moines, Iowa/USA | 94.93 |
| 22 | ARAG Österreich Allgemeine Rechtsschutz-Versicherungs-AG, Vienna/Austria | 94.93 |
| 23 | ARAG Plc., Manchester/Great Britain | 94.93 |
| 24 | ARAG S.A. Assurance en Protection Juridique, Brussels/Belgium | 94.90 |
| 25 | ARAG Service Center GmbH, Dusseldorf | 94.94 |
| 26 | ARAG Services LLC, Des Moines, Iowa/USA | 94.93 |
| 27 | ARAG zavarovanje pravne zascite d. d., Ljubljana/Slovenia | 94.93 |
| 28 | ARAG-Nederland Algemene Rechtsbijstand Verzekeringmaatschappij N.V., AN-Leusden/Netherlands | 94.74 |
| 29 | COLUMBUS CAPITAL Service GmbH, Munich | 79.35 |
| 30 | Cur Versicherungsmakler GmbH, Essen | 66.67 |
| 31 | Cura Gesellschaft für Vermögensverwaltung und für Vermittlung mbH, Dusseldorf | 58.86 |
| 32 | Cura GmbH & Co. KG, Dusseldorf | 66.67 |
| 33 | GWV-AVUS Beteiligungsmanagement GmbH, Munich | 79.35 |
| 34 | IGD Immobilien GmbH & Co. Dresden KG, Dusseldorf | 90.09 |
| 35 | IGD Immobilien GmbH, Dusseldorf | 94.93 |
| 36 | Interiura International AG, Dusseldorf | 94.93 |
| 37 | Interlloyd Versicherungs-AG, Dusseldorf | 94.97 |
| 38 | ISAR-MEDICAL Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 39 | ISAR-REAL Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 40 | ISAR-WOHNEN Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 41 | ITS-Haus GmbH Wohn- und Gewerbebau, Munich | 79.35 |
| 42 | KISA Katalonien Invest S.A., Barcelona/Spain (until 30 June 2005) | 94.93 |
| 43 | Lawphone Inc., Des Moines, Iowa/USA | 94.93 |
| 44 | Lawphone of Canada Inc., Des Moines, Iowa/USA | 94.93 |
| 45 | MAIN-NECKAR Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 46 | Prinzregent Grundbesitz-GmbH & Co. KG, Munich | 79.35 |
| 47 | Prinzregent Immobilien-Management GmbH, Munich | 79.35 |
| 48 | Prinzregent Vermögensverwaltung GmbH & Co. KG, Munich | 79.35 |
| 49 | Rechtswijzer B.V., Leusden/Netherlands | 94.55 |
| 50 | RHEIN-ISAR Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 51 | SECTOR Erste Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 52 | SECTOR Zweite Grundbesitz GmbH & Co. KG, Munich | 79.35 |
| 53 | SolFin GmbH, Dusseldorf | 71.30 |
| 54 | TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Dusseldorf | 94.93 |
| 55 | WOWOBAU Wohnungsbaugesellschaft mbH, Munich | 79.35 |

**The following companies were included as associated companies:**

| | Name of company | Group share in % |
|---|---|---|
| 1 | Allrecht Rechtsschutzversicherung AG, Dusseldorf | 24.68 |
| 2 | LE FOYER ARAG S.A., Luxembourg | 47.47 |
| 3 | Rendite Partner Gesellschaft für Vermögensverwaltung GmbH, Frankfurt/Main | 26.45 |
| 4 | Winterthur-ARAG Rechtsschutzversicherungs-AG, Zurich/Switzerland | 27.69 |

**The following companies were not included in the consolidated financial statement in accordance with art. 296 (2) HGB:**

| | Name of company | Group share in % | Equity in euros | Profit/loss for year in euros |
|---|---|---|---|---|
| 1 | ABRAL Beteiligungsverwaltung GmbH, Munich | 79.35 | 148,568.50 | 17,132.05 |
| 2 | Agencia de Seguros Cap. ARAG S.A., Barcelona/Spain | 94.93 | 60,110.00 | 2.61 |
| 3 | ALVA Aktiengesellschaft, Munich | 79.35 | 326,816.71 | 27,854.53 |
| 4 | ARAG-pojišt'ovna právní ochrany a.s. v likvidaci, Prague/Czech Republic | 94.93 | 468,448.29 | -75,793.15 |
| 5 | ARAG International B.V., Leusden/Netherlands | 94.74 | 23,653.00 | -330.00 |
| 6 | ARAG Szolgáltató Zártköruen Muködo Részvénytársaság végelszámolás alatt, Budapest/Hungary | 94.93 | 1,855,733.45 | -61,539.98 |
| 7 | ARAG Service S.R.L., Verona/Italy | 93.98 | 116,016.00 | 27,251.00 |
| 8 | ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison/France | 94.93 | 23,375.96 | 2,428.24 |
| 9 | ARCA-A GmbH, Munich | 79.35 | 24,827.11 | 485.60 |
| 10 | ARCA-B GmbH, Munich | 79.35 | 24,825.55 | 485.78 |
| 11 | ARCA-C GmbH, Munich | 79.35 | 24,589.60 | 460.62 |
| 12 | ARCA-D GmbH, Munich | 79.35 | 24,827.29 | 485.78 |
| 13 | ARCA-E GmbH, Munich | 79.35 | 24,838.25 | 485.78 |
| 14 | ARCA-F GmbH, Munich | 79.35 | 24,820.35 | 485.78 |
| 15 | ARCA-G GmbH, Munich | 79.35 | 24,831.78 | 485.78 |
| 16 | ARCA-H GmbH, Munich | 79.35 | 24,831.77 | 485.78 |
| 17 | ARCA-I GmbH, Munich | 79.35 | 24,937.76 | 485.78 |
| 18 | ARCA-J GmbH, Munich | 79.35 | 24,565.41 | 448.47 |
| 19 | ARCANSA Beteiligungsverwaltung GmbH, Munich | 79.35 | 280,451.13 | -20,607.86 |
| 20 | BuZ Vermittlungsgesellschaft mbH, Munster | 79.35 | -1,013,415.13 | 198,752.86 |
| 21 | INTERIURA Deutschland GmbH, Dusseldorf | 94.93 | 435,614.48 | 77,673.06 |
| 22 | INTERIURA-Italy s.r.l., Verona/Italy | 94.94 | 461,544.00 | 114,736.00 |
| 23 | INTERIURA Polska Spólka z organiczona odpowiedzialnoscia, Wroclaw/Poland | 94.93 | -10,683.50 | -17,767.88 |
| 24 | INTERIURA Magyarország Nemzetközi Kárrendezési Kft., Budapest/Hungary | 91.76 | 54,103.26 | 21,926.27 |
| 25 | INTERIURA Schadenregulierungs-AG, Basel/Switzerland | 94.93 | -525,598.35 | -31,041.09 |

| | | | | |
|---|---|---|---|---|
| 26 | INTERIURA Schadenregulierungsges. mbH, Vienna/Austria | 94.93 | 819,960.70 | 145,161.97 |
| 27 | INTERIURA Sociedade Internacional Reguladore de Sinistros Lda., Lisbon/Portugal | 94.93 | 39,992.35 | 8,901.36 |
| 28 | INTERIURA United Kingdom Limited, Manchester/Great Britain | 94.93 | -54,328.36 | 68,071.76 |
| 29 | INTERIURA-Belgium s.p.r.l., Brussels/Belgium | 94.81 | 570,337.68 | -29,540.10 |
| 30 | INTERIURA-FRANCE S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison/France | 94.93 | 27,809.98 | -145,940.54 |
| 31 | INTERIURA-INTERRECHT S.A., Barcelona/Spain | 94.93 | 1,509,937.17 | 531,567.12 |
| 32 | INTERIURA-Nederland Schaderegelingsbureau B.V., Leusden/Netherlands | 94.93 | 164,336.00 | 31,347.00 |
| 33 | INTERJURA Internationale Schadenregulierungsgesellschaft mbH, Athens/Greece | 94.84 | 21,606.75 | 1,026.50 |
| 34 | Prinzregent Vermögensverwaltung-GmbH, Munich | 79.35 | 27,559.30 | 1,770.56 |
| 35 | Stella Gesellschaft mbH Werbeagentur, Dusseldorf | 54.61 | 148,002.94 | -303.30 |
| 36 | VIA Beratungsgesellschaft mbH, Dusseldorf | 92.61 | 341,539.64 | 22,182.78 |

**Consolidation principles** The consolidated financial statement was prepared on the basis of the individual financial statements of the respective subsidiaries. The fiscal year comprises the period from 1 January to 31 December 2005 and is identical to all fiscal years of the subsidiaries involved. The consolidation of capital was undertaken using the book-value method through offsetting of the acquisition costs of the shareholdings of the subsidiaries involved with their proportional equity as of the date they were first selected for consolidation. The resulting asset-side difference was initially attributed to the valuations of the assets of the respective subsidiaries. The asset-side difference that exceeds the permissible attribution was in all cases stated as the goodwill and depreciated over the anticipated period of use (Art. 309 (1) sen. 1 HGB, German Commercial Code). Insofar as subsidiaries were included in the 1989 consolidated financial statement under application of Art. 27 EGHGB (Introductory Law to German Commercial Code), or the asset-side difference represents a loss that was reflected in previous years' financial statements of the parent company, or a charge against future revenues appeared unjustified, an open offsetting against the revenue reserves was performed as per Art. 309 (2) sen. 3 HGB.

The final consolidation of the subsidiaries eliminated from the consolidation scope is always performed so as to be income-relevant by setting off the assets and liabilities of the subsidiary sold as a proportion of consolidated values against the sale proceeds. In the fiscal year under review, final consolidation was performed for the subsidiary ALLDATA SYSTEMS GmbH, Düsseldorf effective 30 June 2005, as this subsidiary was sold in its entirety. An intermediate financial statement was prepared as of the date of final consolidation, 30 June 2005.

