ANNUAL REPORT 2006 CONSOLIDATED FINANCIAL STATEMENT

MACHT STARK.

We've Got It Covered

ARAG Aktiengesellschaft

We've Got It Covered

ARAG is the personal risk navigator for its customers. With its new brand concept, the ARAG Group will combine innovative advisory competence with proven insurance protection across all insurance segments. We partner with our customers to give them the orientation and security they need. The foundation for this comprehensive spectrum of insurance and service is prevention: our goal is to personally and competently look after our customers before a claim occurs so that they can actively manage their risks. Regardless of whether these involve legal issues, health care or providing for the future. Customers receive the protection of the strong ARAG brand – for all important areas of life: We've got it covered.

Overview

Key data

ARAG AG

(in million euros)	2006	Change	2005	2004
Sales				
Gross premiums booked	**1,312.0**	**0.6%**	1,304.1	1,286.1
Earned premiums for own account	**1,284.2**	**0.9%**	1,272.6	1,260.0
Sales revenues from non-insurance subsidiaries	**36.1**	**-35.2%**	55.7	68.0
Costs				
Cost of claims for own account	**840.6**	**-0.5%**	844.7	850.0
Claims ratio (basis: earned premiums)	**65.5%**	**-0.9% pts.**	66.4%	67.5%
Cost of insurance business for own account	**423.3**	**1.4%**	417.5	419.9
Cost ratio (basis: earned premiums)	**33.0%**	**0.2% pts.**	32.8%	33.3%
Overview of profit and loss				
Underwriting result for own account	**42.1**	**130.1%**	18.3	8.6
Income from capital investments	**188.7**	**-25.3%**	253.2	198.3
portion included in underwriting result	125.3	-22.9%	162.6	140.4
Other income	**-37.6**	**-30.1%**	-53.8	-38.5
Income from normal business activity	**67.4**	**22.1%**	55.2	27.9
Extraordinary operating result	**-20.1**	**>-100%**	6.0	0.0
Net income before external portions	**60.3**	**77.9%**	33.9	15.5
Underwriting reserves/earned premiums	**341.2%**	**5,3% pts.**	335.9%	329.6%

Contents

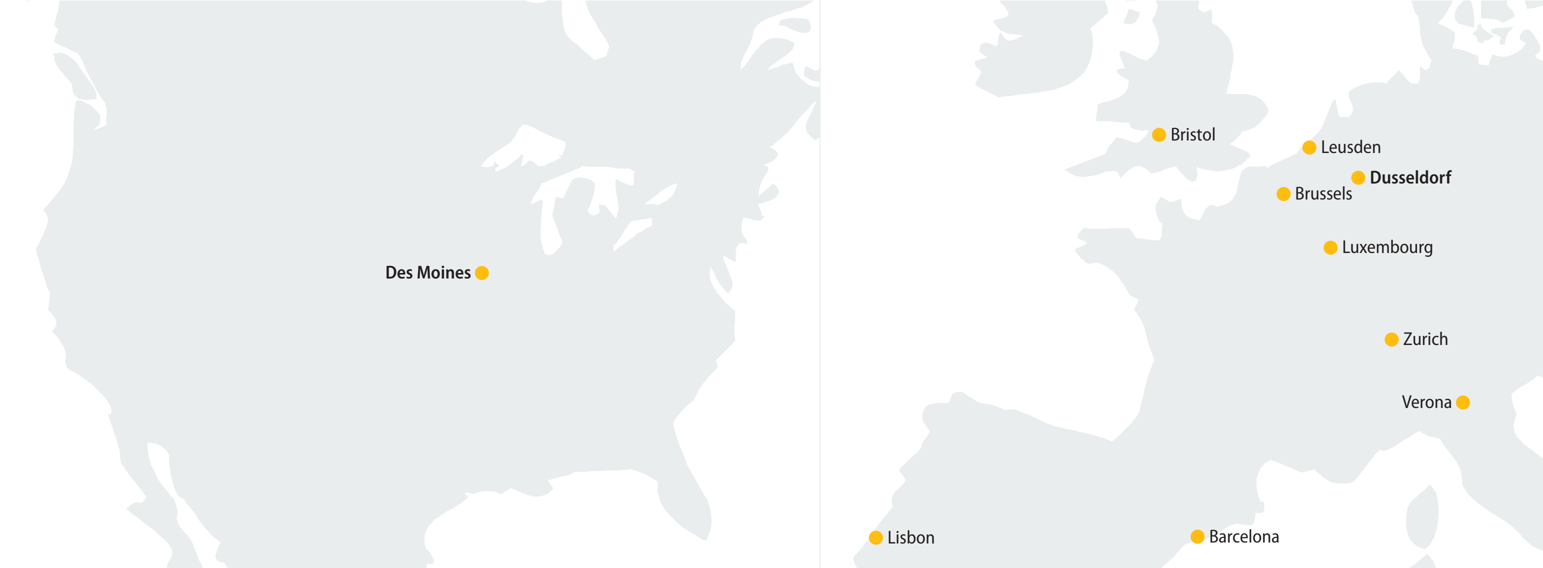
ARAG companies in Germany and their products and services

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. Riester/Rürup)
- 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

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www.ARAG.de

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

ARAG Belgium
ARAG S.A.
Assurance en Protection Juridique
Place du Champs de Mars, 5
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
www.ARAG.it

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FOYER-ARAG S.A.
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Algemene Rechtsbijstand
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1600-131 Lisbon

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ARAG Zavarovanje Pravne
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8070 Zurich
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Des Moines, Iowa 50309
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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 Lebens-versicherungs-AG** – Life Insurance
- **ARAG Kranken-versicherungs-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

An overview ARAG is the internationally recognized, independent partner for legal matters and protection. From its first day onward ARAG, the legal insurance pioneer, 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 committed to its entrepreneurial independence and continuity. This assures the Group's stability, opens up long-term development perspectives and grants it greater entrepreneurial freedom.

ARAG offers its customers orientation and security. With its new brand strategy, this insurance enterprise will work even more intensively with its customers to help them secure their risks. As the risk navigator, ARAG offers enhanced coverage and security in critical life situations across all insurance segments with a flexible service portfolio consisting of prevention, consultation and cost reimbursement.

In the most recent reporting period, ARAG's approximately 3,650 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 operational 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 operational 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.

Legal insurance 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. By repositioning itself as the legal navigator, the Company has set a new milestone in the German market. The Group is successfully exploiting the know-how gained through decades of experience in the home legal insurance market in eleven other European countries and in the USA. More than half of the premium income of the legal insurance companies is earned in the international arena.

Composite insurance ARAG Allgemeine is the Group's composite insurer. In its highly competitive market, this company has carved out a position as a strong provider of property, liability, accident and motorist insurance; it is also Europe's largest sport insurer, providing coverage for around 21 million insured leisure and competitive athletes. Interlloyd Versicherungs-AG, a wholly owned subsidiary of ARAG Allgemeine, complements the Group's service spectrum as an attractive brokerage specialist focused on the private-customer segment.

Personal insurance 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 personal retirement savings market and in private health insurance. With its new portfolio of flexible, mutual fund-linked pension insurance products, ARAG Leben is regularly placing at the forefront of product comparisons. The Group's health insurer also consistently ranks at the top in product and company ratings. ARAG Kranken is one of the fastest-growing segments in the Group and is prevailing in the market thanks to its attractive, high-performance offerings.

Foreword

Dr. Paul-Otto Faßbender

With its 2006 balance sheet, the ARAG Group demonstrates continuity on a high level. Earning power has noticeably improved.

The Group's success owes much more to its international commitment than in previous years. Premium revenues of our international subsidiaries are virtually equal to those in our domestic legal insurance business. ARAG's international success story is even more marked on the earnings front. Half of the income from normal business activity of over € 67 million were attained outside of Germany.

This international success is also a spur to significantly increase our business activities on the German market. In this area, the health insurance business in particular achieved the Group's targets. Legal insurance, the Group's largest segment, continued to face challenging overall conditions. To recapitulate: the recent legislation regulating attorney fees (RVG) results in a permanent additional burden on the cost of claims in this sector amounting to over € 30 million. To effectively counter these burdens, we are focusing our attention on improving the performance of the German ARAG Rechtsschutz.

The successes of our thorough optimization efforts in all parts of our enterprise are clearly reflected in the underwriting account. Underwriting earnings more than doubled, climbing from € 18.3 million to € 42.1 million. The combined ratio continued to decline, improving from 99.2 percent to 98.4 percent.

The improvement actions were complemented in all parts of our enterprise by the new Group-wide guidelines, the ARAG Essentials. They were implemented in our enterprise at the start of the year under review. Since then, the ARAG Essentials have been developing enormous integrative power for all subsidiaries in the Group. No matter how varied our tasks are within the Group, the ARAG Essentials set clear standards and establish our common objective. We want to stand by our customers and partners with legal assistance and coverage and generate the greatest possible utility for them. We are overcoming business-specific differences within our Group through our demanding shared performance culture.

We intend to consistently expand the ARAG brand into a Group brand on the basis of the ARAG Essentials. In our expanded brand understanding, we define the Group as an active risk navigator for its customers in all segments. Our customers will thus also experience the Group's determination to change positively and benefit from its innovation readiness.

The successful modernization of the Group over the past years shows what an enormous development potential ARAG possesses. At the same time, we are aware that we have not sufficiently realized this potential. Our ambition is to utilize ARAG's excellent development opportunities to strengthen the Group as a unique and unmistakable enterprise both in Germany and abroad.

Paul-Otto Faßbender

Dr. Paul-Otto Faßbender


MACHT STARK
Berechnen & abschließen
Mit unseren Ratgebern ist guter Rat nicht teuer und jederzeit griffbereit.
Hier finden Sie eine Vielzahl aktueller Rechtstipps und Urteile.
ARAG Podcast
Lesen und hören - lassen Sie sich ausgewählte ARAG Rechtstipps vorlesen.
Webcam
Live dabei!
Die Düsseldorfer Skyline aus Sicht unserer Towercam.
ARAG Legal Service
0211 / 99 333 99
Clarify meaning of clause!

Risk navigator for our customers

ARAG is the pioneer of legal insurance. We help every citizen to assert his or her rights, regardless of their financial means. And we continue to develop the concept of legal insurance with a preferential option for innovation. We not only offer financial coverage in the event of a claim, but enable our customers to obtain a comprehensive legal orientation before an insurance claim occurs. Prevention, consultation and cost assumption are our active performance promise as the risk navigator. We are transferring this new performance philosophy from our legal insurance business to all insurance services in the Group – both in Germany and abroad. If it benefits our customers – we've got it covered.

Complete assistance

No one is safe from surprises. Particularly when it comes to health, many risks can be prevented in advance. The ARAG Group possesses top expertise in the area of health services and related consultation offerings. For example, the ARAG health management program “Aktiv leben” is personally customized for each individual policyholder. It not only identifies risks, but actively helps to minimize risk factors in advance. One more reason why the health insurance benefits of ARAG are among the best on the market.

More than money

Experiencing everyday life free of care, being active and doing fun things: with ARAG, the personal risk manager as their partner, our customers can always feel secure. For property, hobbies, sports or auto insurance as well, ARAG provides optimum cover for our policyholders' own personal life models with its new performance concept, protecting them from unpleasant surprises. For example, ARAG accident insurance with comprehensive care and assistance benefits enables policyholders to continue to live independently at home in the event of a major accident.

Active consultation – optimum preparation

Perspectives and opportunities change over the course of a lifetime. Through proactive consultation, the ARAG Group helps its customers to make the right decisions for their future. The same reliability which the Group has shown for decades as a legal insurance pioneer applies equally to retirement saving. With the new ARAG mutual fund-linked policy, the customer can choose between a range of attractive and highly flexible retirement saving models. And they can adapt these to changing life circumstances – conveniently and without charge.

Management Report

Development of premium income and sales (in million euros)	**2006**	2005	2004
Legal insurance	**654.7**	641.6	617.5
Domestic	331.4	336.4	338.9
International	323.3	305.2	278.6
Composite	**239.5**	252.9	257.5
Domestic	211.2	220.3	228.7
International	28.3	32.6	28.8
Life	**217.9**	223.7	234.8
Health	**200.0**	185.9	176.5
Service companies	**36.1**	55.7	68.0

- **International legal insurance business and ARAG Krankenversicherung show above-average growth**
- **All segments turn in positive value contributions**
- **Underwriting earnings more than doubled**
- **Income from normal business activity show further improvement**

ARAG Group Management Report for Fiscal Year 2006

I. Business and market conditions

After a long phase of economic stagnation, the 2006 fiscal year showed the first signs of improvement in the overall German economic situation. The ongoing world-wide economic boom provided a significant economic boost. Domestic demand showed a corresponding recovery. The investment willingness of private households increased. The decline in the previously oppressively high unemployment rate accords with this positive picture. The development on the capital markets was also predominantly positive. Both the bond and the stock markets achieved increased earnings and were stable.

In our experience, economic recoveries do not stimulate the insurance industry directly. The spending readiness of private households initially focuses on the purchase of new consumer goods. This makes it even more important for the ARAG Group to sustainably optimize its business processes and cost structures so that it can offer private customers attractive products and services in an extremely challenging competitive environment. The Group has used the past years to align all segments of the enterprise toward this effort. The primary focus here is the consolidation and improvement of the Group's earning power – particularly the key underwriting figures. The considerable increase in underwriting earnings in the year under review documents the success of our optimization efforts. The fact that the Group succeeded in improving the combined ratio in the face of a permanent increase in the cost of claims in the German legal insurance business on account of the attorney compensation act RVG is a testimonial to the Group's earning power.