The holdings in associated companies were stated as the proportional equity or the Group's acquisition costs, respectively, in accordance with Art. 312 (2) through (4) HGB.
Intra-Group profits subject to elimination were deducted from the valuations of the respective assets in an income-relevant manner. Accounts receivable and payable between Group subsidiaries were set off against each other. Earnings from services between companies included in the consolidated financial statement were set off against their respective shares of the costs of the service providers.
Mutual agency services for companies included in the consolidated financial statement are performed by a company included in the consolidated financial statement at standard, externally comparable market conditions. The consolidation of commissions arising from agency services was performed in the consolidated balance sheet on the level of the respective company by setting these off against the associated costs.

**Currency conversion** The financial statements prepared in foreign currencies were converted into euros using the reporting-date principle on the basis of the mean exchange rate as of the balance-sheet date. Conversion from currencies which belong to the unified euro currency zone as of 1 January 1999 resp. 1 January 2001 was performed using the official euro exchange rates. The difference between the historical exchange rate and the equity converted at the lower balance-sheet date exchange rate that is attributable to the Group was transferred to revenue reserves in an income-neutral manner in the amount of € 2,228,105.80. German accounting standard DRS 14 was not applied as this was not sufficiently practical.

**Accounting and valuation methods** Preparation of this financial statement conformed to the accounting and valuation regulations contained in Art. 341ff. HGB.
To the greatest extent possible, the financial statements of the companies included in the consolidated financial statement were prepared in a uniform manner using the accounting and valuation principles of the ARAG Group. Financial statements of subsidiaries that were not prepared according to HGB and RechVersV regulations have been adapted to German accounting principles with respect to line items, statement and valuation to the greatest possible extent.
The consolidated balance sheet and the consolidated statement of profit and loss were organized in virtually all respects using the forms specified in the RechVersV. As the Group is active in multiple lines of business, the balance sheet structure had to be expanded to include the line item "Real estate intended for sale and other assets of non-insurance companies", while the line items "Sales revenues from non-insurance subsidiaries" and "Production costs of performing the services for achieving the sales revenues of non-insurance subsidiaries" were added to the statement of profit and loss.

1 **Costs for start-up and expansion of business activity** were capitalized according to Art. 269 HGB (German Commercial Code) due to investments of the personal insurance segment in IT systems to handle new retirement policies ("Riester Rente"). In the fiscal year under review, this item was depreciated entirely according to schedule as provided for under Art. 282 HGB.

2 The **goodwill** values result from capital consolidation as well as from enterprise acquisitions. The depreciation period was determined as the anticipated duration of utilization in accordance with DRS 4 item 31. This is assumed to be 15 years (portfolio value) for insurance companies and four years for other companies. In the fiscal year under review, the residual goodwill value from the capital consolidation of ARAG Österreich Allgemeine Rechtsschutzversicherungs-AG was written off in the amount of € 13,800,805.35. Of this write-off, € 12,420,724.71 was non-scheduled due to reduced earnings expectations.

3 **Other intangible assets** are stated at their acquisition costs, depreciated linearly.

4 **Real estate** is valued at its acquisition or production cost reduced by scheduled depreciation and write-downs according to the strict lower of cost or market principle.

5 **Shares in affiliated companies not included in the consolidated financial statement** and the **other holdings** are valued at their acquisition costs in accordance with Art. 253 (2) HGB, reduced by extraordinary write-downs as appropriate. **Holdings in associated companies** are valued at the book value at the time of acquisition of the shares or their initial inclusion in the consolidated financial statement as of 31 December 1990, respectively, increased or decreased by the proportional amount of equity changes in subsequent years.

**Lending to affiliated companies** is stated at par value.

6 **Stocks, investment fund shares, bearer bonds and other fixed-interest securities** are always valued in accordance with art. 341b (2) HGB (German Commercial Code) in connection with Art. 253 (1) and (3) HGB at acquisition cost or at the lower value at the balance-sheet date respectively. For investment fund shares attributed to capital investment in fiscal 2002, an assessment of the value to be reported was taken in accordance with the strict lower of cost or market principle as provided for under Art. 253 (2) sen. 3 HGB in connection with Art. 279 (1) HGB, irrespective of this attribution. This required non-scheduled write-downs in the amount of € 3,990,662.99. In addition, write-downs in the amount of € 161,397.34 were required on account of the anticipated long-term loss of value. All hidden charges have been completely eliminated. Valuation reserves in the amount of € 63.2 million exist.

In accordance with Art. 8a of the law governing senior part-time employment, investment-fund shares in the amount of € 868,164.88 have been pledged to employees as security for performance arrears in accordance with the block model. In addition, bearer bonds in the amount of € 7,697,675.00 have been pledged to a financial institute as security for liabilities stated in the balance sheet.

7 **Other lending, mortgages receivable, other similar rights, fixed-interest debts and other capital investments** are stated at their par or redemption values, respectively. Discounts are distributed straight-line using the accrual method of income recognition. Premiums are carried as assets and released as scheduled over the duration.

8 Capital investments for the account and risk of life insurance policyholders are stated at current value. This valuation corresponds to the gross reserves stated on the liability side under item F.

9 Bank deposits are stated at par value.

10 Accounts receivable are always stated at par value. In the case of receivables against policyholders and for supply and performance, a general charge is made for the potential risk of nonpayment; receivables against agents are adjusted using individual bad debt charges plus a general charge equivalent to the expected bad debts.

11 According to Art. 253 (1) sen. 1 HGB (German Commercial Code) tangible assets are capitalized at the acquisition cost decreased by straight-line depreciation over their normal period of use.

12 Supplies are determined by taking a physical inventory. These are valued at their procurement costs. The supplies of the non-insurance companies were valued at their cost of production, to which appropriate portions of general administrative costs and precisely calculable portions of financing costs attributable to the period of production have been added.

13 Other assets are stated at par value.

14 Accrued income mainly includes deferred interest not yet payable in the period of income up to the balance-sheet date as well as disbursements that are payable as expenses after the balance-sheet date. This item also contains € 527,714.92 from the difference determined according to Art. 341c (2) sen. 2 HGB.

15 The tax deferment item in accordance with Art. 306 in conjunction with Art. 274 (2) HGB reflects the anticipated tax relief in subsequent fiscal years in the amount of the current income tax rates on account of temporary differences between the commercial and the fiscal balance sheets in the individual financial statements, value adjustments to realize a uniform valuation in the consolidated financial statement as well as consolidation measures. Deferment amounts arising from valuation differences between the commercial and the fiscal balance sheets in the individual financial statements were taken into account only to the extent that these existed in the individual financial statements themselves. Insofar as tax deferments are attributable to domestic subsidiaries, a tax rate of 40 percent was applied. All tax deferment items are attributable to chronological differences that are eligible for consideration for tax purposes.

16 Where formed on account of tax requirements, the special reserve item was dissolved effective 1 January 2003 in an income-neutral manner. This action was necessary as Art. 308 (3) HGB was superceded by new corporate public disclosure requirements (“TransPuG”). Insofar as these items were changed in individual financial statements, these changes have been eliminated in the consolidated financial statement so as to be income-relevant.

17 Lower-ranking liabilities were issued by means of a private placement in order to improve the funds available for coverage with respect to Group solvability. The lower-ranking bearer debentures were stated as liabilities at the repayment amount. These securities are not tradable on an organized market in Germany pursuant to Art. 2 (5) of the applicable securities statute.

**18** Gross unearned premiums for the self-contracted insurance business are calculated on the basis of booked premiums and cancellations using the pro rata temporis method and reduced by the charges for installments contained therein. The unearned premiums of the domestic insurance subsidiaries are reduced by the portion ineligible for carrying forward in accordance with the memorandum of the German Finance Ministry of 30 April 1974. 85 percent of agent commissions and other compensation is classified as non-transferable parts of the revenues. In accordance with the German Insurance Association GDV, we are assuming that this rule has not been rescinded by the Finance Ministry memorandum IV C 9 – O 1000 – 86/5 of 7 June 2005 respecting the reduction of bureaucracy.

Reinsurers' portions of unearned premiums were assessed according to the contractual arrangements.

**19** The actuarial provision is calculated individually in conformance with Art. 341f HGB in accordance with actuarial principles, which (insofar as is mandatory) are registered with the German Federal Financial Supervisory Authority, on the basis of the respective policy data. This provision was calculated using the prospective method with implicit consideration of future costs on an individual-policy basis. In this process, the following calculation basis was used for the settlement groups for individual term insurance policies and endowment insurance policies: assumed rates of interest of 3.0 percent and 3.5 percent, maximum zillmerization 35 per mil of insured amount (exception: rates with higher death benefit) as well as mortality rates according to the mortality tables ADSt 01/10 Gesamt, ADSt 24/26 M, ADSt 60/62 mod. M and ADSt 1986, separately for men and women. For non-contributory policies, an explicit provision for administrative costs was formed for non-contributory periods. The German Federal Financial Supervisory Authority has been informed of the calculation principles used in this calculation in compliance with Art. 13d No. 5 VAG. Premium components from the expected non-contributory child accident insurance policies are transferred to the actuarial provision for children's accidents. Calculation is performed according to mathematic principles as per the underwriting business plan.

**20** Provisions for outstanding claims for the self-contracted property and accident insurance business are organized by year of occurrence, separated into those claims reported during the respective fiscal year and those reported after the balance-sheet date as well as those to be expected. In addition, reserves for claim settlement costs were calculated according to Art. 341g (1) HGB (for domestic subsidiaries according to the "Coordinated Regulations of the Federal States from 2 February 1973"). Provisions for outstanding claims were reduced by claim reimbursement receivables which can be expected in 2006.

In light of the incompatibility with the imparity principle, the provisions of Art. 20 (2) KStG (German corporate income-tax law) in connection with Art. 6 (1), no. 3a, letter a EStG (German income-tax law) (so-called "realistic valuation") were ignored for the domestic insurance subsidiaries.

The first-time application of the discounting principle within the meaning of Art. 6 (1) no. 3a letter e EStG to the domestic property insurance subsidiaries in 1999 resulted in an increase of the income tax assessment basis of € 19.8 million (of which € 5.3 million is attributable to liability/ motorist liability). In assessing the income taxes for the fiscal year under review, one tenth (liability/ motorist liability segment) respectively one fifth (other segments) of the initial amount off the balance sheet was taken into consideration in accordance with the distribution rule of Art. 52 (16) sen. 6 of the applicable income tax law EStG.

Provisions for outstanding claims for the assumed reinsurance business are stated according to the information provided by the direct insurer.

The portion for reinsured business was determined in accordance with the provisions of the reinsurance policies.

The provisions for life insurance claims and surrenders reported but not yet settled as of the balance-sheet date were formed on the basis of the expected benefits to be paid. Additional provision was made for claims from previous fiscal years not yet filed as of the balance-sheet date in accordance with experience. In health insurance, this provision was determined by an approximate method. In this method, the payments disbursed in the first two months following the balance-sheet date for insurance claims from the fiscal year under review were increased by an experiential value arrived at on the basis of the total claims of the previous three years. A comparable method was applied for compulsory long-term care insurance. Receivables from recovery actions were deducted from the provision.

21 The fluctuation reserve for domestic subsidiaries was formed in compliance with the provisions of Art. 341h HGB in conjunction with Art. 29 RechVersV.

22 The cancellation reserve for discontinuation or reduction of the underwriting risk stated under the other underwriting reserves as well as the reserve for unused premiums in dormant motorist legal insurance and the reserve for premium exemption are calculated on the basis of anticipated requirements.

23 Pension reserves for the domestic subsidiaries are calculated on the basis of Art. 6a of the German income-tax law (EStG). Dr. Klaus Heubeck's table 2005 G with an assumed rate of interest of 6 percent is used as a reference base for the calculation of the partial value.

The discretionary right of Art. 28 (1) EGHGB (Introductory Law to German Commercial Code) to waive the establishment of pension reserves for prior commitments was not exercised.

The reserves for pensions in favor of employees and board members of foreign subsidiaries were formed and valued according to the respective national regulations.

24 The reserves for early retirement obligations were formed solely to cover those persons having entitlements under the collective early retirement agreement that expired on 31 December 1997, as well as persons with analogous individual contractual guarantees. This reserve was computed according to actuarial principles. In the fiscal year under review, a reserve was set up in accordance with the old-age part-time agreement for the private insurance industry, adopted on 11 June 1997, based on the IDW's (Institute of Auditors) publication dated 18 November 1998,

with an assumed rate of interest of 5.5 percent. The reserve concept takes into account the natural staff turnover and the probability that those candidates with whom no specific agreement has yet been made will make use of the early retirement provisions.

The **other reserves** are set at the level which is deemed necessary according to sound business judgment. A reserve for employee anniversary bonuses was formed in the year under review for special payments on the occasion of employee service anniversaries pursuant to Art. 6a EStG in accordance with the partial value, whereby a discount factor of 5.5 percent was assumed. The anticipated employee fluctuation was taken into account in the form of a general deduction on the cash value. Allowance was not made for the limitation for the tax calculation for German subsidiaries in keeping with Art. 52 (6) of the German income-tax law (EStG) in the Group balance sheet.

25 The **portfolio liabilities for reinsured insurance business** and the **other liabilities** are stated at their repayment values.

26 **Liabilities from the self-contracted insurance business** and **settlement liabilities from reinsurance business** are stated at par value.

27 The **deferred liabilities** contain differences in accordance with Art. 341c (2) sen. 1 HGB in the amount of € 443,141,90.

28 **Tax deferment** Due to the elimination of intra-Group profits and the income-effective debt consolidations, a differing (lesser) tax liability was determined as of 31 December 2005 arising from temporary differences with respect to the total of the individual financial statements; this amounted to € 4,922k for subsequent fiscal years (previous year € 2,934k). This deferred tax credit was balanced with the accrued and deferred items for deferred taxes from the individual financial statements and stated as the tax deferment item in accordance with Art. 274, 306 HGB (total: € 10,637k).

**29** **Group equity** A detailed representation of the Group's equity is presented on pages 66 and 67. This representation was compiled in compliance with DRS 7. The self-generated Group equity is stated as that portion of the Group's equity that was formed from the Group's net profit for the fiscal year under review and/or previous fiscal years. It comprises revenue reserves, profit carried forward and the net profit and is differentiated for the majorities and the minorities that directly or indirectly hold shares in the subsidiaries included in the consolidated financial statement.

The remaining Group profit includes changes in the Group equity in the fiscal year under review which cannot be stated in the statement of profit and loss due to commercial accounting principles and DRSC regulations and which are not due to received payments or disbursements on the shareholder level.

The equity of the top-level company is divided into 200,000,000 shares of no-par stock (common stock). The shares are registered in the respective names. Outstanding contributions have not been called in.

**30** **Difference from capital consolidation** The liabilities-side difference of € 13,888k (previous year € 13,888k) reflects the equity of eight subsidiaries that exceeds the acquisition costs.

## 31 II. Source of Insurance Business by Booked Premiums

| (in euros) | | | | Self-contracted business | | Assumed reinsurance business |
|---|---|---|---|---|---|---|
| Country/origin | Legal insurance | Property and accident | Life insurance | Health insurance | Legal insurance | Property and accident |
| Germany | 336,391,145.61 | 216,344,914.60 | 223,744,900.63 | 185,918,771.61 | 0.00 | 3,941,687.00 |
| Netherlands | 65,474,939.00 | | | | 22,742,106.00 | |
| Spain | 56,020,815.06 | 20,668,350.80 | | | 10,026,183.78 | 11,895,138.27 |
| Austria | 35,548,254.69 | | | | 755,555.18 | |
| USA | 34,999,793.13 | | | | 12,576,428.54 | |
| Belgium | 17,394,551.79 | | | | 78,733.50 | |
| Italy | 21,184,031.82 | | | | 24,508,715.73 | |
| Greece | 2,242,347.52 | | | | 1,175,245.69 | |
| Other countries | 485,114.00 | | | | 844.31 | 18,878.27 |
| Total | 569,740,992.62 | 237,013,265.40 | 223,744,900.63 | 185,918,771.61 | 71,863,812.73 | 15,855,703.54 |
| | | | | **1,216,417,930.26** | | **87,719,516.27** |
| **Grand total** | | | | | | **1,304,137,446.53** |

## 32 III. Development of Assets B., C. I. through IV. in fiscal 2005

| | Balance sheet values 2004 | Purchases | Added/removed from scope of consolidation | Transfers |
|---|---|---|---|---|
| | in euros | in euros | in euros | in euros |
| **B. Intangible assets** | | | | |
| 1. Costs for start-up and expansion of business activity in accordance with Art. 269 (1) sen. 1 HGB | 482,957.00 | | | |
| 2. Purchased goodwill | 64,781,382.38 | | | |
| 3. Other intangible assets | 11,831,787.85 | 3,944,157.75 | -268,609.00 | |
| **Total B.** | **77,096,127.23** | **3,944,157.75** | **-268,609.00** | **0.00** |
| **C. I. Real estate, comparable rights and buildings including those on third-party property** | **379,125,868.44** | **3,830,387.95** | **0.00** | **0.00** |
| **C. II. Capital investments in affiliated companies and shareholdings** | | | | |
| 1. Shares in affiliated companies | 4,658,454.77 | 1,004,435.41 | | |
| 2. Lending to affiliated companies | 5,192,725.22 | 1,250,314.43 | | |
| 3. Shareholdings | 91,791,702.69 | 3,704,975.34 | | |
| 4. Lending to companies with which a shareholding relationship exists | 3,216,831.20 | | | |
| **5. Total C. II.** | **104,859,713.88** | **5,959,725.18** | **0.00** | **0.00** |
| **C. III. Other capital investments** | | | | |
| 1. Stocks, investment fund shares and other non-fixed interest securities | 1,985,609,893.12 | 284,302,987.43 | | |
| 2. Bearer bonds and other fixed-interest securities | 345,608,462.68 | 166,661,019.73 | -44,328.19 | |
| 3. Mortgages receivable, other similar rights and fixed-interest debts | 295,759,203.08 | 7,043,006.77 | | |
| 4. Other lending | | | | |
| a) Registered debentures | 279,193,118.89 | 200,000,000.00 | | |
| b) Promissory notes and loans | 692,877,787.62 | 92,246,708.32 | | |
| c) Loans and advance disbursements on insurance policies | 79,634,930.86 | 18,465,641.79 | | |
| d) Other lending | 156,948,166.80 | 33,692.51 | | |
| 5. Bank deposits | 134,497,109.63 | 12,955,576.04 | -516,000.00 | |
| 6. Other capital investments | 293,680.09 | 20,250.00 | | |
| **7. Total C. III.** | **3,970,422,352.77** | **781,728,882.59** | **-560,328.19** | |
| **Total C. I. through C. III.** | **4,454,407,935.09** | **791,518,995.72** | **-560,328.19** | **0.00** |
| **C. IV. Portfolio assets from assumed reinsurance business** | **3,358,488.48** | **1,383,153.65** | **0.00** | **0.00** |
| **Total capital investments** | **4,457,766,423.57** | **792,902,149.37** | **-560,328.19** | **0.00** |