In addition to the consolidation efforts, the Group continued to invest in products and services. At mid-year, ARAG acquired a 25.1 percent stake in janolaw AG, one of the leading providers of legal services on the German market. Through this active entrepreneurial acquisition, ARAG underscores its resolve to further expand direct initial attorney telephone consultation for its customers into a primary service component. This service is a core element of the innovative product line of the ARAG Legal Navigator. The inspection agency TÜV Saarland certified the quality of the initial telephone consultation, rating it an exceptional 1.55. The ARAG Legal Navigator was introduced at the end of 2005, and over 100,000 policies were sold in the year under review.

The international legal insurance business is playing an increasing role in the Group's success. In spite of the varying political and economic conditions in the respective markets, the Group's international subsidiaries are showing solid growth at low claims rates and modest administrative costs. With a new commitment in Great Britain, the ARAG Group is now taking a position in the attractive English insurance market.

In the life and health insurance segments, the Group's innovation strategy continued unabated. The product family of the ARAG mutual fund-linked policies was complemented with new products eligible for state subsidies ("Rürup" and "Riester" plans).

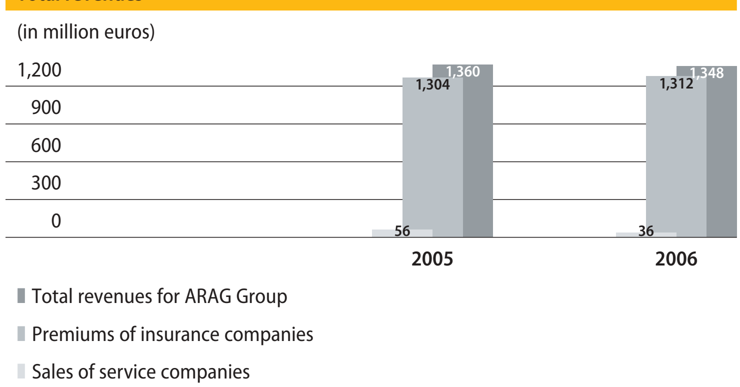
ARAG Krankenversicherungen, the Group's health insurer, is in an excellent starting position in spite of the difficult political climate. This was affirmed by the balance sheet study of the analyst firm Morgen & Morgen which appeared in the magazine Capital in 2006. The analysts confirmed that ARAG Kranken operates on a first-class economic basis.

The ARAG Group can look back on a successful year. The earning improvements of the previous year were successfully extended. At the same time, the enterprise demonstrated its readiness to innovate and developed services and products that offer enhanced customer value. This will further strengthen the ARAG Group as an independent family enterprise in the insurance industry.

II. Earnings situation

Premiums/sales In the year under review, the premium revenues of the insurance subsidiaries of the ARAG Group rose slightly, from € 1.30 billion to € 1.31 billion. The international legal insurance business and the health insurance business continued to generate the greatest growth. Outside of the insurance business, revenues of the service companies declined by 35.3 percent. This decline is a further result of the sale of the IT consulting firm ALLDATA SYSTEMS as of 1 July 2005. Consequently, at € 1.35 billion, the Group's overall performance is slightly below the previous year's value of € 1.36 billion.

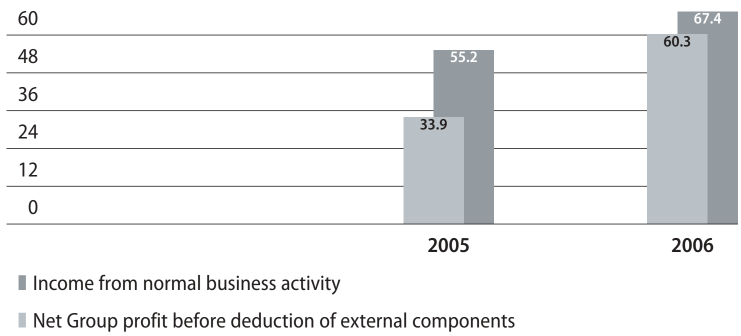
Total revenues



In all, the Group's portfolios comprise some 6.2 million policies. Our international business accounts for 2.3 million of these. The domestic sport business (composite sector) comprises a further 20.9 million insured risks, insured through 15 state sport associations.

Group performance

(in million euros)



Profit situation The ARAG Group further enhanced its profitability in fiscal 2006. The Group is thus continuing the steady improvement in profits of previous years. All segments turned in positive value contributions. Income from normal business activity increased from € 55.2 million to € 67.4 million. The Group net profit before deduction of external components increased noticeably, and at € 60.3 million was significantly higher than the previous year's mark of € 33.9 million. This includes a one-time effect resulting from the transitional provision for the reimbursement of corporate tax credits from the previous offsetting procedure under Art. 37 (5) of the applicable corporate tax statute KStG.

The optimization efforts carried out within the ARAG Group since 2003 continued to show a sustained effect in the year under review. As one consequence, underwriting earnings more than doubled over the previous year, from € 18.3 million to € 42.1 million. The development of the underwriting account shows that the ARAG Group has absorbed the impact from the German attorney fee legislation RVG of over € 30 million very well over all. The costs of claims declined slightly once more. But at € 840.6 million (previous year € 844.7 million), they remained at a high overall level. The Group's claims ratio was once more reduced slightly, from 66.4 percent to 65.5 percent. At 33.0 percent, the cost ratio for 2006 remained practically unchanged from the previous year's level (32.8 percent).

In spite of the high level of the cost of claims, the ARAG Group further reduced its combined ratio; this amounted to 98.4 percent as opposed to 99.2 percent in the previous year. The main factors in this development were the high cost savings and low cost of claims of the international subsidiaries, the personal insurers and ARAG Allgemeine. In the year under review the return on capital investment dropped by 25.5 percent to € 188.7 million, following € 253.2 million in the previous year. Among other reasons, this decline is due to the special dividends from investment funds paid out in the previous year and one-time capital gains from securities, as well as from write-ups.

To further enhance the Group's earning power, the efficiency program Triathlon was kicked off for the German legal insurance area in the year under review. This comprehensive action program is being implemented over the course of 2007, with the aim of achieving an immediate trend reversal in the key operational underwriting figures, which have been unsatisfactory to date in many respects. It is anticipated that this program will generate savings of € 16 million annually from 2008 on. Provision of € 7.8 million from the extraordinary operating earnings was made for this action in the year under review. An additional € 12.3 million in excess of plans was transferred to the pension reserves on account of a change in the calculation basis.

The income tax expenses for the year under review are a negative € 13.6 million because claims for tax refunds under Art. 37 (5) KStG for the Group's domestic subsidiaries totaling € 38.7 million were capitalized as earnings.

III. Financial situation

The purpose of the financial management and maintenance of the 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 cover is established as well. Furthermore, it is the intention of the Group 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.

The conservative reserves policy of the ARAG Group was consistently exercised throughout the year under review. The underwriting reserves were increased further by 2.5 percent, from € 4.27 billion to € 4.38 billion. The ratio of underwriting reserves to earned premiums correspondingly grew by 5.3 percentage points, from 335.9 percent to 341.2 percent.

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

(in million euros)	2006	2005
Subscribed capital – paid in	58.4	50.4
Reserves	126.3	103.1
Capital shares of minority shareholders	27.4	24.7
Group net profit after external components	57.4	30.2
Total equity	**269.5**	**208.4**
Lower-ranking bond	50.0	50.0
Funds available for coverage	**319.5**	**258.4**
Underwriting reserves	4,381.5	4,274.6
Guarantee funds	**4,701.0**	**4,533.0**

The guarantee funds are covered by capital investments in the amount of € 4,799.7 million (previous year € 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 € 45.7 million (previous year € 41.2 million), in particular capital investments totaling € 3,824.7 million (previous year € 3,708.1 million) that can be liquidated on the capital and financial markets on short notice.

For details respecting the scope of capital investment and investment in intangible assets undertaken and the development of the Group's liquidity in the fiscal year under review, please refer to the Statement of Cash Flow on page 67.

On the basis of the key figures of the 2005 fiscal year, ARAG Allgemeine Rechtsschutz-Versicherungs-AG as the operative management company of the ARAG Group was analyzed and rated in a financial strength rating performed by the rating agency Standard & Poor's for the first time. The analysis examined the financial strength of the entire ARAG Group and issued a GOOD rating (BBB).

IV. Asset situation

The capital investment portfolio of the Group increased in fiscal 2006 by 2.2 percent, from € 4,698.4 million to 4,799.7 million. The current values of these capital investments amounted to € 4,997.8 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)	2006		2005	
I. Real estate and buildings	357.3	7.4%	367.7	7.8%
II. Shares in affiliated companies and holdings	98.6	2.1%	91.0	1.9%
III. Lending to affiliated companies and holdings	4.7	0.1%	8.6	0.2%
IV. Stocks and investment fund shares	1,894.3	39.5%	1,960.0	41.7%
V. Bearer bonds	419.6	8.7%	409.7	8.7%
VI. Mortgages receivable, other similar rights	266.6	5.6%	279.0	6.0%
VII. Registered debentures, promissory notes	1,378.8	28.7%	1,191.5	25.4%
VIII. Bank deposits	132.0	2.7%	146.9	3.1%
IX. Other lending	155.7	3.3%	155.7	3.3%
X. Other capital investments	88.0	1.8%	84.2	1.8%
XI. Portfolio assets	4.1	0.1%	4.1	0.1%
	4,799.7	**100.0%**	**4,698.4**	**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)	2005	**2006**
Legal insurance	642	**655**

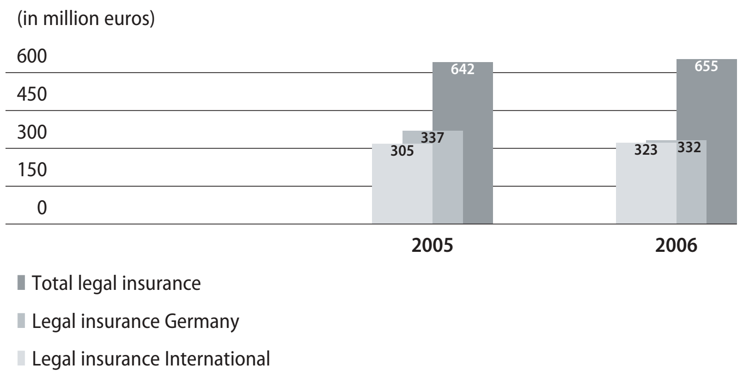
Legal insurance business The legal insurance segment continued its consistent growth course in 2006. Gross premium revenues booked grew by 2.0 percent (previous year 3.9 percent), from € 641.6 million to € 654.7 million. In this year, the premium revenues in the German and international legal insurance business are virtually equal.

The cost of insurance claims in the entire legal insurance segment rose from € 369.0 million to € 370.1 million. By contrast, the claims ratio dropped from 58.2 percent to 57.2 percent. The underwriting result in the insurance sector improved from a loss of € 7.1 million in the previous year to a profit of € 3.3 million. Not least on account of the high additional cost of the new German attorney compensation law of over € 30 million per year, the underwriting account of this segment was burdened as anticipated.

The return on capital investment for the legal insurance segment overall dropped from € 78.5 million to € 43.0 million, as one-time capital gains and write-ups were booked in the previous year. Income from normal business activity in legal insurance thus declined overall and amounted to € 20.0 million, as opposed to € 30.7 million for the previous year.

In the German legal insurance business, the Group once again posted another, slight, premium loss in a challenging environment. At € 331.4 million, gross premium revenues were 1.5 percent below the previous year's level of € 336.4 million. This decline is primarily due to the organizational charges resulting from the complete restructuring of the German exclusive sales organization. This forward-looking modernization of our exclusive sales force was at its maximum in 2006. The great number of individual actions – including the strategic realignment in the brokerage market – will develop accelerating growth momentum from 2007 on. Additionally, the Triathlon efficiency enhancement program kicked off in the year under review represents an important factor for sustained improvement of our performance in German legal insurance.

Uninterrupted growth in international legal insurance business



On the product side, ARAG is excellently positioned in the German legal insurance market with the ARAG Legal Navigator, introduced in 2005. By embedding initial telephone attorney consultations as a guaranteed contractual benefit, this innovative product set an important milestone in the German legal insurance market.

The legal insurance business in the international markets continued to be a high-profit growth engine of the Group. After a growth surge of 9.5 percent in 2005, gross premium revenues rose again from € 305.2 in the previous year to € 323.3 million. An additional € 28.3 million in premium revenues are attributable to the comparable special service package business of ARAG Spain, which was booked under the composite insurance sector. Including this value, total revenues achieved in the international legal insurance companies amounted to € 351.6 million. ARAG's international insurance business is thus the Group's largest line of business for the first time in the Company's history. Additionally, ARAG expanded its international activities to a further nation in the year under review: Bristol-based ARAG UK has been active in the demanding British insurance market since September 2006.

The growth in the international markets continues to be achieved with the same high profitability. The significant reduction in the combined ratio to 93.5 percent (previous year 97.2 percent) highlights the quality of this business. This resulted in a further significant improvement in the income from normal business activity.

The momentum for a large part of the improvement of the underwriting account of the international subsidiaries was generated mainly by the successful earnings enhancement initiative "Star International" ("Strengthening ARAG International"), which was implemented jointly by the management of the international ARAG subsidiaries and the Board-level function Group International.