Real estate, comparable rights and buildings on third-party property with a balance-sheet value of € 190,290,661.24 (previous year € 191,992,991.02) were used by the Group's insurance companies for their own operations.

| Sales | Currency rate adjustments | Write-ups | Write-downs | Balance sheet values 2005 | Current values according to German statutory provisions (art. 54 RechVersV) | Hidden reserves |
|---|---|---|---|---|---|---|
| in euros | in euros | in euros | in euros | in euros | in thousand euros | in thousand euros |
| | | | | | | |
| | | | 482,957.00 | 0.00 | | |
| | 156,898.11 | | 18,834,950.16 | 46,103,330.33 | | |
| 1,164,378.23 | 272,325.62 | | 5,131,134.48 | 9,484,149.51 | | |
| **1,164,378.23** | **429,223.73** | **0.00** | **24,449,041.64** | **55,587,479.84** | | |
| **1,277,869.05** | **0.00** | **164,883.94** | **14,123,203.83** | **367,720,067.45** | **444,433** | **76,713** |
| | | | | | | |
| | | | 246,000.00 | 5,416,890.18 | 21,007 | 15,590 |
| 574,587.54 | | | 447,625.01 | 5,420,827.10 | 5,421 | |
| 6,920,355,46 | 1,748.50 | | 3,049,245.20 | 85.528.825.87 | 99,319 | 13,790 |
| | | | | 3,216,831.20 | 3,217 | |
| **7,494,943.00** | **1,748.50** | **0.00** | **3,742,870.21** | **99,583,374.35** | **128,964** | **29,380** |
| | | | | | | |
| 343,019,377.85 | 122,651.89 | 37,105,355.63 | 4,152,060.33 | 1,959,969,449.89 | 2,023,120 | 63,151 |
| 104,519,442.47 | 3,096,851.10 | 64,226.31 | 1,191,048.52 | 409,675,740.64 | 429,279 | 19,603 |
| 22,217,842.90 | | 1,500.00 | 1,579,863.21 | 279,006,003.74 | 279,006 | 0 |
| | | | | | | |
| 34,120,390.17 | | | | 445,072,728.72 | 480,124 | 35,051 |
| 38,729,985.30 | | 54,300.00 | 12,184.96 | 746,436,625.68 | 799,665 | 53,228 |
| 14,259,893.58 | | | | 83,840,679.07 | 85,307 | 1,467 |
| 1,239,614.19 | | 214.74 | | 155,742,459.86 | 161,317 | 5,574 |
| | 2,771.78 | | | 146,939,457.45 | 146,939 | 0 |
| | | | | 313,930.09 | 314 | 0 |
| **558,106,546.46** | **3,222,274.77** | **37,225,596.68** | **6,935,157.02** | **4,226,997,075.14** | **4,405,071** | **178,074** |
| **566,879,358.51** | **3,224,023.27** | **37,390,480.62** | **24,801,231.06** | **4,694,300,516.94** | **4,978,468** | **284,167** |
| **617,693.15** | **0.00** | **0.00** | **0.00** | **4,123,948.98** | **4,124** | **0** |
| **567,497,051.66** | **3,224,023.27** | **37,390,480.62** | **24,801,231.06** | **4,698,424,465.92** | **4,982,592** | **284,167** |

Of the bearer bonds, other fixed-interest securities and bank deposits, a total of € 8.6 million (previous year € 10.0 million) is pledged as security.

# IV. Additional Information

**Information in compliance with Art. 280, 285 (1) HGB** Write-ups according to Art. 280 (1) HGB (German Commercial Code) in the amount of € 37,390,480.62 (previous year € 14,504,998.23) were taken in the fiscal year under review.
Debts with a remaining term of more than five years exist in the amount of € 7,404,000.00 (previous year € 8,310,400.27). Debts to financial institutions in the amount of € 40,047,764.17 (previous year € 51,263,715.70) are secured by property liens.

33 **Extraordinary operating result** Extraordinary earnings in the amount of € 5,980,099.04 were realized from the sale of the business line "creation of software systems and planning and execution of organizational actions in connection with structure and process organization as well as information supply and processing". The cause for this realization was the removal of ALLDATA SYSTEMS GmbH from the scope of consolidation through the sale of the shares and of the software created by the company.

**Liability relationships** Warranty obligations in the amount of € 1,022,583.77 exist due to the real estate purchase contract with obligation to build in Rostock dated 31 January 1996. The same contract also mandates obligations to build parking spaces in the amount of € 818,067.01.

**Other financial obligations** Contribution obligations in the amount of € 23,625,830 exist from the holding in the Protektor Lebensversicherungs-AG; these can be called in as necessary. In the real estate development sector, the financial obligations for completed building contracts of current business operations, for buildings under construction as well as for real estate purchase contracts amount to € 8,200,000.00. Liabilities from a leasing contract amounting to € 357,956.00 were assumed for a former Group subsidiary as security for financing of a printing system. Yearly rental payment obligations in the amount of approx. € 2.7 million exist for the rental of a property in Dusseldorf. Rental contracts and leases with varying terms for premises, vehicles, office equipment as well as hardware and software of a computer center which were not contracted within the context of insurance business give rise to total annual obligations within the normal scope for our industry.
The following outstanding contributions, which have not been called in, are attributable to the ARAG Group: High Tech Beteiligungen GmbH & Co. KG, € 1,875,000.00, INVESCO Beteiligungsverwaltungs GmbH & Co. KG, € 9,994,285.71, VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, € 239,592.41.

34 **Unrealized gains from capital investments** The figure stated here represents the difference between the current value of capital investments at the beginning and end of the fiscal year for the account and risk of life insurance policyholders. A corresponding cost is included in the line item "Change in other net underwriting reserves".

**Write-downs on capital investment** Special tax write-offs on capital investments, particularly real estate, were not taken in the fiscal year under review. Unplanned write-downs in the amount of € 246,000.00 were taken on shares in affiliated companies not included in the consolidated financial statement, and other write-downs were taken in the amount of € 13,552,623.68.

## 35 The gross cost of insurance business comprises

| (in euros) | 2005 | 2004 |
|---|---|---|
| Sale of insurance policies | 193,847,258.70 | 207,973,329.66 |
| Administration of insurance policies | 229,691,203.73 | 222,374,364.95 |
| **Total costs** | **423,538,462.43** | **430,347,694.61** |

## 36 Costs of premium rebates for own account

| (in euros) | 2005 | 2004 |
|---|---|---|
| Costs of profit-dependent premium rebates | 72,809,209.19 | 49,315,972.75 |
| Costs of profit-independent premium rebates | 3,021,288.43 | 3,562,715.12 |
| **Total costs** | **75,830,497.62** | **52,878,687.87** |

## Commisions and other compensation for insurance representatives, employee costs

| (in euros) | 2005 | 2004 |
|---|---|---|
| 1. Commissions of all types for insurance representatives within the meaning of art. 92 HGB for self-contracted insurance business | 173,852,776.04 | 176,667,132.02 |
| 2. Other compensation for insurance representatives within the meaning of art. 92 HGB | 13,546,989.23 | 10,642,445.11 |
| 3. Wages and salaries | 181,236,698.74 | 197,458,310.44 |
| 4. Social security and support expenses | 33,962,281.19 | 36,118,101.85 |
| 5. Expenses for pension plans | 17,790,705.32 | 15,952,112.06 |
| **6. Total costs** | **420,389,450.52** | **436,838,101.48** |

**Average employment for year** On average over the entire year, the companies completely included in the consolidated financial statement employed 3,878 (previous year 4,394) persons. As of 31 December 2005, the ARAG Group employed a total of 3,773 persons (31 December 2004: 4,306).
The insurance companies employed 3,246 (previous year 3,475) persons on average. On average, 632 persons (previous year 917) were employed in the management and service companies. The German Group subsidiaries additionally employed 39 (previous year 52) vocational trainees.

**Compensation for Supervisory Board and Board of Management of ARAG AG** Compensation for the Supervisory Board amounted to € 480,076.85.
The compensation for Board members from all Group subsidiaries amounted to € 859,318.68. There are no current pensions or vested pension rights for former Board members or their survivors.

Dusseldorf, 22 May 2006

Board of Management

Dr. Paul-Otto Faßbender Dr. Karl-Heinz Strohe

# Statement of Consolidated Cash Flow for Fiscal Year 2005

| | 2005 in euros | 2004 in euros |
|---|---|---|
| **I. Cash flow from current business** | | |
| Net income | 33,872,793 | 15,530,183 |
| Change in net underwriting reserves | 150,205,013 | 151,350,570 |
| Change in portfolio assets and liabilities and settlement assets and liabilities | 4,004,048 | -3,550,083 |
| Change in other receivables and payables | -26,740,888 | -2,020,511 |
| Profit/loss from sale of capital investments | -11,814,308 | -3,551,738 |
| Changes in other assets and liabilities | -8,398,501 | -9,822,805 |
| Depreciation on intangible assets | 24,449,042 | 13,860,660 |
| Write-downs on capital investments | 24,801,231 | 29,898,463 |
| Write-ups on capital investments | -43,376,380 | -14,504,998 |
| Changes in special reserve item | -240,033 | -699,347 |
| Effects of currency exchange rates | -1,425,141 | 2,072,069 |
| **Cash flow from current business** | **145,336,876** | **178,562,463** |
| **II. Cash flow from investment activities** | | |
| Payments received from sale of consolidated companies and other business units | 16,503,353 | 0 |
| Disbursements for purchase of consolidated companies and other business units | 0 | 0 |
| Payments received from sale and maturity of other capital investments | 578,693,667 | 698,240,679 |
| Disbursements for the purchase of other capital investments | -791,518,996 | -856,075,798 |
| Payments received from sale of capital investments of mutual fund-linked life insurance | 1,711,944 | 1,577,814 |
| Disbursements for sale of capital investments of mutual fund-linked life insurance | -1,408,816 | -2,343,697 |
| Other payments received | 1,164,378 | 1,245,018 |
| Other disbursements | -3,944,158 | -4,375,595 |
| **Cash flow from investment activities** | **-198,798,628** | **-161,731,579** |
| **III. Cash flow from financing activities** | | |
| Shareholder contributions | 0 | 0 |
| Disbursements to company owners and minority shareholders | 0 | 0 |
| Dividend payments | -4,200,000 | -4,200,000 |
| Payments and disbursements from other financing activities | 50,000,000 | 0 |
| **Cash flow from financing activities** | **45,800,000** | **-4,200,000** |
| **Effective changes in cash reserves** | **-7,661,752** | **12,630,884** |
| Cash reserves at start of fiscal year | 48,908,621 | 36,277,737 |
| Cash reserves at end of fiscal year | 41,246,869 | 48,908,621 |
| **Change in cash reserves in fiscal year** | **-7,661,752** | **12,630,884** |