Gross premium revenues		
(in million euros)	2005	**2006**
Composite insurance	253	**240**

Composite The composite segment of the Group continued to pursue its consolidation course in the fiscal year under review. ARAG continues to focus on earnings in this segment. In the area of motor vehicle rates, ARAG refrained from taking part in the open price war on this market, accepting a further decline in premiums. Premium revenues consequently dropped from € 252.9 million to € 239.5 million. There are no advantages which the profitable composite segment can gain through participating in a race to the bottom. Consequently, the Group will continue to pursue this sound business strategy in future in spite of the associated revenue losses. However, there are signs that the prices will rise in the motorist segment as well, so that ARAG will once more engage in greater competition.

The brokerage specialist Interlloyd Versicherungs-AG, a wholly owned subsidiary of ARAG Allgemeine, turned in a good showing in a highly competitive line of business. This subsidiary succeeded in increasing its business by a further 10.6 percent.

In the specialized sport insurance segment, the international expansion of this business developed extremely successfully. In 2004, Spain was selected as a test market. In conjunction with the local brokerage partner PontGrup, double-digit growth in the sale of sport insurance was achieved in the most recent reporting period.

The underwriting account of the composite sector improved significantly. This sector posted a profit for the year of € 21.5 million as compared to a profit of € 8.2 million in the previous year. A part of the technical profit (€ 5.7 million) was achieved through the liquidation of the fluctuation reserve. Income from normal business activity thus increased from € 25.6 million to € 33.7 million in spite of the significantly lower income from capital investment due to lower extraordinary dividends from special funds.

Gross premium revenues		
(in million euros)	2005	**2006**
Life insurance	224	**218**

ARAG Leben The booked premium revenues of ARAG Lebensversicherung declined by three percent to € 217.9 million, following € 223.7 million in the previous year. This decline is due in particular to the extremely slow new business for cash-value insurance and the loss of one-time premiums. On the other hand, the new product family of mutual fund-linked pension insurance launched at the end of 2005 generated significant new business. In the year under review, new business received doubled over 2005, with the mutual fund-linked pension products accounting for 75 percent of this new business. The ARAG mutual fund-linked policies also placed at the forefront of the ratings and comparison calculations of such recognized institutions as the rating agency Franke & Bornberg and the analyst firm Morgen & Morgen.

The capital investments totaling € 2.6 billion generated a net income of € 100.7 million as opposed to € 146.1 million in the previous year, in which considerable write-ups and gains were achieved in the special funds. The optimization efforts in this unit continued to benefit this company, particularly on the cost front. ARAG Leben succeeded in reducing its administrative costs by 11.3 percent compared to 2005. Due to the development of the income from capital investment, however, underwriting earnings declined from € 18.5 million to € 9.6 million. The income from normal business activity amounted to € 13.6 million, following earnings of € 17.0 million in the previous year. This company generated a gross profit of € 26.7 million in the year under review. Of this, 90.6 percent or € 24.2 million were transferred to the profit-dependent reserve for premium rebates.

Gross premium revenues		
(in million euros)	2005	**2006**
Health insurance	186	**200**

ARAG Kranken On an unbroken course for success and growth, ARAG Krankenversicherungen posted another increase in premium revenues of 7.5 percent, exceeding the market average. At € 200.0 million, booked premiums were clearly above the previous year's level of € 185.9 million. The strict, conservative underwriting policy ensured that the health insurance business showed high profitability. An excellent underwriting pre-tax profit ratio of 10.8 percent was again achieved (previous year 11.7 percent), even though insurance benefits rose by 4.0 percent over the previous year. The managed capital investments increased by € 81.6 million to € 645.5 million, and income from capital investments amounted to € 24.0 million, compared to € 23.0 million in the previous year. The consolidation course embarked on by ARAG Kranken is showing a sustained positive effect on the cost front. At 2.46 percent, the administrative costs ratio remained at the same low level of the previous year, considerably below the industry average. The earnings situation improved further, primarily through the higher contributions from the reserve for premium rebates. Underwriting earnings amounted to € 7.7 million, considerably greater than in the previous year (€ 5.9 million). Normal business activity generated a profit of € 5.9 million (previous year € 5.3 million). The good earning situation enabled a transfer of € 18.7 million (previous year € 20.2 million) to the reserve for premium rebates.

The excellent financial situation of ARAG Krankenversicherung was also affirmed by the assessments of two independent institutions. In an initial rating by the highly respected agency Assekurata Assekuranz, this ARAG subsidiary was awarded the quality ranking "A" (good) right off the bat. In a balance sheet review by the analyst firm Morgen & Morgen – published in Capital magazine – ARAG Krankenversicherung was one of the few out of the 38 private health insurers examined to earn the maximum point score.

Sales revenues		
(in million euros)	2005	**2006**
Service companies	56	**36**

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 subsidiary of the Group, Cura GmbH & Co. KG, is also included in this segment. The sales revenues of these non-insurance units with external customers and with the other units of the Group dropped by 21.3 percent to € 73.8 million, after € 93.8 million in the previous year. After adjusting for intra-Group revenues of the service companies, consolidated sales amounted to € 36.1 million as opposed to € 55.7 million in 2005. The drop in revenues is attributable to the sale of the IT consulting firm ALLDATA SYSTEMS GmbH effective 1 July 2005. Through the divestiture of performance of external IT services as an independent line of business, the ARAG Group strategically focused on its core competence as an insurer.

At a slightly improved income from normal business activity of from € -1.6 million to € -0.6 million, the one-time tax gains resulted in a significant growth in net profits from € 4.8 million in the previous year to € 18.9 million, in spite of one-time effects from efficiency-enhancement actions.

VI. Product development, employees and other performance factors

Product development The ARAG Group, the internationally recognized, independent partner for legal matters and protection, continued to enhance its innovative palette of customer-oriented products throughout the year under review.

The product innovation introduced on the German legal insurance market at the end of 2005 – the ARAG Legal Navigator – proved to be a sales success, generating numerous customer inquiries. Additionally, the initial attorney telephone consultation – one of the key elements of the ARAG Legal Navigator – was tested by the inspection agency TÜV Saarland in 2006, earning a high mark of 1.55. In view of its enormous success, the ARAG Legal Navigator was additionally developed as a product for the brokerage market in the year under review, and introduced at the start of 2007. The declining deductible for claims-free years included in this product is a completely new feature in this market.

ARAG rolled out a further pioneering highlight in 2006 with the ARAG Rat&Tat legal insurance product. This completely new entry-level product rationally combines the initial telephone attorney consultation with cost assumption as a familiar insurance benefit. This new product was sold Germany-wide through the over 2,000 stores of a retail discounter. Due to the success of this pilot project, further possible utilization models for this additional sales channel are under study. In addition, customers can obtain Rat&Tat legal insurance via the Internet and through our exclusive sales organization as of the current fiscal year.

In the composite segment as well, the ARAG Group proved itself to be an innovative, customer-oriented partner. The ARAG accident policy Unfall-Schutz Plus was introduced, a special product for senior citizens that offers not only financial support but out-patient assistance and care benefits. This product is being offered in cooperation with the German medical-care organization Arbeiter-Samariter-Bund (ASB). ARAG's home effects insurance was completely reinvented. To better meet customer needs, the premium product Recht&Heim – a combination of legal, liability and home effects insurance – was expanded. The new rate generation now covers such benefits as initial attorney telephone consultation.

The ARAG mutual fund-linked policy formed the basis for product development in the life insurance segment. The family of flexible, mutual fund-linked pension insurance plans was complemented in the year under review by the ARAG ZulagenRente product. The Group is thus expanding its portfolio in the area of publicly subsidized "Riester products", and offering customers flexible, high-earning savings models for all levels of personal retirement savings.

In the health insurance sector, ARAG continued to leverage it proven, attractive product range in full-coverage and supplementary health insurance. In both trade publications and the performance comparisons of respected rating agencies, ARAG health insurance products consistently place at the forefront. In addition, the German trade journal AssCompact named ARAG Krankenversicherung one of the best providers of supplementary health insurance products.

Further performance factors A further key success factor for the future development of ARAG Rechtsschutz is the implementation of the new ARAG sales organization. Going forward, this effort will enable direct, on-site customer contact with an even more competent and effective sales team. In the year under review, the comprehensive remodeling and expansion of the 220 branch offices of the ARAG exclusive sales organization was substantially completed, along with a broad range of additional optimization measures. A further decisive aspect in securing domestic growth is consistent penetration of the brokerage market. The necessary strategic decisions were taken at the end of 2006. Administrative activities are to be significantly reduced or centralized. This will create additional capacity for new business acquisition. The expansion of our staff base has also commenced. Our goal is to acquire a total of new 900 exclusive sales representatives by 2009, in order to significantly strengthen our sales effectiveness.

ARAG Rechtsschutz developed the Triathlon efficiency program in 2006 in order to boost operational performance rapidly and in a targeted manner; the actions from this program are being implemented in 2007. The objective of this program is to improve and accelerate all customer-level work processes – and at the same time to significantly reduce costs. Employees in the newly organized units ARAG Customer Service and ARAG Legal Service will provide customers with direct, start-to-finish assistance with their issues whenever possible; they are supported in this by modern IT systems.

To complement the entrepreneurial growth targets, new, compulsory guidelines were promulgated for all subsidiaries of the Group, which were successively transmitted to our entire staff in the course of a systematic process. 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.

The targeted expansion is an important factor for the Group's entrepreneurial success. Since 2006, ARAG has been active in Great Britain, the largest insurance market in Europe and the third-largest in the world. This means that the ARAG Group is now active in twelve European countries and the US in all.

Last year, the ARAG Group also instituted a philosophical change in its investment strategy: in the real estate investment sector, the Company will now pursue a more international strategy and to this end is divesting itself of the major part of its domestic, directly held real estate inventory. Instead, the Group will invest more in international real estate. Instead of direct investment, which ties up resources, the focus going forward will thus be on a much more flexible resource allocation.

Employees		
(permanent staff)	2005	**2006**
Consolidated companies	3,694	**3,553**
Entire Group	3,773	**3,642**

Employees The number of employees in the ARAG Group declined according to plan in the year under review as part of our cost saving actions. As of 31 December 2006, the Group employed a total of 3,553 persons in the consolidated companies on a permanent basis, as opposed to 3,694 as of 31 December of the previous year. Including companies outside the scope of consolidation, 3,642 persons were employed as of 31 December 2006 (previous year 3,773). This corresponds to a decline of 3.5 percent. During the period under review, 34 percent of the employees of the ARAG Group worked outside of Germany.

In its optimization and reengineering efforts, the Group can rely on a highly skilled staff. Our employees are characterized by a high level of loyalty to and identification with the enterprise. 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. 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 e.g. 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. Overall, the business development of the 2007 fiscal year is proceeding as expected to date.

VIII. Risk report

The objective of risk management is to fulfill the statutory requirements of Art. 91 (2) AktG (Stock Corporation Act), and additionally to detect, analyze and control risks in good time. The central risk management unit quantifies the risk capital required for the business under consideration of the current risk structure and reports to the Board of Management on the overall risk situation on a quarterly basis. The persons responsible for risk are the managers of the operational units. They are responsible for controlling the risks.

Central 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 holds only a few 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 reserves 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		Settlement result
	Ratio for fy	Balance	in % of initial reserves
2006	64.9	59.2	4.5
2005	63.7	59.9	3.1
2004	58.7	60.1	1.1
2003	64.4	54.3	8.3
2002	68.2	60.8	6.8
2001	64.0	59.7	4.2
2000	64.5	56.6	7.5
1999	66.1	59.8	6.3
1998	65.6	58.1	7.7
1997	68.5	61.7	7.0

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 coverage provision.

Cancellation probabilities are not considered in calculating the coverage 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 repurchase 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.

Risk 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 2006, receivables in insurance business more than 90 days past due amounted to € 17.6 million. The average default rate for receivables in 2004 through 2006 amounted to 0.3 percent with reference to booked premiums.

Risks from capital investment: As an insurance enterprise, 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 risk-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 insurance subsidiaries of the Group 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 ensure 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.

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.

The ARAG subsidiaries guard 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: Possible risks from the Triathlon efficiency enhancement program were prevented through comprehensive analyses and action strategy consultations prior to project implementation. The revision of the solvability requirements by the European Commission (Solvency II) will have far-reaching consequences for insurance companies. Both the organizational and the quantitative requirements will greatly increase. The ARAG Group is preparing for this new challenge by participating in various internal and external working groups relating to Solvency II. In addition, special analyses are conducted as needed. In 2006, the effects of a pandemic on death-benefit insurance and health insurance as well as on the staff of the headquarters was analyzed. No risks endangering the existence of the Company could be identified.

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 GDV model. 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.

The Group had at its disposal sufficient funds available for coverage of the regulatory solvability requirements as set forth in the applicable statute (Art. 104g VAG). The advance calculation of the Group solvability as of 31 December 2006 revealed a further significant improvement in level of funds available for coverage.

IX. Outlook

In the current 2007 fiscal year, the general economic recovery will perceptibly continue. A further reduction in the unemployment rate may also be assumed. However, these positive developments will not affect the insurance industry directly. At the same time, the industry must implement the requirements of the Insurance Mediation Directive and the German statute governing insurance contracts (VVG).

The preparations undertaken by the ARAG Group ahead of the implementation of the new Insurance Mediation Directive on 22 May 2007 were both timely and thorough. As early as 2005, key elements of this directive were realized in the ARAG sales initiative. This focused not only on the revised quality requirements for agents. Rather, the Group also resolved the complex issue of commission effects and restructured its entire compensation system in line with the new rules.

The provisions of the new insurance contract legislation are incomparably more extensive. ARAG is according particular attention to the fact that the “lock-in” compulsions of insurance contracts have been loosened, so that customers can terminate existing policies more quickly. As an excellent product specialist, ARAG sees an enormous opportunity to strengthen the loyalty of its customers through superior product and service quality over the long term, even under the new framework conditions. In the past years, ARAG has completely modernized its IT platforms and rolled out a new, comprehensive portfolio and claims system. With its new IT, the Group is well equipped to implement the requirements of VVG.

The overall effects of the new legal requirements on the industry will initially be scarcely perceptible, as each company in the market must comply with the modified legal standards. In the long term, however, fundamental changes in the insurance market may be expected. Traditional insurance benefits will become increasingly interchangeable for consumers. This means that the companies will need to create unique selling points through pricing or added value through additional services. The insurance industry is thus on the verge of an important innovation threshold.

As a quality insurer, ARAG is already pursuing its clear strategy of investing in consultation and prevention instead of exclusively offering claims benefits and cost coverage. The Group has realigned its brand accordingly. ARAG’s brand competence is consultation and prevention competence. Our enterprise possesses a mastery of these issues thanks to its excellent expertise in domestic and international legal insurance markets.

In future, our in-depth know-how in this area will be applied to all segments of the Group. ARAG is thus becoming a problem solver and risk navigator for its customers. We not only offer financial coverage in the event of a claim, but provide consultation well in advance. The ARAG Legal Navigator shows that customers respond positively to this concept. Our entrepreneurial participation in the legal services provider janolaw enables ARAG to tailor legal consultation services to meet the needs of every product segment.

The new brand promise of the risk navigator precisely reflects our corporate principle of being a partner for legal matters and protection. ARAG is expanding the traditional concept of insurance with this performance philosophy. This ensures that the Group possesses a sustained unique selling point with a clear differentiation in competition.

The business expectations of the ARAG Group for the 2007 and 2008 fiscal years are optimistic overall. We expect varying developments in the different segments of the Group.

The legal insurance segment will again profit from a further increase in international business. In this area, the Group is assuming continuing stable growth and another considerable value contribution.

In the German legal insurance business, comprehensive optimization actions are being performed in the current year to sustainably improve the key underwriting figures of the German ARAG Rechtsschutz. Additionally, ARAG will significantly expand its brokerage business in order to develop new growth fields in the home legal insurance market. Important new partners such as the financial services provider MLP have added ARAG legal insurance to their portfolios. In the exclusive sales organization, the establishment of 220 new branch offices will be largely completed in this fiscal year. At the same time, the exclusive sales force is to be significantly expanded, with plans calling for linking 900 additional sales agents to the Group.

What all these actions reflect is that the Group is seeking not quick success, but sustained success. It is thus not expected that the premium and profit development of the German legal insurance business will significantly improve in 2007.

The composite segment, as managed by ARAG Allgemeine, will position itself strategically so as to be more in line with the Group's risk navigator brand strategy. This means that the Group is focusing on inter-segment joint products in which the competences of the Group can be utilized in a more directed fashion. A new accident insurance product that is combined with the initial telephone attorney consultation of the ARAG Legal Navigator is the first example.

As Europe's largest sport insurer, ARAG Allgemeine occupies an extremely attractive market niche. At the same time, the growth potential of this specialized market in Germany is limited. Transferring and expanding this business model to address other associations is thus only logical.

In the composite sector, the Group will continue to expand its sport insurance business internationally. Our campaign in Spain is meeting with excellent customer resonance, so that we expect the targets of the pilot project to be reached this year.

The life insurance segment has optimally complemented its mutual fund-linked product family with a new, publicly subsidized mutual fund-linked product ("Riester" product), and thus offers attractive savings models for all three levels of retirement saving. With the product family of mutual fund-linked policies, ARAG is well prepared for the reform of the VVG statute. For example, all mutual fund-linked pension insurance plans and Riester products are already based on a distribution of the cost of sales, which reduces the costs of modifying our product landscape.

For the Group's health insurance unit, the prerequisites for continuing the successful course of past years exist. In the strategically important market for supplementary health insurance, we are able to meet virtually all customer needs. The high quality of the products continues to be reflected in the excellent placements in performance comparisons. In the difficult health-policy context of full-coverage health insurance, ARAG Krankenversicherung has maintained its stable base. ARAG is excellently positioned in the high-potential area of entry-level rates. ARAG Krankenversicherung is proactively responding to the challenges of the reformed health system and will rapidly and decisively take advantage of every opportunity that presents itself.

In view of the recognizable successes of the optimization efforts, the Group's business expectations for 2007 and 2008 are good. The ARAG Group will continue to demonstrate its earning power, which will also be due to a further improvement in underwriting earnings. Overall, income from normal business activity is expected to reach the current level.

Owners and employees are united in their joint ambition to make ARAG one of the best insurers in terms of efficiency and performance. Both sides will continue to make strong and sustained contributions. The Group can thus consistently exploit its excellent development potential. On this basis, the ARAG Group looks to the future with confidence.

Consolidated Financial Statement

ARAG Aktiengesellschaft

Consolidated Financial Statement

Consolidated Balance Sheet as of 31 December 2006

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: € 105,646.40 (previous year € 19,874.13)
II. Settlement receivables from reinsurance business
III. Other accounts receivable portion from affiliated companies: € 3,090,540.11 (previous year € 3,481,254.48) portion from companies with which a shareholding relationship exists: € 1,888,209.90 (previous year € 2,637,733.25)
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				2006	2005
	in euros	in euros	in euros	in euros	in euros
				141,610,000.00	149,610,000.00
31 p.60					
			0.00		0.00
1 p.53			41,069,185.52		46,103,330.33
2 p.53			7,603,756.70		9,484,149.51
				48,672,942.22	55,587,479.84
31 p.60					
3 p.53			357,284,831.43		367,720,067.45
4 p.53					
		5,242,126.76			5,416,890.18
		4,534,452.24			5,420,827.10
		33,252,481.04			33,656,928.34
		60,149,062.57			51,871,897.53
		116,830.20			3,216,831.20
			103,294,952.81		99,583,374.35
5 p.54		1,894,290,304.75			1,959,969,449.89
5 p.54		419,603,759.17			409,675,740.64
6 p.54		266,629,491.82			279,006,003.74
6 p.54					
	608,225,837.62				445,072,728.72
	770,616,449.21				746,436,625.68
	87,618,845.01				83,840,679.07
	155,733,925.75				155,742,459.86
		1,622,195,057.59			1,431,092,493.33
8 p.54		131,980,582.41			146,939,457.45
6 p.54		334,180.09			313,930.09
			4,335,033,375.83		4,226,997,075.14
			4,042,994.63		4,123,948.98
				4,799,656,154.70	4,698,424,465.92
7 p.54				33,755,411.85	28,313,137.29
9 p.54					
	51,453,224.47				50,325,609.00
	14,800,248.24				13,428,069.04
		66,253,472.71			63,753,678.04
		20,054,974.07			24,054,016.16
			86,308,446.78		87,807,694.20
			16,160,390.66		13,581,202.60
			31,650,080.68		26,156,192.58
				134,118,918.12	127,545,089.38
			36,008,870.01		36,528,314.11
10 p.54 11 p.54			27,026,686.11		26,619,481.18
			45,721,879.79		41,246,868.94
12 p.54			75,652,444.39		36,676,019.84
				184,409,880.30	141,070,684.07
13 p.54					
			59,909,962.40		63,348,281.65
			3,186,791.63		3,859,470.73
				63,096,754.03	67,207,752.38
14 p.55 27 p.58				7,629,612.20	10,637,415.44
				5,412,949,673.42	5,278,396,024.32

Consolidated Balance Sheet as of 31 December 2006

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
1. Group net profit
IV. Balancing item for shares of other shareholders
B. Difference from consolidation of capital
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	2006 in euros	2005 in euros
28 p. 58 37 p. 68				
		200,000,000.00		200,000,000.00
	2,953,862.00			885,062.01
	159,192,118.06			136,013,590.80
	168,712.09			2,228,105.80
	-35,998,458.11			-35,998,430.58
		126,316,234.04		103,128,328.03
		57,427,908.26		30,243,024.33
		27,338,700.27		24,696,490.27
			411,082,842.57	**358,067,842.63**
29 p. 58			**0.00**	**13,888,174.45**
16 p. 55			**50,000,000.00**	**50,000,000.00**
15 p. 55			**4,957.87**	**4,957.87**
17 p. 55				
	217,495,558.02			213,362,185.75
	-13,978,347.74			-6,951,937.79
		203,517,210.28		206,410,247.96
18 p. 55				
	2,861,239,428.60			2,786,544,086.25
	-69,361,110.00			-71,978,401.00
		2,791,878,318.60		2,714,565,685.25
19 p. 56				
	1,118,560,726.40			1,083,956,146.87
	-51,444,731.66			-45,829,313.81
		1,067,115,994.74		1,038,126,833.06
		240,825,341.20		232,068,704.72
20 p. 57		72,843,419.00		77,933,767.00
21 p. 57				
	5,311,119.56			5,485,455.95
	0.00			0.00
		5,311,119.56		5,485,455.95
			4,381,491,403.38	**4,274,590,693.94**
		4,966,012.06		1,702,824.18
		28,789,399.79		26,610,313.11
			33,755,411.85	**28,313,137.29**
			4,876,334,615.67	**4,724,864,806.18**

Consolidated Balance Sheet as of 31 December 2006

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 portion to affiliated companies: € 16,849.10 (previous year € 0.00)
II. Settlement liabilities from reinsurance business
III. Debts to banks
IV. Other liabilities portion from taxes: € 16,434,276.32 (previous year € 15,937,635.37) portion attributable to social security: € 455,139.09 (previous year € 3,093,428.89) portion to affiliated companies: € 950,629.67 (previous year € 945,349.66) portion to companies with which a shareholding relationship exists: € 2,267,093.49 (previous year € 2,138,533.55)
J. Deferred liabilities
Total liabilities

Appendix	in euros	in euros	2006 in euros	2005 in euros
			4,876,334,615.67	**4,724,864,806.18**
22 p. 57		180,789,938.59		163,729,397.01
		5,147,986.79		18,869,853.04
		0.00		0.00
23 p. 57		72,857,298.10		71,182,242.39
			258,795,223.48	**253,781,492.44**
24 p. 57			**77,825,906.00**	**81,373,276.91**
24 p. 57				
25 p. 57				
	71,046,084.38			81,964,088.23
	25,037,468.91			24,519,509.52
		96,083,553.29		106,483,597.75
25 p. 57		1,196,989.40		1,109,965.03
		32,962,176.00		47,708,009.08
		65,540,806.80		59,151,439.71
			195,783,525.49	**214,453,011.57**
26 p. 57			**4,210,402.78**	**3,923,437.22**
			5,412,949,673.42	**5,278,396,024.32**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2006

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 coverage 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			2006	2005
	in euros	in euros	in euros	in euros
30 p. 59	894,226,794.79			894,473,774.29
	-17,443,233.68			-20,371,325.62
		876,783,561.11		874,102,448.67
	-5,924,126.20			-5,306,594.89
	-1,062,673.30			403,617.00
		-6,986,799.50		-4,902,977.89
			869,796,761.61	**869,199,470.78**
			510,200.59	**575,898.48**
			2,640,342.09	**2,493,062.82**
	476,281,770.19			509,896,802.86
	-9,102,976.59			-8,374,247.20
		467,178,793.60		501,522,555.66
	33,323,358.06			9,615,672.03
	-5,408,084.94			-3,647,627.97
		27,915,273.12		5,968,044.06
			495,094,066.72	**507,490,599.72**
		0,00		0.00
		81,580.12		1,984,772.86
			81,580.12	**1,984,772.86**
36 p. 65			**4,816.33**	**8,495.00**
35 p. 65				
		361,616,196.04		364,719,270.24
		-4,888,659.51		-5,252,888.91
			356,727,536.53	**359,466,381.33**
			1,534,586.28	**1,186,293.54**
			19,667,878.55	**6,101,435.35**
			5,090,348.00	**-5,058,627.00**
			24,758,226.55	**1,042,808.35**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2006

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
b) Earnings from associated companies
c) Earnings from other capital investments portion from affiliated companies: € 0.00 (previous year € 114,559.44)
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 coverage 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 portion for extraordinary write-downs according to Art. 253 (2) sen. 3 HGB: € 14,616,736.25 (previous year € 9,413,440.28)
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	2006 in euros	2005 in euros
30 p. 59	417,808,957.51			409,663,672.24
	-4,668,451.25			-7,163,148.21
		413,140,506.26		402,500,524.03
	1,653,950.90			1,312,646.22
	-360,116.75			-447,082.92
		1,293,834.15		865,563.30
			414,434,340.41	**403,366,087.33**
			16,316,989.69	**10,511,168.95**
		2,857,937.12		2,996,308.31
		574,208.47		1,561,123.54
	15,202,179.52			13,856,698.23
	125,580,306.67			137,863,356.75
		140,782,486.19		151,720,054.98
		7,696,830.17		22,056,555.47
		1,563,487.98		4,300,299.64
		0.00		0.00
			153,474,949.93	**182,634,341.94**
34 p. 64			**3,227,655.07**	**5,985,899.57**
			339,176.59	**525,058.22**
	353,407,053.49			338,512,648.51
	-10,121,914.57			-7,255,661.53
		343,285,138.92		331,256,986.98
	-2,419,269.65			-5,874,403.15
	207,332.91			-49,867.54
		-2,211,936.74		-5,924,270.69
			345,497,075.66	**337,181,257.67**
	-77,959,249.23			-77,761,951.45
	-2,617,291.00			1,096,405.00
		-80,576,540.23		-76,665,546.45
		-2,822,052.41		-5,743,737.28
			-83,398,592.64	**-82,409,283.73**
36 p. 65			**42,874,660.27**	**75,822,002.62**
35 p. 65				
	52,641,418.05			43,745,500.34
	14,256,498.31			15,073,691.85
		66,897,916.36		58,819,192.19
		-330,629.16		-796,639.19
			66,567,287.20	**58,022,553.00**
		9,753,658.32		6,480,543.39
		18,105,592.98		14,121,339.84
		872,875.60		15,572.56
			28,732,126.90	**20,617,455.79**
			378.31	**2.39**
			3,423,453.45	**11,697,855.24**
			17,299,537.26	**17,272,145.57**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2006