# 37 Statement of Equity

| Development over the course of the fiscal year (in euros) | Subscribed capital | Outstanding contributions not yet called in | Self-generated Group equity | Balancing item from currency conversion | Equity according to consolidated balance sheet |
|---|---|---|---|---|---|
| **I. Parent company** | | | | | |
| Values as of 31 December 2004 | 200,000,000.00 | -149,610,000.00 | 95,333,598.11 | 0.00 | 145,723,598.11 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -4,200,000.00 | | -4,200,000.00 |
| Changes in the scope of consolidation | | | 9,766,624.12 | | 9,766,624.12 |
| Other changes | | | | 2,228,105.80 | 2,228,105.80 |
| Group profit/loss for year | | | 30,243,024.33 | | 30,243,024.33 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 30,243,024.33 | | 30,243,024.33 |
| **Values as of 31 December 2005** | **200,000,000.00** | **-149,610,000.00** | **131,143,246.56** | **2,228,105.80** | **183,761,352.36** |
| **II. Minority shareholders** | | | | | |
| As of 31 December 2004 | 0.00 | 0.00 | 22,250,619.79 | -1,360.76 | 22,249,259.03 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -733,735.29 | | -733,735.29 |
| Changes in the scope of consolidation | | | -557,388.36 | | -557,388.36 |
| Other changes | | | | 108,585.97 | 108,585.97 |
| Group profit/loss for year | | | 3,629,768.92 | | 3,629,768.92 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 3,629,768.92 | | 3,629,768.92 |
| **Values as of 31 December 2005** | **0.00** | **0.00** | **24,589,265.06** | **107,225.21** | **24,696,490.27** |
| **III. Group equity** | | | | | |
| Values as of 31 December 2004 | 200,000,000.00 | -149,610,000.00 | 117,584,217.90 | -1,360.76 | 167,972,857.14 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -4,933,735.29 | | -4,933,735.29 |
| Changes in the scope of consolidation | | | 9,209,235.76 | | 9,209,235.76 |
| Other changes | | | | 2,336,691.77 | 2,336,691.77 |
| Group profit/loss for year | | | 33,872,793.25 | | 33,872,793.25 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 33,872,793.25 | | 33,872,793.25 |
| **Values as of 31 December 2005** | **200,000,000.00** | **-149,610,000.00** | **155,732,511.62** | **2,335,331.01** | **208,457,842.63** |

| Development in previous year (in euros) | Subscribed capital | Outstanding contributions not yet called in | Self-generated Group equity | Balancing item from currency conversion | Equity according to consolidated balance sheet |
|---|---|---|---|---|---|
| **I. Parent company** | | | | | |
| Values as of 31 December 2003 | 200,000,000.00 | -149,610,000.00 | 86,223,317.97 | 0.00 | 136,613,317.97 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -4,200,000.00 | | -4,200,000.00 |
| Changes in the scope of consolidation | | | -107,397.84 | | -107,397.84 |
| Other changes | | | 516,222.23 | | 516,222.23 |
| Group profit/loss for year | | | 12,901,455.75 | | 12,901,455.75 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 12,901,455.75 | | 12,901,455.75 |
| **Values as of 31 December 2004** | **200,000,000.00** | **-149,610,000.00** | **95,333,598.11** | **0.00** | **145,723,598.11** |
| **II. Minority shareholders** | | | | | |
| As of 31 December 2003 | 0.00 | 0.00 | 19,617,350.75 | 0.00 | 19,617,350.75 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -144,000.03 | | -144,000.03 |
| Changes in the scope of consolidation | | | 138,730.31 | | 138,730.31 |
| Other changes | | | 9,811.07 | -1,360.76 | 8,450.31 |
| Group profit/loss for year | | | 2,628,727.69 | | 2,628,727.69 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 2,628,727.69 | | 2,628,727.69 |
| **Values as of 31 December 2004** | **0.00** | **0.00** | **22,250,619.79** | **-1,360.76** | **22,249,259.03** |
| **III. Group equity** | | | | | |
| Values as of 31 December 2003 | 200,000,000.00 | -149,610,000.00 | 105,840,668.72 | 0.00 | 156,230,668.72 |
| Issue of shares | | | | | 0.00 |
| Purchase/retirement of own shares | | | | | 0.00 |
| Dividends paid | | | -4,344,000.03 | | -4,344,000.03 |
| Changes in the scope of consolidation | | | 31,332.47 | | 31,332.47 |
| Other changes | | | 526,033.30 | -1,360.76 | 524,672.54 |
| Group profit/loss for year | | | 15,530,183.44 | | 15,530,183.44 |
| Other Group profit/loss | | | | | 0.00 |
| Overall Group profit/loss for year | | | 15,530,183.44 | | 15,530,183.44 |
| **Values as of 31 December 2004** | **200,000,000.00** | **-149,610,000.00** | **117,584,217.90** | **-1,360.76** | **167,972,857.14** |

## Segment Reporting – Balance Sheet

| (in thousand euros) | Legal insurance | | Composite insurance | | Life insurance | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **A. Intangible assets** | **5,927** | **7,196** | **0** | **789** | **747** | **1,551** |
| **B. Capital investments** | **1,509,559** | **1,428,776** | **456,105** | **430,875** | **2,818,299** | **2,781,815** |
| I. Real estate and buildings including those on third-party property | 124,327 | 126,914 | 38,773 | 41,676 | 189,218 | 194,537 |
| II. Capital investments in affiliated companies and shareholdings | 329,823 | 336,076 | 76,460 | 79,037 | 364,183 | 373,172 |
| III. Other capital investments | 1,051,285 | 962,428 | 340,872 | 310,162 | 2,264,898 | 2,214,106 |
| IV. Portfolio assets from assumed reinsurance business | 4,124 | 3,358 | 0 | 0 | 0 | 0 |
| **C. Capital investments for the account and risk of life insurance policyholders** | **0** | **0** | **0** | **0** | **28,313** | **22,630** |
| **D. Other assets by segment** | **135,272** | **131,430** | **28,978** | **36,826** | **105,527** | **99,725** |
| **Total segment assets*** | **1,650,758** | **1,567,402** | **485,083** | **468,490** | **2,952,886** | **2,905,721** |
| | | | | | | |
| **A. Underwriting reserves** | **947,789** | **950,272** | **324,829** | **307,060** | **2,456,045** | **2,397,336** |
| I. Unearned premiums | 165,464 | 160,185 | 35,687 | 35,529 | 11,826 | 13,103 |
| II. Actuarial provision | 0 | 0 | 6 | 6 | 2,309,086 | 2,291,244 |
| III. Provision for outstanding claims | 781,784 | 791,537 | 255,297 | 234,629 | 18,873 | 14,398 |
| IV. Reserve for premium rebates | 13 | 4 | 0 | 0 | 192,087 | 153,810 |
| V. Fluctuation provision | 2,544 | 1,253 | 75,390 | 71,622 | 0 | 0 |
| VI. Other underwriting reserves | 2,128 | 1,669 | 3,118 | 5,592 | 119 | 128 |
| VII. Reinsurers' share of underwriting reserves | -4,144 | -4,376 | -44,669 | -40,318 | -75,946 | -75,347 |
| **B. Underwriting reserves in the life insurance segment, to the extent that the investment risk is borne by the policyholders** | **0** | **0** | **0** | **0** | **28,313** | **22,630** |
| **C. Other liabilities by segment** | **280,905** | **221,989** | **42,775** | **42,244** | **184,924** | **201,428** |
| **Total segment liabilities** | **1,228,694** | **1,172,261** | **367,604** | **349,304** | **2,669,282** | **2,621,394** |
| | | | | | | |
| **Equity**** | | | | | | |
| **Total liabilities** | | | | | | |

* Excluding outstanding contributions to the subscribed capital of € 152,279k.
** Equity of the Group including shares of other shareholders and difference from capital consolidation minus outstanding contributions of subscribed capital.

This segment reporting has been largely adapted to conform with applicable German regulatory requirements and accounting standards ("Deutscher Rechnungslegungsstandard DRS 3-20 des Deutschen Standardisierungsrates", DSR).
The segment figures are represented after consolidation of internal transactions within the respective line of business. The relationship to the consolidated value is shown by the information in the column "Consolidation".
The definition of segments by strategic lines of business was undertaken according to the internal organization and management structure of the ARAG Group. The chosen segments reflect the risks and opportunities of the Group.

| Health insurance | | Services and asset management | | Total | | Consolidation | | Group total | |
|---|---|---|---|---|---|---|---|---|---|
| **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| **180** | **294** | **6,668** | **8,184** | **13,522** | **18,014** | **42,065** | **59,082** | **55,587** | **77,096** |
| **563,898** | **487,769** | **331,936** | **341,630** | **5,679,797** | **5,470,865** | **-981,373** | **-1,013,099** | **4,698,424** | **4,457,766** |
| 2,965 | 2,949 | 8,813 | 9,424 | 364,096 | 375,500 | 3,624 | 3,626 | 367,720 | 379,126 |
| 16,387 | 18,197 | 297,727 | 305,539 | 1,084,580 | 1,112,021 | -984,997 | -1,007,161 | 99,583 | 104,860 |
| 544,546 | 466,623 | 25,396 | 26,667 | 4,226,997 | 3,979,986 | 0 | -9,564 | 4,226,997 | 3,970,422 |
| 0 | 0 | 0 | 0 | 4,124 | 3,358 | 0 | 0 | 4,124 | 3,358 |
| **0** | **0** | **0** | **0** | **28,313** | **22,630** | **0** | **0** | **28,313** | **22,630** |
| **11,677** | **12,510** | **62,351** | **90,547** | **343,805** | **371,038** | **2,656** | **-348** | **346,461** | **370,690** |
| **575,755** | **500,573** | **400,955** | **440,361** | **6,065,437** | **5,882,547** | **-936,652** | **-954,365** | **5,128,785** | **4,928,182** |
| | | | | | | | | | |
| **545,929** | **475,400** | **0** | **0** | **4,274,592** | **4,130,068** | **0** | **0** | **4,274,592** | **4,130,068** |
| 385 | 421 | 0 | 0 | 213,362 | 209,238 | 0 | 0 | 213,362 | 209,238 |
| 477,452 | 418,261 | 0 | 0 | 2,786,544 | 2,709,511 | 0 | 0 | 2,786,544 | 2,709,511 |
| 28,002 | 26,603 | 0 | 0 | 1,083,956 | 1,067,167 | 0 | 0 | 1,083,956 | 1,067,167 |
| 39,969 | 30,045 | 0 | 0 | 232,069 | 183,859 | 0 | 1 | 232,069 | 183,860 |
| 0 | 0 | 0 | 0 | 77,934 | 72,875 | 0 | 0 | 77,934 | 72,875 |
| 121 | 70 | 0 | 0 | 5,486 | 7,459 | 0 | 0 | 5,486 | 7,459 |
| 0 | 0 | 0 | 0 | -124,759 | -120,041 | 0 | -1 | -124,759 | -120,042 |
| **0** | **0** | **0** | **0** | **28,313** | **22,630** | **0** | **0** | **28,313** | **22,630** |
| **9,186** | **8,671** | **81,425** | **127,336** | **599,215** | **601,668** | **4,319** | **-8,045** | **603,534** | **593,623** |
| **555,115** | **484,071** | **81,425** | **127,336** | **4,902,120** | **4,754,366** | **4,319** | **-8,045** | **4,906,442** | **4,746,321** |
| | | | | | | | | | |
| | | | | | | | | **222,346** | **181,861** |
| | | | | | | | | **5,128,785** | **4,928,182** |

The strategic lines of business are:

- Legal insurance
- Composite insurance
- Life insurance
- Health insurance
- Services and asset management

In addition to the top-level parent company and the other asset-managing intermediate holding companies, the service and asset management companies comprise our residential development companies, property management companies, IT enterprises and insurance support service companies.

The life insurance segment additionally comprises subsidiaries active as service providers in the life insurance field but are themselves not insurance companies.

## Segment Reporting – Statement of Profit and Loss by Insurance Segments

| (in thousand euros) | Legal insurance | | Composite insurance | | Life insurance | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **Underwriting earnings** | | | | | | |
| **Gross premiums booked** | **641,605** | **617,509** | **252,869** | **257,427** | **223,745** | **234,790** |
| Self-contracted business | 569,741 | 557,198 | 237,013 | 242,491 | 223,745 | 234,790 |
| Assumed business | 71,864 | 60,311 | 15,856 | 14,936 | 0 | 0 |
| Premiums for reinsured business | -2,075 | -2,250 | -18,296 | -21,063 | -6,358 | -6,581 |
| Change in net unearned premiums | -5,185 | 5,179 | 282 | -1,760 | 830 | 1,092 |
| **Earned premiums for own account** | **634,345** | **620,438** | **234,855** | **234,604** | **218,217** | **229,301** |
| Premiums from gross reserve for premium rebates | 0 | 0 | 0 | 0 | 4,560 | 2,817 |
| Assigned capital gains from underwriting account | 0 | 0 | 575 | 494 | 163,745 | 138,820 |
| Unrealized gains from capital investments | 0 | 0 | 0 | 0 | 5,986 | 2,020 |
| Other underwriting earnings for own account | 2,115 | 1,998 | 378 | 443 | 356 | 414 |
| **Total underwriting earnings** | **636,460** | **622,436** | **235,808** | **235,541** | **392,864** | **373,372** |
| **Underwriting costs** | | | | | | |
| Cost of claims for own account | -369,049 | -374,848 | -138,442 | -134,904 | -232,875 | -242,127 |
| Change in other net underwriting reserves | 367 | 366 | 1,618 | -598 | -23,168 | -11,737 |
| Costs for premium rebates | -9 | -4 | 0 | 0 | -55,648 | -34,483 |
| profit-dependent portion | 0 | 0 | 0 | 0 | -55,648 | -34,483 |
| profit-independent portion | -9 | -4 | 0 | 0 | 0 | 0 |
| Unrealized losses from capital investments | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost of insurance business | -273,420 | -265,247 | -86,047 | -85,052 | -34,083 | -47,190 |
| portion attributable to cost of sales | -128,484 | -129,123 | -21,618 | -23,082 | -24,345 | -37,861 |
| portion attributable to administrative costs | -145,638 | -136,856 | -68,980 | -70,169 | -10,535 | -10,850 |
| reinsurance portion | 702 | 732 | 4,551 | 8,199 | 797 | 1,521 |
| Assigned capital costs from underwriting account | 0 | 0 | 0 | 0 | -17,610 | -19,628 |
| Other underwriting costs for own account | -173 | -372 | -1,013 | -904 | -10,959 | -4,126 |
| **Total underwriting costs** | **-642,284** | **-639,448** | **-223,884** | **-221,458** | **-374,343** | **-359,291** |
| **Subtotal** | **-5,824** | **-17,012** | **11,924** | **14,083** | **18,521** | **14,081** |
| Change in fluctuation reserve and similar provisions | -1,291 | -1,253 | -3,768 | -6,419 | 0 | 0 |
| **Underwriting result for own account** | **-7,115** | **-18,265** | **8,156** | **7,664** | **18,521** | **14,081** |
| Earnings from capital investments | 102,138 | 76,316 | 24,512 | 14,893 | 163,745 | 138,820 |
| Costs of capital investments | -23,615 | -22,353 | -36 | -3,753 | -17,610 | -19,628 |
| **Income from capital investments** | **78,523** | **53,963** | **24,476** | **11,140** | **146,135** | **119,192** |
| Capital investment operating result assigned to underwriting account | 0 | 0 | 575 | 494 | 146,135 | 119,192 |
| Sales revenues | 0 | 0 | 0 | 0 | 0 | 1 |
| Production costs | 0 | 0 | 0 | 0 | 3 | -578 |
| **Gross operating result** | **0** | **0** | **0** | **0** | **3** | **-577** |
| Other earnings | 16,684 | 85,420 | 1,341 | 4,620 | 2,430 | 3,065 |
| Other costs | -57,377 | -100,487 | -7,820 | -6,284 | -3,945 | -4,346 |
| **Other income** | **-40,693** | **-15,067** | **-6,479** | **-1,664** | **-1,515** | **-1,281** |
| **Income from normal business activity** | **30,715** | **20,631** | **25,578** | **16,646** | **17,009** | **12,223** |
| **Extraordinary operating result** | **-2,927** | **0** | **0** | **0** | **-650** | **0** |
| **Operating result before taxes** | **27,788** | **20,631** | **25,578** | **16,646** | **16,359** | **12,223** |
| Tax expenditure | -13,250 | -1,274 | | -9,000 | -1,632 | -689 |
| **Net income** | **14,538** | **19,357** | **15,681** | **7,646** | **14,727** | **11,534** |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 |
| **Group profit/loss for year** | **14,538** | **19,357** | **15,681** | **7,646** | **14,727** | **11,534** |