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 portion from affiliated companies: € 641,330.00 (previous year € 569,170.00)
b) Earnings from associated companies
c) Earnings from other capital investments portion from affiliated companies: € 394,319.30 (previous year € 328,173.54)
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 portion for extraordinary write-downs according to Art. 253 (2) sen. 3 HGB: € 5,224,027.33 (previous year € 4,385,183.40)
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 portion for write-downs on goodwill from consolidation of capital: € 4,444,672.30 (previous year € 18,245,477.63)
9. Non-underwriting result
10. Income from normal business activity
11. Extraordinary earnings
12. Extraordinary costs
13. Taxes on income and earnings
14. Other taxes
15. Profit/loss for year before minority interests
16. Profit due to other shareholders
17. Loss attributable to other shareholders
18. Net income

Appendix	in euros	in euros	in euros	2006 in euros	2005 in Euro
			24,758,226.55		1,042,808.35
			17,299,537.26		17,272,145.57
				42,057,763.81	**18,314,953.92**
		924,203.13			821,540.03
		981,788.27			1,406,420.35
	17,936,242.70				14,176,161.03
	61,332,082.63				73,723,645.57
		79,268,325.33			87,899,806.60
		6,862,256.67			15,333,925.15
		5,423,093.68			9,841,343.69
		0.00			195,908.39
			93,459,667.08		115,498,944.21
		15,288,691.43			11,278,717.73
		13,485,888.38			10,679,891.22
		769,494.75			2,311,763.11
		0.00			0.00
		0.00			0.00
			29,544,074.56		24,270,372.06
				63,915,592.52	**91,228,572.15**
				-509,608.00	**-575,398.00**
				36,052,538.38	**55,743,703.19**
				36,560,060.82	**56,304,325.83**
			30,584,218.56		26,360,911.75
			68,157,248.27		79,562,045.80
				-37,573,029.71	**-53,201,134.05**
				25,325,432.37	**36,891,417.46**
				67,383,196.18	**55,206,371.38**
32 p.62			0.00		5,980,099.04
32 p.62			-20,135,533.69		0.00
				-20,135,533.69	**5,980,099.04**
33 p.62			-13,580,845.51		26,454,966.27
			539,685.48		858,710.90
				-13,041,160.03	**27,313,677.17**
				60,288,822.52	**33,872,793.25**
			-4,528,505.41		-4,327,978.31
			1,667,591.15		698,209.39
				-2,860,914.26	**-3,629,768.92**
				57,427,908.26	**30,243,024.33**

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 2006 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 44 subsidiaries in accordance with Art. 301 (1) HGB as of 31 December 2006. Four companies within the scope of consolidation were included as associated companies within the meaning of Art. 311 HGB. Eight subsidiaries were dissolved as of 31 August 2006/1 September 2006 without liquidation and effectively merged with another Group subsidiary through universal succession. Shares in one associated company were sold at the end of the third quarter, so that the direct shareholding portion fell to ten percent. As of the fourth quarter, the company is no longer among the associated companies of the Group.
As of 31 December 2006, the scope of consolidation including associated companies comprises 15 insurance companies, two service providers in the area of electronic data processing and business organization, nine real estate management companies, 16 other service companies and seven holding and asset management companies (including the top-level company). The Consolidated Financial Statement omits 37 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	ALV Vermögens- und Beteiligungs-Verwaltungs AG, Munich	79.32
4	ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich	79.32
5	ARAG 2000 Grundstücksgesellschaft bR, Dusseldorf	91.96
6	ARAG Aktiengesellschaft, Dusseldorf, **Parent company of Group**	100.00
7	ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Dusseldorf	94.93
8	ARAG Allgemeine Versicherungs-AG, Dusseldorf	94.93
9	ARAG Assicurazioni Rischi Automobilistici e Generali S.p.A., Verona, Italy	94.93

	Name of company	Group share in %
10	ARAG Association LLC, Des Moines, Iowa, USA	94.93
11	ARAG Compañía Internacional de Seguros y Reaseguros S.A., Barcelona, Spain	94.93
12	ARAG Insurance Company Inc., Des Moines, Iowa, USA	91.23
13	ARAG International Holding GmbH, Dusseldorf	94.93
14	ARAG IT GmbH, Dusseldorf	94.93
15	ARAG Krankenversicherungs-AG, Munich	79.32
16	ARAG Lebensversicherungs-AG, Munich	79.32
17	ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Dusseldorf	94.93
18	ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Dusseldorf	94.93
19	ARAG LLC, Des Moines, Iowa, USA	94.93
20	ARAG North America Inc., Des Moines, Iowa, USA	94.93
21	ARAG Österreich Allgemeine Rechtsschutz-Versicherungs-AG, Vienna, Austria	94.93
22	ARAG Plc., Boston, England	94.93
23	ARAG S.A. Assurance en Protection Juridique, Brussels, Belgium	94.89
24	ARAG Service Center GmbH, Dusseldorf	94.93
25	ARAG Services LLC, Des Moines, Iowa, USA	94.93
26	ARAG zavarovanje pravne zascite d. d., Ljubljana, Slovenia	94.93
27	ARAG-Nederland Algemene Rechtsbijstand Verzekeringmaatschappij N.V., Leusden, Netherlands	94.74
28	COLUMBUS CAPITAL Service GmbH, Munich	79.32
29	Cur Versicherungsmakler GmbH, Dusseldorf	66.67
30	Cura Gesellschaft für Vermögensverwaltung und für Vermittlung mbH, Dusseldorf	58.86
31	Cura GmbH & Co. KG, Dusseldorf	66.67
32	GWV-AVUS Beteiligungsmanagement GmbH, Munich	79.32
33	IGD Immobilien GmbH & Co. Dresden KG, Dusseldorf	90.09
34	IGD Immobilien GmbH, Dusseldorf	94.93
35	Interiura International AG, Dusseldorf	94.93
36	Interlloyd Versicherungs-AG, Dusseldorf	94.93
37	ITS-Haus GmbH Wohn- und Gewerbebau, Munich	79.35
38	Lawphone of Canada Inc., Des Moines, Iowa, USA	94.93
39	Prinzregent Immobilien-Management GmbH, Munich	79.32
40	Prinzregent Vermögensverwaltung GmbH & Co. KG, Munich	79.32
41	Rechtswijzer B.V., Leusden, Netherlands	94.55
42	SolFin GmbH, Dusseldorf	71.30
43	Summus LLC, Des Moines, Iowa, USA	94.93
44	TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Dusseldorf	94.93
45	WOWOBAU Wohnungsbaugesellschaft mbH, Munich	79.32

The following companies were included as associated companies:

	Name of company	Group share in %
1	Allrecht Rechtsschutzversicherung AG, Dusseldorf	26.00
2	Janolaw AG, Sulzbach (first-time inclusion as of 1 July 2006). Procurement costs totaled € 2,012,630.14. The difference from the proportional share capital is € 1,601,149.45, which is tied up in the goodwill value and will be linearly depreciated over a period of four years, beginning 1 January 2007.	25.10
3	Rendite Partner Gesellschaft für Vermögensverwaltung GmbH, Frankfurt/Main	33.33
4	Winterthur-ARAG Rechtsschutzversicherungsgesellschaft, Zurich, Switzerland	29.17

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	79.32	145,270.81	13,702.31
2	Agencia de Seguros Cap. ARAG S.A., Barcelona, Spain	94.93	60,110.00	785.38
3	ALVA Aktiengesellschaft, Munich	79.32	329,569.30	-430.70
4	ARAG-pojist'ovna právní ochrany a.s., Prague, Czech Republic (in liquidation)	94.93	481,245.68	-9,058.83
5	ARAG International BV, Leusden, Netherlands	94.74	24,140.00	343.00
6	ARAG Szolgáltató Zártkörüen Müködö Részvénytársaság végelszámolás alatt, Budapest, Hungary (in liquidation)	94.93	1,984,282.19	94,183.45
7	ARAG Service S.R.L., Verona, Italy	93.98	175,319.00	59,301.00
8	ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil-Malmaison, France	94.93	33,538.78	-2,915.28
9	ARCA-A GmbH, Munich	79.32	25,273.05	445.94
10	ARCA-B GmbH, Munich	79.32	25,271.74	446.19
11	ARCA-C GmbH, Munich	79.32	25,099.31	509.71
12	ARCA-D GmbH, Munich	79.32	25,272.50	445.21
13	ARCA-E GmbH, Munich	79.32	25,278.44	440.19
14	ARCA-F GmbH, Munich	79.32	25,268.54	448.19
15	ARCA-G GmbH, Munich	79.32	25,275.99	444.21
16	ARCA-H GmbH, Munich	79.32	25,275.96	444.19
17	ARCA-I GmbH, Munich	79.32	25,337.95	400.19
18	ARCA-J GmbH, Munich	79.32	25,092.43	527.02
19	ARCANSA Beteiligungsverwaltung GmbH*	79.32	-552,767.22	-833,218.35
20	BuZ Vermittlungsgesellschaft mbH, Münster*	79.32	-941,174.08	72,241.05
21	INTERIURA Deutschland GmbH, Dusseldorf	94.93	462,188.09	106,573.61
22	INTERIURA-Italy s.r.l., Verona, Italy	94.94	572,779.00	161,235.00
23	INTERIURA Polska Spólka z organiczona odpowiedzialnoscia, Wroclaw, Poland*	94.93	-51,649.00	-40,096.05

	Name of company	Group share in %	Equity in euros	Profit/loss for year in euros
24	INTERIURA Magyarország Nemzetközi Kárrendezési Kft., Budapest, Hungary	91.76	62,416.00	8,311.56
25	INTERIURA Schadenregulierungs-AG, Basel, Switzerland	94.93	67,699.00	593,296.80
26	INTERIURA Schadenregulierungsges. mbH, Vienna, Austria	94.93	888,835.00	117,874.81
27	INTERIURA Sociedade Internacional Reguladora de Sinistros Lda., Lisbon, Portugal	94.93	69,524.00	29,531.78
28	INTERIURA United Kingdom Limited, Manchester, Great Britain	94.93	457,179.20	409,784.41
29	INTERIURA-Belgium s.p.r.l., Brussels, Belgium	94.81	605,735.00	35,397.26
30	INTERIURA-FRANCE S.A.R.L. Assistance et Règlement de Sinestres Automobiles et Généraux, Rueil-Malmaison, France*	94.93	-166,808.00	-194,618.15
31	INTERIURA-INTERRECHT S.A., Barcelona, Spain	94.93	1,545,001.53	535,064.36
32	INTERIURA-Nederland Schaderegelingsbureau B.V., Leusden, Netherlands	94.93	169,562.00	17,966.00
33	INTERJURA Internationale Schadenregulierungsgesellschaft mbH, Athens, Greece	94.84	59,669.45	-41,937.30
34	Prinzregent Vermögensverwaltung-GmbH, Munich	79.32	30,172.21	2,612.91
35	Stella Gesellschaft mbH Werbeagentur, Dusseldorf	54.61	159,123.99	11,121.05
36	VIA Beratungsgesellschaft mbH, Dusseldorf	92.61	365,341.71	23,802.15
37	VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung	94.93	61,670.13	31,209.61

* No actual overindebtedness exists.

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 2006 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 value of the company or enterprise and depreciated over the anticipated period of use (Art. 309 (1) sen. 2 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.

Liabilities-side differences from capital consolidation are stated as profit-relevant in the year in which the expected losses occur. In the event that differences are not based on expected losses, these are accounted for in an income-relevant manner by means of the weighted average residual lifespan of the acquired depreciable assets. In special cases, offsetting against revenue reserves is performed in an income-neutral manner. In the fiscal year under review, liabilities-side differences resulting from profit retention by subsidiaries following acquisition of a shareholding but before the effective date of initial consolidation, or from exercise of the transitional provisions under applicable tax law (Art. 27 EGHBG), were assigned to revenue reserves in the amount of € 11,007,315.36 with no effect on income. In the case of two subsidiaries, the unfavorable development anticipated on initial consolidation is now completed, so that the liabilities-side difference in the amount of € 2,880,859.09 could be dissolved in and transferred to income.

The final consolidation of the subsidiaries eliminated from the consolidation scope is always performed so as to be income-relevant by setting off the divested assets and liabilities of the subsidiary as a proportion of consolidated values against the sale proceeds. No final consolidations were necessary in the fiscal year under review, even though eight subsidiaries were dissolved without liquidation effective 31 August 2006/1 September 2006. By means of universal succession, all assets and liabilities of these subsidiaries were assumed by another subsidiary at their book values, so that this has no effect on the Group.

The holdings in associated companies were stated as the proportional equity or the Group's acquisition costs, respectively, in accordance with Art. 312 HGB. Art. 312 (2) through (4) HGB was taken into account. The value ratios as of the date of acquisition were used for the first-time application of the equity method.

Intra-Group profits subject to elimination were deducted from the valuations of the respective assets in an income-relevant manner. In accordance with Art. 304 (2) HGB, intra-Group profits with associated companies were not eliminated. 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 date of accounting. 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 date of accounting exchange rate that is attributable to the Group was transferred to revenue reserves in an income-neutral manner in the amount of € 2,059,393.71. DRS 14 was not applied as this was not sufficiently practical.

Accounting and valuation methods Preparation of this Consolidated Financial Statement conformed to the accounting and valuation regulations contained in Art. 341 ff. 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.

The accounting and valuation methods of the associated companies are equivalent to those of the Group subsidiaries, with the exception of the handling of financial investments at Rendite Partner Gesellschaft für Vermögensverwaltung mbH. In this case, valuation is performed according to the regulations for investment assets according to Art. 253 (2) HGB, as this is not an insurance company.

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 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.

2 Other intangible assets are stated at their acquisition costs, depreciated linearly. The book value of € 7,603,756.70 breaks down as € 6,231,703.59 for IT software, € 1,118,771.61 attributable to goodwill from the acquisition of a company in the US, € 203,281.50 for tenant improvements and € 50,000.00 for an industrial property right. IT software is primarily depreciated linearly over three years. The goodwill value resulting from the acquisition has a residual life of ten years. Tenant improvements are linearly depreciated over the remaining term of the lease. The industrial property right is not subject to depreciation. In this fiscal year under review, extraordinary write-downs of € 758,774.24 were taken.

3 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.

4 Shares of 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 were 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.

5 Stocks, investment shares, bearer bonds and other fixed-interest securities are always valued in accordance with Art. 341 b (2) HGB (German Commercial Code) in connection with Art. 253 (1) and (3) HGB at acquisition cost or at the lower value at the day of accounting, 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. Consequently, no extraordinary write-downs were taken in the year under review. In addition, write-downs in the amount of € 16,736,750.54 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 € 59.7 million exist.

In accordance with Art. 8a of the law governing senior part-time employment, investment-fund shares in the amount of € 2,297,807.01 have been pledged to employees as security for performance arrears in accordance with the block model.

6 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.

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

8 Bank deposits are stated at par value.

9 Receivables 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.

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

11 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.

12 Other assets are stated at par value. Tax credits in accordance with Art. 37 (5) KstG are valued at their cash value based on a discount rate of 4.5 percent.

13 Accrued income mainly includes deferred interest not yet payable in the period of income up to the day of accounting as well as disbursements that are payable as expenses after the date of accounting. This item also contains € 173,379.15 from the difference determined according to Art. 341 c (2) sen. 2 HGB.

14 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. Tax liability for the revaluation of assets and liabilities to achieve a uniform Group valuation were taken into account as an expense in the amount of € 633,675.14. The specific national earnings tax rates were used in calculation. The tax expenditure includes a further charge of € 1,242,000.00 for tax liabilities caused by consolidation actions. For this purpose a uniform earnings tax rate of 40 percent was assumed. The capitalized amount of tax liabilities from revaluation and consolidation actions amounts to € 3,276,745.16 as of 31 December 2006.

15 Special reserve item The special reserve item was formed entirely from advances on investment which will be set off against acquisitions in future. Due to the new German corporate public disclosure requirements ("TransPuG") which took effect July 2002, superceding Art. 308 (3) HGB, the special reserve item was dissolved with no effect on income effective 1 January 2003, insofar as this item was formed on the basis of tax regulations. Changes in special reserve items in the individual financial statements formed on account of tax regulations were eliminated from the Consolidated Financial Statement in an income-relevant manner.

16 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 trading statute.

17 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.

18 The coverage 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 financial regulatory 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: Actuarial rates of interest of 4.0 percent, 3.25 percent and 2.75, zillmerization of 33 per mil of the ensured amounts (exception: rates with increased death benefits), respectively a zillmerization rate of 40 per mil of the premium amount as well as mortality rates according to according to the mortality tables DAV 1994T, separately for men and women.

Under consideration of the individual company cancellation and capital settlement probabilities, the coverage provision for the entire portfolio of deferred and current pension insurance policies was calculated according to the new rates as of 31 December 2006 and a positive difference of € 6.64 million between the old and new coverage provision was additionally allocated to the reserves.

Premium components from the expected non-contributory child accident insurance policies are transferred to the coverage provision for children's accidents. Calculation is performed according to mathematic principles as per the underwriting business plan.

19 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 day of accounting 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"). Reserves for outstanding claims were reduced by claim reimbursement receivables which can be expected in 2007.

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 sector) of the initial amount was taken into consideration in accordance with the distribution provision of Art. 52 (16) sen. 6 EStG.

Provisions for outstanding claims for the assumed reinsurance business are stated according to the information provided by the direct insurer. The portion of reinsured business was determined in accordance with the provisions of the reinsurance policies.

The provisions for life insurance claims and repurchases reported but not yet settled as of the day of accounting 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 date of accounting 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 date of accounting 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 long-term care insurance. Receivables from recovery actions were deducted from the provision.

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

21 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.

22 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 2005G with an assumed rate of interest of 6.0 percent is used as a reference base for the calculation of the partial value. In variation from this, an assumed rate of interest of 5.25 percent was used for discounting to avoid a valuation at the lower limit acceptable under the rules for proper accounting.

The discretionary right of Art. 28 (1) EGHGB 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.

23 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. Calculation was performed 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 remaining 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 an interest rate 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.

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

25 Liabilities from self-contracted insurance business and accounts payable from reinsurance settlements are stated at par value.

26 The deferred liabilities contain differences in accordance with Art. 341c (2) sen. 1 HGB in the amount of € 427,801.40.

27 **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 2006 arising from temporary differences with respect to the total of the individual financial statements; this amounted to € 3,680k for subsequent fiscal years (previous year € 4,922k). 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: € 7,630k).

28 **Group equity** A detailed representation of the Group equity is presented on pages 68 and 69. This representation was compiled in compliance with DRS 7. The self-generated Group equity is stated as that portion of the Group equity that was formed from the Group 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.

29 **Difference from capital consolidation** The liabilities-side difference of € 13,888k was entirely dissolved in the fiscal year under review. An amount of € 11,007k was assigned to other revenue reserves, as it was formed through retained profits of the Group subsidiaries which were treated as capital subject to consolidation according to the discretionary right under Art. 27 (1) EGHGB even though the retention took place during the period when the unit belonged to the Group. The difference was dissolved in an income-relevant manner in an amount of € 2,881k, as the unfavorable development of two Group subsidiaries anticipated in the purchase price is now complete.

Associated companies The total of all goodwill values from inclusion of associated companies under application of the equity method amounts to € 1,601k.

30 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	331,382,296.94	211,212,375.66	217,854,915.47	199,954,042.04		12,917.17
Netherlands	68,209,211.00				26,351,460.00	
Spain	56,406,832.78	24,100,572.26			11,837,525.21	4,216,141.09
Austria	39,102,713.96					781,433.46
USA	31,192,193.79				11,730,357.75	
Belgium	18,316,974.43				174,337.20	
Italy	22,507,629.86				32,297,834.49	
Greece	2,222,360.78				1,294,553.96	
Slovenia	877,073.00					
Total	570,217,286.54	235,312,947.92	217,854,915.47	199,954,042.04	83,686,068.61	5,010,491.72
				1,223,339,191.97		**88,696,560.33**
Grand total						**1,312,035,752.30**

31 III. Development of assets B., C. I. through IV. in fiscal 2006

	Balance sheet values 2005	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	0.00	0.00	0.00	0.00
2. Purchased goodwill	46,103,330.33	0.00	0.00	0.00
3. Other intangible assets	9,484,149.51	2,882,476.07	0.00	0.00
Total B.	**55,587,479.84**	**2,882,476.07**	**0.00**	**0.00**
C. I. Real estate, comparable rights and buildings including those on third-party property	**367,720,067.45**	**2,150,030.22**	**0.00**	**0.00**
C. II. Capital investments in affiliated companies and shareholdings				
1. Shares in affiliated companies	5,416,890.18	3,845.43	0.00	0.00
2. Lending to affiliated companies	5,420,827.10	196,759.49	0.00	0.00
3. Shareholdings	85,528,825.87	14,704,899.96	0.00	0.00
4. Lending to companies with which a shareholding relationship exists	3,216,831.20	0.00	0.00	0.00
5. Total C. II.	**99,583,374.35**	**14,905,504.88**	**0.00**	**0.00**
C. III. Other capital investments				
1. Stocks, investment fund shares and other non-fixed interest securities	1,959,969,449.89	111,810,096.36	0.00	0.00
2. Bearer bonds and other fixed-interest securities	409,675,740.64	176,489,987.89	0.00	0.00
3. Mortgages receivable, other similar rights and fixed-interest debts	279,006,003.74	14,488,064.69	0.00	0.00
4. Other lending				
a) Registered debentures	445,072,728.72	201,500,000.00	0.00	0.00
b) Promissory notes and loans	746,436,625.68	67,502,643.91	0.00	0.00
c) Loans and advance disbursements on insurance policies	83,840,679.07	16,143,852.07	0.00	0.00
d) Other lending	155,742,459.86	1,054,985.61	0.00	0.00
5. Bank deposits	146,939,457.45	264,917,778.54	0.00	0.00
6. Other capital investments	313,930.09	20,250.00	0.00	0.00
7. Total C. III.	**4,226,997,075.14**	**853,927,659.07**	**0.00**	**0.00**
Total C. I. through C. III.	**4,694,300,516.94**	**870,983,194.17**	**0.00**	**0.00**
C. IV. Portfolio assets from assumed reinsurance business	**4,123,948.98**	**134,547.48**	**0.00**	**0.00**
Total capital investments	**4,698,424,465.92**	**871,117,741.65**	**0.00**	**0.00**

Real estate, comparable rights and buildings on third-party property with a balance-sheet value of € 131,739,200.68 (previous year € 190,290,661.24) were used by the Group's insurance companies for their own operations.

Sales	Currency rate adjustments	Write-ups	Write-downs	Balance sheet values 2006	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
0.00	0.00	0.00	0.00	0.00		
0.00	-62,613.87	0.00	4,971,530.96	41,069,185.52		
567,074.00	-146,339.95	0.00	4,049,454.93	7,603,756.70		
567,074.00	**-208,953.80**	**0.00**	**9,020,985.89**	**48,672,942.22**		
1,266,999.99	**0.00**	**1,291,225.77**	**12,609,492.02**	**357,284,831.43**	**458,520**	**101,235**
0.00	0.00	157.00	178,765.85	5,242,126.76	8,404	3,162
1,078,482.71	0.00	0.00	4,651.64	4,534,452.24	4,534	
5,018,196.79	-170,883.48	0.00	1,643,200.95	93,401,543.61	106,967	13,566
3,100,001.00	0.00	0.00	0.00	116,830.20	117	
9,196,680.50	**-170,883.48**	**157.00**	**1,826,618.44**	**103,294,952.81**	**120,022**	**16,727**
176,471,036.25	-88,937.01	12,582,266.85	13,511,535.09	1,894,290,304.75	1,946,288	51,998
161,944,030.73	-2,500,809.93	349,312.51	2,466,441.21	419,603,759.17	427,295	7,691
25,798,785.91	0.00	0.00	1,065,790.70	266,629,491.82	273,768	7,139
38,346,891.10	0.00	0.00	0.00	608,225,837.62	610,402	2,177
43,211,416.48	0.00	200.00	111,603.90	770,616,449.21	780,079	9,463
12,365,686.13	0.00	0.00	0.00	87,618,845.01	87,619	
1,063,642.43	0.00	122.71	0.00	155,733,925.75	157,479	1,745
279,876,649.58	-4.00	0.00	0.00	131,980,582.41	131,981	0
0.00	0.00	0.00	0.00	334,180.09	334	0
739,078,138.61	**-2,589,750.94**	**12,931,902.07**	**17,155,370.90**	**4,335,033,375.83**	**4,415,246**	**80,213**
749,541,819.10	**-2,760,634.42**	**14,223,284.84**	**31,591,481.36**	**4,795,613,160.07**	**4,993,788**	**198,175**
215,501.83	**0.00**	**0.00**	**0.00**	**4,042,994.63**	**4,043**	**0**
749,757,320.93	**-2,760,634.42**	**14,223,284.84**	**31,591,481.36**	**4,799,656,154.70**	**4,997,831**	**198,175**

Of the bearer bonds, other fixed-interest securities and bank deposits, a total of € 6.5 million (previous year € 8.6 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 in the amount of € 14,223,284.84 (previous year € 37,390,480.62) were taken in the fiscal year under review. Debts with a remaining term of more than five years exist in the amount of € 8,469,000.00 (previous year € 7,404,000.00). Debts to financial institutions in the amount of € 32,962,030.00 (previous year € 40,047,764.17) are secured by property liens.

32 **Extraordinary operating result** The extraordinary operating result contains the direct and indirect effects from the restructuring program that was developed and undertaken – severance costs as well as vacancy costs and restoration obligations for the closings of satellite offices in Germany – totaling € 7.8 million. To avoid a general undervaluation of the pension reserves, which to date have been valued according to Art. 6a of the German income tax statute (EStG) for domestic subsidiaries, discounting has been adjusted to a long-term rate of interest of 5.25 percent. The resulting charge amounts to € 12.3 million. Extraordinary earnings in the amount of € 6.0 million 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.

33 **Tax expenditure** The taxes on income and earnings include the tax gains from the claim for reimbursement of the offsettable corporate income tax of previous years within the meaning of Art. 37 (5) KStG contain an amount of € 38,718,213.79 for the German subsidiaries. This amount is stated as a cash value discounted at 4.5 percent and is capitalized in this amount under "Other assets".