| Health insurance | | Services and asset management | | Total | | Consolidation | | Group total | |
|---|---|---|---|---|---|---|---|---|---|
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | | | | | | | |
| **185,919** | **176,453** | **0** | **0** | **1,304,138** | **1,286,179** | **0** | **0** | **1,304,138** | **1,286,179** |
| 185,919 | 176,453 | 0 | 0 | 1,216,418 | 1,210,932 | 0 | 0 | 1,216,418 | 1,210,932 |
| 0 | 0 | 0 | 0 | 87,720 | 75,247 | 0 | 0 | 87,720 | 75,247 |
| -805 | -805 | 0 | 0 | -27,534 | -30,699 | 0 | 0 | -27,534 | -30,699 |
| 35 | 14 | 0 | 0 | -4,038 | 4,525 | 0 | 0 | -4,038 | 4,525 |
| **185,149** | **175,662** | **0** | **0** | **1,272,566** | **1,260,005** | **0** | **0** | **1,272,566** | **1,260,005** |
| 5,951 | 1,547 | 0 | 0 | 10,511 | 4,364 | 0 | 0 | 10,511 | 4,364 |
| 25,830 | 21,525 | 0 | 0 | 190,150 | 160,839 | -6,940 | 79 | 183,210 | 160,918 |
| 0 | 0 | 0 | 0 | 5,986 | 2,020 | 0 | 0 | 5,986 | 2,020 |
| 169 | 244 | 0 | 0 | 3,018 | 3,099 | 0 | 0 | 3,018 | 3,099 |
| **217,099** | **198,978** | **0** | **0** | **1,482,231** | **1,430,327** | **-6,940** | **79** | **1,475,291** | **1,430,406** |
| | | | | | | | | | |
| | | | | | | | | | |
| -104,306 | -98,098 | 0 | 0 | -844,672 | -849,977 | 0 | 0 | -844,672 | -849,977 |
| -59,241 | -53,501 | 0 | 0 | -80,424 | -64,813 | 0 | 0 | -80,424 | -64,813 |
| -20,174 | -18,392 | 0 | 0 | -75,831 | -52,879 | 0 | 0 | -75,831 | -52,879 |
| -17,153 | -14,829 | 0 | 0 | -72,801 | -49,312 | 0 | 0 | -72,801 | -49,312 |
| -3,021 | -3,563 | 0 | 0 | -3,030 | -3,567 | 0 | 0 | -3,030 | -3,567 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| -23,938 | -22,407 | 0 | 0 | -417,488 | -419,896 | 0 | 0 | -417,488 | -419,896 |
| -19,400 | -17,907 | 0 | 0 | -193,847 | -207,973 | 0 | 0 | -193,847 | -207,973 |
| -4,538 | -4,500 | 0 | 0 | -229,691 | -222,375 | 0 | 0 | -229,691 | -222,375 |
| 0 | 0 | 0 | 0 | 6,050 | 10,452 | 0 | 0 | 6,050 | 10,452 |
| -2,828 | -831 | 0 | 0 | -20,438 | -20,459 | -179 | -18 | -20,617 | -20,477 |
| -739 | -573 | 0 | 0 | -12,884 | -5,975 | 0 | -95 | -12,884 | -6,070 |
| **-211,226** | **-193,802** | **0** | **0** | **-1,451,737** | **-1,413,999** | **-179** | **-113** | **-1,451,916** | **-1,414,112** |
| | | | | | | | | | |
| **5,873** | **5,176** | **0** | **0** | **30,494** | **16,328** | **-7,119** | **-34** | **23,375** | **16,294** |
| 0 | 0 | 0 | 0 | -5,059 | -7,672 | 0 | 0 | -5,059 | -7,672 |
| **5,873** | **5,176** | **0** | **0** | **25,435** | **8,656** | **-7,119** | **-34** | **18,316** | **8,622** |
| 25,830 | 21,525 | 2,911 | 2,807 | 319,136 | 254,361 | -21,003 | -3,821 | 298,133 | 250,540 |
| -2,828 | -831 | -799 | -5,986 | -44,888 | -52,551 | 0 | 277 | -44,888 | -52,274 |
| **23,002** | **20,694** | **2,112** | **-3,179** | **274,248** | **201,810** | **-21,003** | **-3,544** | **253,245** | **198,266** |
| | | | | | | | | | |
| 23,002 | 20,694 | 0 | 0 | 169,712 | 140,380 | -7,119 | 60 | 162,593 | 140,440 |
| 0 | 0 | 93,845 | 169,076 | 93,845 | 169,077 | -38,101 | -101,107 | 55,744 | 67,970 |
| 0 | 0 | -94,360 | -181,796 | -94,357 | -182,374 | 38,053 | 109,429 | -56,304 | -72,945 |
| **0** | **0** | **-515** | **-12,720** | **-512** | **-13,297** | **-48** | **8,322** | **-560** | **-4,975** |
| 601 | 457 | 5,021 | 9,160 | 26,077 | 102,722 | 284 | -74,071 | 26,361 | 28,651 |
| -1,152 | -843 | -8,161 | -7,013 | -78,455 | -118,973 | -1,107 | 56,747 | -79,562 | -62,226 |
| **-551** | **-386** | **-3,140** | **2,147** | **-52,378** | **-16,251** | **-823** | **-17,324** | **-53,201** | **-33,575** |
| **5,322** | **4,790** | **-1,543** | **-13,752** | **77,081** | **40,538** | **-21,874** | **-12,640** | **55,207** | **27,898** |
| **0** | **0** | **9,557** | **1,717** | **5,980** | **1,717** | **0** | **-1,717** | **5,980** | **0** |
| **5,322** | **4,790** | **8,014** | **-12,035** | **83,061** | **42,255** | **-21,874** | **-14,357** | **61,187** | **27,898** |
| -2,019 | -1,771 | -3,234 | 588 | -30,032 | -12,146 | 2,718 | -222 | -27,314 | -12,368 |
| **3,303** | **3,019** | **4,780** | **-11,447** | **53,029** | **30,109** | **-19,156** | **-14,579** | **33,873** | **15,530** |
| 0 | 0 | 0 | 0 | 0 | 0 | -3,630 | -2,629 | -3,630 | -2,629 |
| **3,303** | **3,019** | **4,780** | **-11,447** | **53,029** | **30,109** | **-22,786** | **-17,208** | **30,243** | **12,901** |

# Segment Reporting – Statement of Profit and Loss by Domestic and International Business

| (in thousand euros) | National | | International | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Underwriting earnings** | | | | |
| **Gross premiums booked** | **966,342** | **978,787** | **337,796** | **307,392** |
| Self-contracted business | 962,400 | 974,937 | 254,018 | 235,995 |
| Assumed business | 3,942 | 3,850 | 83,778 | 71,397 |
| Premiums for reinsured business | -27,203 | -30,119 | -331 | -580 |
| Change in net unearned premiums | 4,507 | 12,362 | -8,545 | -7,837 |
| **Earned premiums for own account** | **943,646** | **961,030** | **328,920** | **298,975** |
| Premiums from gross reserve for premium rebates | 10,511 | 4,364 | 0 | 0 |
| Assigned capital gains from underwriting account | 190,150 | 160,839 | 0 | 0 |
| Unrealized gains from capital investments | 5,986 | 2,020 | 0 | 0 |
| Other underwriting earnings for own account | 2,903 | 2,994 | 115 | 105 |
| **Total underwriting earnings** | **1,153,196** | **1,131,247** | **329,035** | **299,080** |
| | | | | |
| **Underwriting costs** | | | | |
| Cost of claims for own account | -672,612 | -689,223 | -172,060 | -160,754 |
| Change in other net underwriting reserves | -82,305 | -62,933 | 1,881 | -1,880 |
| Costs for premium rebates | -75,822 | -52,875 | -9 | -4 |
| profit-dependent portion | -72,801 | -49,312 | 0 | 0 |
| profit-independent portion | -3,021 | -3,563 | -9 | -4 |
| Unrealized losses from capital investments | 0 | 0 | 0 | 0 |
| Cost of insurance business | -275,184 | -287,242 | -142,304 | -132,654 |
| portion attributable to cost of sales | -105,372 | -118,274 | -88,475 | -89,699 |
| portion attributable to administrative costs | -175,785 | -179,335 | -53,906 | -43,040 |
| reinsurance portion | 5,973 | 10,367 | 77 | 85 |
| Assigned capital costs from underwriting account | -20,438 | -20,459 | 0 | 0 |
| Other underwriting costs for own account | -12,738 | -5,892 | -146 | -83 |
| **Total underwriting costs** | **-1,139,099** | **-1,118,624** | **-312,638** | **-295,375** |
| | | | | |
| **Subtotal** | **14,097** | **12,623** | **16,397** | **3,705** |
| Change in fluctuation reserve and similar provisions | -5,059 | -6,419 | 0 | -1,253 |
| **Underwriting result for own account** | **9,038** | **6,204** | **16,397** | **2,452** |
| Earnings from capital investments | 298,397 | 235,635 | 20,739 | 18,726 |
| Costs of capital investments | -39,963 | -49,593 | -4,925 | -2,958 |
| **Income from capital investments** | **258,434** | **186,042** | **15,814** | **15,768** |
| Capital investment operating result assigned to underwriting account | 169,712 | 140,380 | 0 | 0 |
| Sales revenues | 93,845 | 169,077 | 0 | 0 |
| Production costs | -94,357 | -182,374 | 0 | 0 |
| **Gross operating result** | **-512** | **-13,297** | **0** | **0** |
| Other earnings | 24,317 | 101,577 | 1,760 | 1,145 |
| Other costs | -70,194 | -114,768 | -8,261 | -4,205 |
| **Other income** | **-45,877** | **-13,191** | **-6,501** | **-3,060** |
| **Income from normal business activity** | **51,371** | **25,378** | **25,710** | **15,160** |
| **Extraordinary operating result** | **5,980** | **1,717** | **0** | **0** |
| **Operating result before taxes** | **57,351** | **27,095** | **25,710** | **15,160** |
| Tax expenditure | -19,077 | -4,152 | -10,955 | -7,994 |
| **Net income** | **38,274** | **22,943** | **14,755** | **7,166** |
| Minority interests | 0 | 0 | 0 | 0 |
| **Group profit/loss for year** | **38,274** | **22,943** | **14,755** | **7,166** |