Other financial obligations Contribution obligations in the amount of € 23,625,830 exist from participation in the Protektor Lebensversicherungs-AG; these can be called in as necessary. Pursuant to Art. 124 ff. VAG, ARAG Lebensversicherungs-AG is a member of the guarantee fund for life insurers. On the basis of the relevant official regulation, the guarantee fund charges annual contributions of no more than 0.2 per mil of the total of net underwriting provisions until a security fund of one per mil of the total net underwriting provisions has been formed. The future obligations from this for our company amount to € 1.4 million. The security fund can also levy extraordinary contributions in the amount of a further per mil of the total net underwriting provisions; this is equivalent to an additional obligation of € 2.4 million. Additionally, ARAG Lebensversicherungs-AG has undertaken to provide the security fund or alternatively Protektor Lebensversicherungs-AG with funds should the resources of the security fund prove inadequate. This obligation amounts to one percent of the total net underwriting provisions under offsetting of the contributions already paid into the security fund at this time. When the above contribution obligations from premium payments to the security fund are included, the total obligation as of the day of accounting is € 22.3 million.

Pursuant to Art. 124 ff. VAG, ARAG Krankenversicherungs-AG is a member of the security fund for private health insurers through its membership in the private health insurers' industry association Verband der privaten Krankenversicherung e.V. Since then, the receiving company Medicator AG has been founded, which was assigned the tasks and authority of a security fund for private health insurance enterprises by the Federal Ministry for Finance with the decree of 11 May 2006. In the event of a crisis, ARAG Krankenversicherungs-AG is obligated to provide the necessary funds up to a maximum amount of two per mil of the net underwriting provisions (€ 1.3 million) for the fulfillment of its tasks.

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 € 14.6 million. 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 Group is liable for the following outstanding capital contributions that have not been called in:

(in euros)	
Allrecht Rechtsschutzversicherung AG	947,000.00
FOYER-ARAG S.A., Luxembourg	24,788.00
High Tech Beteiligungen GmbH & Co. KG	925,000.00
INVESCO Beteiligungsverwaltungs GmbH & Co. KG	3,888,355.84
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 were taken in the fiscal year under review in the amount of € 100,000.00. Extraordinary write-downs in the amount of € 178,765.85 were taken on shares in associated companies not included in the scope of consolidation and € 19,561,997.73 on other capital assets.

35 The gross cost of insurance business comprises

(in euros)	2006	2005
Sale of insurance policies	207,484,512.58	193,847,258.70
Administration of insurance policies	221,029,599.82	229,691,203.73
Total costs	**428,514,112.40**	**423,538,462.43**

36 Costs of premium rebates for own account

(in euros)	2006	2005
Costs of profit-dependent premium rebates	40,003,865.17	72,809,209.19
Costs of profit-independent premium rebates	2,875,611.43	3,021,288.43
Total costs	**42,879,476.60**	**75,830,497.62**

Commisions and other compensation for insurance representatives, employee costs

(in euros)	2006	2005
1. Commissions of all types for insurance representatives within the meaning of art. 92 HGB for self-contracted insurance business	184,055,696.17	173,852,776.04
2. Other compensation for insurance representatives within the meaning of art. 92 HGB	12,176,467.16	13,546,989.23
3. Wages and salaries	171,526,704.77	181,236,698.74
4. Social security and support expenses	33,299,797.82	33,962,281.19
5. Expenses for pension plans	18,087,690.02	17,790,705.32
6. Total costs	**419,146,355.94**	**420,389,450.52**

Average employment for year On average over the entire year, the companies completely included in the Consolidated Financial Statement employed 3,664 (previous year 3,878) persons. As of 31 December 2006, the ARAG Group employed a total of 3,642 persons (31 December 2005: 3,773 persons).
The insurance companies employed 3,204 (previous year 3,246) persons on average. On average, 460 persons (previous year 632) were employed in the management and service companies. The German Group subsidiaries additionally employed some 35 (previous year 39) vocational trainees.

Compensation for Supervisory Board and Board of Management of ARAG AG Compensation for the Supervisory Board amounted to € 360,046.85. The compensation for board members of all Group subsidiaries amounted to € 823,974.40. There are no current pensions or vested pension rights for former Board members or their survivors.

Dusseldorf, 24 May 2007

Board of Management

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

Statement of Consolidated Cash Flow for Fiscal Year 2006

	2006 in euros	2005 in euros
I. Cash flow from current business		
Net income	60,288,823	33,872,793
Change in net underwriting reserves	112,342,984	150,205,013
Change in portfolio assets and liabilities and settlement assets and liabilities	-5,958,580	4,004,048
Change in other receivables and payables	-22,751,151	-26,740,888
Profit/loss from sale of capital investments	-5,344,211	-11,814,308
Changes in other assets and liabilities	-29,443,507	-8,398,501
Depreciation on intangible assets	9,020,986	24,449,042
Write-downs on capital investments	31,591,859	24,801,231
Write-ups on capital investments	-17,450,940	-43,376,380
Changes in special reserve item	0	-240,033
Effects of currency exchange rates	806,411	-1,425,141
Cash flow from current business	**133,102,674**	**145,336,876**
II. Cash flow from investment activities		
Payments received from sale of consolidated companies and other business units	0	16,503,353
Disbursements for purchase of consolidated companies and other business units	0	0
Payments received from sale and maturity of other capital investments	754,885,931	578,693,667
Disbursements for the purchase of other capital investments	-870,983,194	-791,518,996
Payments received from sale of capital investments of mutual fund-linked life insurance	4,236,322	1,711,944
Disbursements for sale of capital investments of mutual fund-linked life insurance	-6,451,320	-1,408,816
Other payments received	567,074	1,164,378
Other disbursements	-2,882,476	-3,944,158
Cash flow from investment activities	**-120,627,663**	**-198,798,628**
III. Cash flow from financing activities		
Shareholder contributions	8,000,000	0
Disbursements to company owners and minority shareholders	0	0
Dividend payments	-16,000,000	-4,200,000
Payments and disbursements from other financing activities	0	50,000,000
Cash flow from financing activities	**-8,000,000**	**45,800,000**
Effective changes in cash reserves	**4,475,011**	**-7,661,752**
Cash reserves at start of fiscal year	41,246,869	48,908,621
Cash reserves at end of fiscal year	45,721,880	41,246,869
Change in cash reserves in fiscal year	**4,475,011**	**-7,661,752**

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 2005	200,000,000.00	-149,610,000.00	131,143,246.56	2,228,105.80	183,761,352.36
Issue of shares		8,000,000.00			8,000,000.00
Purchase/retirement of own shares					0.00
Dividends paid			-16,000,000.00		-16,000,000.00
Changes in the scope of consolidation			-68,091.70		-68,091.70
Other changes*			11,072,367.09	-2,059,393.71	9,012,973.38
Group profit/loss for year			57,427,908.26		57,427,908.26
Other Group profit/loss			0.00		0.00
Overall Group profit/loss for year			57,427,908.26		57,427,908.26
Values as of 31 December 2006	**200,000,000.00**	**-141,610,000.00**	**183,575,430.21**	**168,712.09**	**242,134,142.30**
II. Minority shareholders					
As of 31 December 2005	0.00	0.00	24,589,265.06	107,225.21	24,696,490.27
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-164,597.62		-164,597.62
Changes in the scope of consolidation			68,091.70		68,091.70
Other changes			-18,414.64	-103,783.70	-122,198.34
Group profit/loss for year			2,860,914.26		2,860,914.26
Other Group profit/loss			0.00		0.00
Overall Group profit/loss for year			2,860,914.26		2,860,914.26
Values as of 31 December 2006	**0.00**	**0.00**	**27,335,258.76**	**3,441.51**	**27,338,700.27**
III. Group equity					
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
Issue of shares		8,000,000.00			8,000,000.00
Purchase/retirement of own shares					0.00
Dividends paid			-16,164,597.62		-16,164,597.62
Changes in the scope of consolidation					0.00
Other changes			11,053,952.45	-2,163,177.41	8,890,775.04
Group profit/loss for year			60,288,822.52		60,288,822.52
Other Group profit/loss			0.00		0.00
Overall Group profit/loss for year			60,288,822.52		60,288,822.52
Values as of 31 December 2006	**200,000,000.00**	**-141,610,000.00**	**210,910,688.97**	**172,153.60**	**269,472,842.57**

* The remaining changes during the fiscal year under review are primarily due to the transfer from the liabilities-side difference from capital consolidation to other revenue reserves (€ 11,007,315.36).

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 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		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		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		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**

Segment Reporting – Balance Sheet

(in thousand euros)	Legal insurance		Composite insurance		Life insurance	
	2006	2005	2006	2005	2006	2005
A. Intangible assets	**4,883**	**5,928**			**517**	**747**
B. Capital investments	**1,507,917**	**1,509,558**	**476,516**	**456,105**	**2,624,507**	**2,818,299**
I. Real estate and buildings including those on third-party property	117,509	124,327	38,147	38,773	187,361	189,218
II. Capital investments in affiliated companies and shareholdings	326,206	329,823	76,891	76,460	172,272	364,183
III. Other capital investments	1,060,159	1,051,285	361,479	340,872	2,264,873	2,264,899
IV. Portfolio assets from assumed reinsurance business	4,043	4,124				
C. Capital investments for the account and risk of life insurance policyholders					**33,755**	**28,313**
D. Other assets by segment	**168,401**	**135,272**	**13,924**	**28,977**	**102,204**	**105,527**
Total segment assets*	**1,681,201**	**1,650,759**	**490,440**	**485,083**	**2,760,983**	**2,952,886**
A. Underwriting reserves	**961,969**	**947,787**	**330,648**	**324,830**	**2,463,595**	**2,456,044**
I. Unearned premiums	170,987	165,463	35,951	35,687	10,205	11,826
II. Actuarial provision			6	6	2,313,432	2,309,086
III. Provision for outstanding claims	798,302	781,783	270,965	255,298	17,757	18,873
IV. Reserve for premium rebates	17	13			195,299	192,087
V. Fluctuation provision	3,192	2,544	69,652	75,390		
VI. Other underwriting reserves	2,031	2,128	3,123	3,118	79	119
VII. Reinsurers' share of underwriting reserves	-12,559	-4,144	-49,048	-44,669	-73,176	-75,946
B. Underwriting reserves in the life insurance segment, to the extent that the investment risk is borne by the policyholders					**33,755**	**28,313**
C. Other liabilities by segment	**296,725**	**280,905**	**41,861**	**42,776**	**168,599**	**184,924**
Total segment liabilities	**1,258,694**	**1,228,692**	**372,508**	**367,605**	**2,665,950**	**2,669,281**
Equity**						
Total liabilities						

* Excluding outstanding contributions to the subscribed capital of € 141,610k (previous year € 149,610k).
** 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	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
102	**180**	**2,375**	**6,667**	**7,878**	**13,522**	**40,795**	**42,065**	**48,673**	**55,587**
645,521	**563,898**	**333,030**	**331,936**	**5,587,491**	**5,679,797**	**-787,835**	**-981,372**	**4,799,656**	**4,698,424**
2,862	2,965	12,484	8,813	358,362	364,095	-1,078	3,625	357,285	367,720
18,865	16,387	295,818	297,727	890,052	1,084,580	-786,757	-984,997	103,295	99,583
623,795	544,546	24,728	25,396	4,335,033	4,226,997			4,335,033	4,226,997
				4,043	4,124			4,043	4,124
				33,755	**28,313**			**33,755**	**28,313**
15,391	**11,677**	**89,328**	**62,351**	**389,249**	**343,804**	**7**	**2,657**	**389,255**	**346,461**
661,014	**575,755**	**424,733**	**400,954**	**6,018,372**	**6,065,436**	**-747,033**	**-936,650**	**5,271,340**	**5,128,786**
625,279	**545,930**			**4,381,491**	**4,274,591**			**4,381,491**	**4,274,591**
352	385			217,496	213,362			217,496	213,362
547,802	477,452			2,861,239	2,786,544			2,861,239	2,786,544
31,537	28,002			1,118,561	1,083,956			1,118,561	1,083,956
45,509	39,969			240,825	232,069			240,825	232,069
				72,843	77,934			72,843	77,934
78	121			5,311	5,485			5,311	5,485
				-134,784	-124,760			-134,784	-124,760
				33,755	**28,313**			**33,755**	**28,313**
11,957	**9,186**	**68,638**	**81,425**	**587,781**	**599,216**	**-1,161**	**4,320**	**586,620**	**603,536**
637,237	**555,116**	**68,638**	**81,425**	**5,003,028**	**4,902,120**	**-1,161**	**4,320**	**5,001,867**	**4,906,440**
								269,473	**222,346**
								5,271,340	**5,128,786**