| Total | | Consolidation | | Group total | |
|---|---|---|---|---|---|
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | | | |
| **1,304,138** | **1,286,179** | **0** | **0** | **1,304,138** | **1,286,179** |
| 1,216,418 | 1,210,932 | 0 | 0 | 1,216,418 | 1,210,932 |
| 87,720 | 75,247 | 0 | 0 | 87,720 | 75,247 |
| -27,534 | -30,699 | 0 | 0 | -27,534 | -30,699 |
| -4,038 | 4,525 | 0 | 0 | -4,038 | 4,525 |
| **1,272,566** | **1,260,005** | **0** | **0** | **1,272,566** | **1,260,005** |
| 10,511 | 4,364 | 0 | 0 | 10,511 | 4,364 |
| 190,150 | 160,839 | -6,940 | 79 | 183,210 | 160,918 |
| 5,986 | 2,020 | 0 | 0 | 5,986 | 2,020 |
| 3,018 | 3,099 | 0 | 0 | 3,018 | 3,099 |
| **1,482,231** | **1,430,327** | **-6,940** | **79** | **1,475,291** | **1,430,406** |
| | | | | | |
| | | | | | |
| -844,672 | -849,977 | 0 | 0 | -844,672 | -849,977 |
| -80,424 | -64,813 | 0 | 0 | -80,424 | -64,813 |
| -75,831 | -52,879 | 0 | 0 | -75,831 | -52,879 |
| -72,801 | -49,312 | 0 | 0 | -72,801 | -49,312 |
| -3,030 | -3,567 | 0 | 0 | -3,030 | -3,567 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| -417,488 | -419,896 | 0 | 0 | -417,488 | -419,896 |
| -193,847 | -207,973 | 0 | 0 | -193,847 | -207,973 |
| -229,691 | -222,375 | 0 | 0 | -229,691 | -222,375 |
| 6,050 | 10,452 | 0 | 0 | 6,050 | 10,452 |
| -20,438 | -20,459 | -179 | -18 | -20,617 | -20,477 |
| -12,884 | -5,975 | 0 | -95 | -12,884 | -6,070 |
| **-1,451,737** | **-1,413,999** | **-179** | **-113** | **-1,451,916** | **-1,414,112** |
| | | | | | |
| **30,494** | **16,328** | **-7,119** | **-34** | **23,375** | **16,294** |
| -5,059 | -7,672 | 0 | 0 | -5,059 | -7,672 |
| **25,435** | **8,656** | **-7,119** | **-34** | **18,316** | **8,622** |
| 319,136 | 254,361 | -21,003 | -3,821 | 298,133 | 250,540 |
| -44,888 | -52,551 | 0 | 277 | -44,888 | -52,274 |
| **274,248** | **201,810** | **-21,003** | **-3,544** | **253,245** | **198,266** |
| 169,712 | 140,380 | -7,119 | 60 | 162,593 | 140,440 |
| 93,845 | 169,077 | -38,101 | -101,107 | 55,744 | 67,970 |
| -94,357 | -182,374 | 38,053 | 109,429 | -56,304 | -72,945 |
| **-512** | **-13,297** | **-48** | **8,322** | **-560** | **-4,975** |
| 26,077 | 102,722 | 284 | -74,071 | 26,361 | 28,651 |
| -78,455 | -118,973 | -1,107 | 56,747 | -79,562 | -62,226 |
| **-52,378** | **-16,251** | **-823** | **-17,324** | **-53,201** | **-33,575** |
| **77,081** | **40,538** | **-21,874** | **-12,640** | **55,207** | **27,898** |
| **5,980** | **1,717** | **0** | **-1,717** | **5,980** | **0** |
| **83,061** | **42,255** | **-21,874** | **-14,357** | **61,187** | **27,898** |
| -30,032 | -12,146 | 2,718 | -222 | -27,314 | -12,368 |
| **53,029** | **30,109** | **-19,156** | **-14,579** | **33,873** | **15,530** |
| 0 | 0 | -3,630 | -2,629 | -3,630 | -2,629 |
| **53,029** | **30,109** | **-22,786** | **-17,208** | **30,243** | **12,901** |

## Auditor’s Certification for Consolidated Financial Statement

We have examined the consolidated financial statement of ARAG Aktiengesellschaft, Dusseldorf – consisting of the balance sheet and statement of profit and loss, appendix, statement of cash flow and statement of equity as well as segment reporting – and the Group management report for the fiscal year from 1 January to 31 December 2005. The Board of Management of the Company is responsible for preparation of the consolidated financial statement and Group management report in compliance with German commercial regulations. Our task is to provide an assessment of the year-end consolidated financial statement and the Group management report on the basis of our audit.

We carried out our audit of the year-end consolidated financial statement in accordance with Art. 317 HGB (German Commercial Code) under consideration of the IDW’s (Institute of Auditors) rules on proper auditing of year-end financial statements. These stipulate that the audit must be planned and conducted in such a manner that misstatements and violations that have a significant effect on the understanding of assets, finances and earnings as conveyed by the year-end consolidated financial statement in accordance with the rules on proper accounting, and the Group management report, are identified with a sufficient level of certainty. In determining the specific procedure of the audit, knowledge of the nature of the business and the economic and legal background of the Group as well as possible errors to be expected are taken into consideration. The audit assesses the efficiency of the internal account auditing system and the documentation of the data given in the year-end consolidated financial statement and the Group management report primarily on the basis of random checks. The audit comprises the evaluation of the year-end financial statements of the companies included in the consolidated financial statement, the scope of consolidation, the applied accounting and consolidation methods and the key estimates of the Board, as well as an evaluation of the overall representation of the consolidated financial statement and the Group management report. It is our opinion that our audit provides a sufficiently sound basis for our assessment.

Our audit has not resulted in any objections.

In our assessment on the basis of our understanding gained in the course of the audit, the consolidated financial statement complies with the legal requirements and conveys an accurate impression of the assets, finances and earnings situation of the Group. The Group management report accords with the consolidated financial statement and conveys an accurate picture of the condition of the Company, and accurately represents the opportunities and risks attendant on in its future development.

Dusseldorf, 6 June 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
(Auditing Firm)

Koch
Auditor

Paustian
(duly authorized signatory)
Auditor

# Report of the Supervisory Board

The Supervisory Board has continually monitored the performance of the Board of Management and performed its duties under law and Company statute. The Board of Management regularly informed the Supervisory Board regarding the business situation within the Group and all important occurrences. The Supervisory Board evaluated these reports in its meetings and discussed the development of the Company with the Board of Management. The objects of consultations were the developments within the Group, including solvability both at present and anticipated in future, planning of funds available for coverage, reinvestment in real estate and the applicability of regulations governing the makeup of the Supervisory Board.

The consolidated financial statement was examined by the Supervisory Board. The basis for this examination were the regular reports of the Board of Management, in which they informed the Supervisory Board of all important occurrences in the parent company and all subsidiaries of the Group, as well as commercial accounting regulations for insurance companies. The scope of the examination extended to the discretionary reporting and valuation rights exercised by the Board of Management.

The auditing firm PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Dusseldorf, audited our consolidated financial statement as of 31 December 2005 and the management report and has certified these without reservation.

The report of the auditor was submitted to the Supervisory Board on time. The auditor attended the meeting of the Supervisory Board called to discuss the consolidated financial statement on 19 June 2006 and presented an oral report on the audit. The Supervisory Board has reviewed the report on the audit of the consolidated financial statement and the Group management report.

In its final conclusion of its review of the consolidated financial statement, the Group management report and the auditors' report, the Supervisory Board raises no objections.

Dusseldorf, 19 June 2006

Chair, Supervisory Board

Gerd Peskes

# Governing Bodies of the Company

## Supervisory Board

To date, membership of the Supervisory Board has complied with the co-determination statute of 1976 (Art. 5 (1) sen. 1 MitbestG) and comprised twelve members in fiscal 2005.

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| **Dr. Peter Feldhausen** | Attorney/Tax Consultant, Dusseldorf, Chair, until 4 July 2005 |
| **Gerd Peskes** | Auditor, Essen, Chair, since 4 July 2005 |
| **Manfred Lambertz** | Works Council Chair of ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Korschenbroich, Vice-Chair |
| **Peter Berg** | Attorney, Dusseldorf |
| **Dr. Tobias Bürgers** | Attorney, Munich |
| **Prof. Dr. Dr. h.c. Rolf Dubs** | Professor, St. Gallen, Switzerland |
| **Hubert Düren** | Graduate in business administration, Bedburg |
| **Joachim Felix** | Union Secretary, Cologne |
| **Dr. Burkhard Hirsch** | Attorney, Dusseldorf |
| **Werner Seeger** | Consultant, Dusseldorf |
| **Richard Wenhart** | Business computer scientist, Buch am Erlbach |
| **Klaus Zöller** | Building installation engineer, Munich |

As no vertical group within the meaning of Art. 18 (1) AktG exists between ARAG AG and the subsidiaries of the ARAG Group, the employees of ARAG subsidiaries are not considered employees of the ARAG AG within the meaning of the co-determination provisions of Art. 5 (1) MitbestG.
In view of the non-applicability of the MitbestG or other co-determination law that mandates employee co-determination, the Board of Management is of the opinion that the Supervisory Board is to be constituted solely as provided for under Art. 96 (1), case 5 AktG.
On 6 February 2006, the Board of Management served notice that the Supervisory Board of ARAG AG is to be constituted in accordance with the requirements of Art. 96 (1), case 5 AktG if no authorized person within the meaning of Art. 98 (2) AktG files suit before the applicable court under the provisions of Art. 98 (1) AktG within one month of announcement in the German Federal Gazette. On expiration of this legal period of notice the current Supervisory Board will remain in office until the next shareholders' meeting.

## Board of Management

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| **Dr. Paul-Otto Faßbender** | Attorney, Dusseldorf |
| **Dr. Karl-Heinz Strohe** | Attorney, Cologne |

# Information

ARAG provides a broad range of information about the ARAG Group, its insurance products and services in the form of numerous publications as well as extensive web-based content. And as a legal specialist, ARAG's information offerings would be incomplete without a range of selected tips and guides on legal topics. If you have any questions, desire an insurance quote or are merely seeking sound, accurate information: get in touch with us, or visit us online.

Up-to-date information about the Group is available under the following address:


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**ARAG Group**

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