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	
	2006	2005	2006	2005	2006	2005
Underwriting earnings						
Gross premiums booked	**654,695**	**641,605**	**239,532**	**252,869**	**217,855**	**223,745**
Self-contracted business	570,228	569,741	235,303	237,013	217,855	223,745
Assumed business	84,468	71,864	4,229	15,856		
Premiums for reinsured business	-1,833	-2,075	-15,610	-18,296	-4,664	-6,358
Change in net unearned premiums	-5,522	-5,185	-1,465	282	1,261	830
Earned premiums for own account	**647,340**	**634,345**	**222,456**	**234,855**	**214,452**	**218,217**
Premiums from gross reserve for premium rebates					7,714	4,560
Assigned capital gains from underwriting account			510	576	127,227	163,744
Unrealized gains from capital investments					3,228	5,986
Other underwriting earnings for own account	2,270	2,116	370	377	121	356
Total underwriting earnings	**649,611**	**636,461**	**223,337**	**235,808**	**352,741**	**392,863**
Underwriting costs						
Cost of claims for own account	-370,133	-369,049	-124,961	-138,441	-237,029	-232,875
Change in other net underwriting reserves	97	367	-15	1,618	-13,091	-23,168
Costs for premium rebates	-5	-8			-24,200	-55,648
profit-dependent portion	-5	-8			-24,200	-55,648
profit-independent portion						
Unrealized losses from capital investments						
Cost of insurance business	-275,149	-273,420	-81,576	-86,047	-39,415	-34,084
portion attributable to cost of sales	-132,503	-128,484	-22,340	-21,618	-30,411	-24,346
portion attributable to administrative costs	-143,294	-145,638	-63,477	-68,979	-9,335	-10,535
reinsurance portion	647	702	4,241	4,551	331	797
Assigned capital costs from underwriting account					-26,505	-17,610
Other underwriting costs for own account	-474	-174	-1,060	-1,013	-2,944	-10,959
Total underwriting costs	**-645,664**	**-642,284**	**-207,613**	**-223,883**	**-343,185**	**-374,345**
Subtotal	**3,946**	**-5,824**	**15,724**	**11,925**	**9,556**	**18,519**
Change in fluctuation reserve and similar provisions	-648	-1,290	5,738	-3,768		
Underwriting result for own account	**3,298**	**-7,114**	**21,462**	**8,157**	**9,556**	**18,519**
Earnings from capital investments	70,295	102,138	20,014	24,512	127,227	163,744
Costs of capital investments	-27,268	-23,615	-3,672	-35	-26,505	-17,610
Income from capital investments	**43,026**	**78,523**	**16,342**	**24,477**	**100,722**	**146,135**
Capital investment operating result assigned to underwriting account			-510	-576	-100,722	-146,134
Sales revenues						
Production costs						3
Gross operating result						**3**
Other earnings	16,813	16,684	4,263	1,341	6,859	2,430
Other costs	-43,184	-57,377	-7,867	-7,821	-2,858	-3,945
Other income	**-26,371**	**-40,693**	**-3,604**	**-6,480**	**4,000**	**-1,516**
Income from normal business activity	**19,954**	**30,715**	**33,690**	**25,579**	**13,557**	**17,007**
Extraordinary operating result	**-9,383**	**-2,927**	**-1,429**		**-685**	**-650**
Operating result before taxes	**10,571**	**27,789**	**32,262**	**25,579**	**12,872**	**16,356**
Tax expenditure	-5,503	-13,249	-1,545	-9,896	-3,404	-1,632
Net income	**5,068**	**14,539**	**30,717**	**15,683**	**9,468**	**14,724**
Minority interests						
Group profit/loss for year	**5,068**	**14,539**	**30,717**	**15,683**	**9,468**	**14,724**

Health insurance		Services and asset management		Total		Consolidation		Group total	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
199,954	**185,919**			**1,312,036**	**1,304,137**			**1,312,036**	**1,304,137**
199,954	185,919			1,223,339	1,216,418			1,223,339	1,216,418
				88,697	87,720			88,697	87,720
-5	-805			-22,112	-27,534			-22,112	-27,534
33	35			-5,693	-4,037			-5,693	-4,037
199,982	**185,149**			**1,284,231**	**1,272,566**			**1,284,231**	**1,272,566**
8,603	5,951			16,317	10,511			16,317	10,511
26,248	25,830			153,985	190,150		-6,940	153,985	183,210
				3,228	5,986			3,228	5,986
218	169			2,980	3,018			2,980	3,018
235,052	**217,099**			**1,460,740**	**1,482,231**		**-6,940**	**1,460,740**	**1,475,291**
-108,468	-104,306			-840,591	-844,672			-840,591	-844,672
-70,307	-59,241			-83,317	-80,425			-83,317	-80,425
-18,674	-20,174			-42,879	-75,830			-42,879	-75,830
-15,799	-17,153			-40,004	-72,809			-40,004	-72,809
-2,876	-3,021			-2,876	-3,021			-2,876	-3,021
-27,154	-23,938			-423,295	-417,489			-423,295	-417,489
-22,231	-19,400			-207,485	-193,847			-207,485	-193,847
-4,924	-4,538			-221,030	-229,691			-221,030	-229,691
				5,219	6,050			5,219	6,050
-2,225	-2,828			-28,730	-20,438	-2	-179	-28,732	-20,617
-480	-739			-4,958	-12,884			-4,958	-12,884
-227,309	**-211,227**			**-1,423,771**	**-1,451,738**	**-2**	**-179**	**-1,423,773**	**-1,451,917**
7,743	**5,872**			**36,970**	**30,493**	**-2**	**-7,119**	**36,967**	**23,374**
				5,090	-5,059			5,090	-5,059
7,743	**5,872**			**42,060**	**25,434**	**-2**	**-7,119**	**42,058**	**18,315**
26,248	25,830	3,696	2,912	247,480	319,136	-545	-21,003	246,935	298,133
-2,225	-2,828	-1,247	-799	-60,917	-44,887	2,641		-58,276	-44,887
24,023	**23,002**	**2,449**	**2,112**	**186,563**	**274,249**	**2,096**	**-21,003**	**188,659**	**253,246**
-24,023	-23,002			-125,256	-169,712	2	7,119	-125,253	-162,593
		73,755	93,845	73,755	93,845	-37,703	-38,101	36,053	55,744
		-71,447	-94,360	-71,447	-94,357	34,886	38,053	-36,560	-56,304
		2,309	**-515**	**2,309**	**-512**	**-2,816**	**-49**	**-508**	**-561**
599	601	2,051	5,021	30,584	26,076		285	30,584	26,361
-2,480	-1,152	-7,424	-8,161	-63,814	-78,456	-4,344	-1,106	-68,157	-79,562
-1,881	**-551**	**-5,374**	**-3,140**	**-33,229**	**-52,380**	**-4,344**	**-821**	**-37,573**	**-53,201**
5,863	**5,321**	**-616**	**-1,542**	**72,447**	**77,079**	**-5,064**	**-21,873**	**67,383**	**55,206**
-154		**-8,485**	**9,557**	**-20,136**	**5,980**			**-20,136**	**5,980**
5,708	**5,321**	**-9,101**	**8,015**	**52,312**	**83,059**	**-5,064**	**-21,873**	**47,248**	**61,186**
-2,567	-2,019	27,935	-3,234	14,917	-30,031	-1,876	2,717	13,041	-27,314
3,142	**3,302**	**18,834**	**4,781**	**67,229**	**53,028**	**-6,940**	**-19,155**	**60,289**	**33,873**
						-2,861	-3,630	-2,861	-3,630
3,142	**3,302**	**18,834**	**4,781**	**67,229**	**53,028**	**-9,801**	**-22,785**	**57,428**	**30,243**

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

(in thousand euros)	National		International	
	2006	2005	2006	2005
Underwriting earnings				
Gross premiums booked	**960,417**	**966,341**	**351,619**	**337,796**
Self-contracted business	960,404	962,400	262,936	254,018
Assumed business	13	3,942	88,684	83,778
Premiums for reinsured business	-21,984	-27,203	-127	-331
Change in net unearned premiums	2,185	4,507	-7,878	-8,545
Earned premiums for own account	**940,617**	**943,645**	**343,614**	**328,920**
Premiums from gross reserve for premium rebates	16,317	10,511		
Assigned capital gains from underwriting account	153,985	190,150		1
Unrealized gains from capital investments	3,228	5,986		
Other underwriting earnings for own account	2,797	2,903	183	115
Total underwriting earnings	**1,116,943**	**1,153,195**	**343,797**	**329,036**
Underwriting costs				
Cost of claims for own account	-670,704	-672,612	-169,887	-172,060
Change in other net underwriting reserves	-83,312	-82,305	-5	1,881
Costs for premium rebates	-42,875	-75,822	-5	-8
profit-dependent portion	-39,999	-72,801	-5	-8
profit-independent portion	-2,876	-3,021		
Unrealized losses from capital investments				
Cost of insurance business	-275,674	-275,186	-147,621	-142,303
portion attributable to cost of sales	-114,908	-105,372	-92,576	-88,475
portion attributable to administrative costs	-165,940	-175,786	-55,089	-53,906
reinsurance portion	5,175	5,972	45	78
Assigned capital costs from underwriting account	-28,730	-20,438		
Other underwriting costs for own account	-4,435	-12,738	-523	-146
Total underwriting costs	**-1,105,730**	**-1,139,102**	**-318,040**	**-312,636**
Subtotal	**11,213**	**14,092**	**25,757**	**16,400**
Change in fluctuation reserve and similar provisions	5,090	-5,059		
Underwriting result for own account	**16,304**	**9,034**	**25,757**	**16,400**
Earnings from capital investments	227,005	298,396	20,475	20,740
Costs of capital investments	-55,802	-39,963	-5,114	-4,924
Income from capital investments	**171,203**	**258,434**	**15,360**	**15,815**
Capital investment operating result assigned to underwriting account	-125,256	-169,711		-1
Sales revenues	73,755	93,845		
Production costs	-71,447	-94,357		
Gross operating result	**2,309**	**-512**		
Other earnings	28,978	24,316	1,606	1,760
Other costs	-59,672	-70,196	-4,141	-8,261
Other income	**-30,694**	**-45,880**	**-2,535**	**-6,500**
Income from normal business activity	**33,866**	**51,364**	**38,582**	**25,715**
Extraordinary operating result	**-20,136**	**5,980**		
Operating result before taxes	**13,730**	**57,344**	**38,582**	**25,715**
Tax expenditure	29,643	-19,077	-14,726	-10,954
Net income	**43,373**	**38,268**	**23,856**	**14,760**
Minority interests				
Group profit/loss for year	**43,373**	**38,268**	**23,856**	**14,760**

Total		Consolidation		Group total	
2006	2005	2006	2005	2006	2005
1,312,036	**1,304,137**			**1,312,036**	**1,304,137**
1,223,339	1,216,418			1,223,339	1,216,418
88,697	87,720			88,697	87,720
-22,112	-27,534			-22,112	-27,534
-5,693	-4,037			-5,693	-4,037
1,284,231	**1,272,566**			**1,284,231**	**1,272,566**
16,317	10,511			16,317	10,511
153,985	190,150		-6,940	153,985	183,210
3,228	5,986			3,228	5,986
2,980	3,018			2,980	3,018
1,460,740	**1,482,231**		**-6,940**	**1,460,740**	**1,475,291**
-840,591	-844,672			-840,591	-844,672
-83,317	-80,425			-83,317	-80,425
-42,879	-75,830			-42,879	-75,830
-40,004	-72,809			-40,004	-72,809
-2,876	-3,021			-2,876	-3,021
-423,295	-417,489			-423,295	-417,489
-207,485	-193,847			-207,485	-193,847
-221,030	-229,691			-221,030	-229,691
5,219	6,050			5,219	6,050
-28,730	-20,438	-2	-179	-28,732	-20,617
-4,958	-12,884			-4,958	-12,884
-1,423,770	**-1,451,738**	**-2**	**-179**	**-1,423,773**	**-1,451,917**
36,970	**30,493**	**-2**	**-7,119**	**36,968**	**23,374**
5,090	-5,059			5,090	-5,059
42,061	**25,434**	**-2**	**-7,119**	**42,058**	**18,315**
247,480	319,136	-545	-21,003	246,935	298,133
-60,917	-44,887	2,641		-58,276	-44,887
186,563	**274,249**	**2,096**	**-21,003**	**188,659**	**253,246**
-125,256	-169,712	2	7,119	-125,253	-162,593
73,755	93,845	-37,703	-38,101	36,053	55,744
-71,447	-94,357	34,886	38,053	-36,560	-56,304
2,309	**-512**	**-2,816**	**-49**	**-508**	**-561**
30,584	26,076		285	30,584	26,361
-63,814	-78,456	-4,344	-1,106	-68,157	-79,562
-33,229	**-52,380**	**-4,344**	**-821**	**-37,573**	**-53,201**
72,448	**77,079**	**-5,064**	**-21,873**	**67,384**	**55,206**
-20,136	**5,980**			**-20,136**	**5,980**
52,312	**83,059**	**-5,064**	**-21,873**	**47,248**	**61,186**
14,917	-30,031	-1,876	2,717	13,041	-27,314
67,229	**53,028**	**-6,940**	**-19,155**	**60,289**	**33,873**
		-2,861	-3,630	-2,861	-3,630
67,229	**53,028**	**-9,801**	**-22,785**	**57,428**	**30,243**

Auditor's Report for Consolidated Financial Statement*

We have audited the consolidated financial statements prepared by the ARAG Aktiengesellschaft, Dusseldorf, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the segment report and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31. December 2006. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § (Article) 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Dusseldorf, 25 May 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Koch	ppa. Paustian
Wirtschaftsprüfer	Wirtschaftsprüfer

* Voluntary translation. It should be noted that only the German auditor's report, which is based on the audit of the German version of the company's annual financial statements, is authoritative.

Report of the Supervisory Board

Throughout the fiscal year under review, the Supervisory Board continually monitored and deliberated on the conduct of the Company's business. Seven meetings of the Supervisory Board were convened for this purpose. Oversight was performed on the basis of the reports and oral information provided by the Board of Management, which informed the Supervisory Board in a timely and complete manner on all relevant issues of planning and business development of the Company and its holdings, the risk situation and risk management. The Supervisory Board was also kept extensively informed of projects and plans that were of particular importance for the Company or of an urgent nature between meetings. In the meetings, the Board of Management coordinated the strategic orientation of the enterprise with the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Company. The progress of strategy implementation was regularly discussed in the meetings. In the course of the fiscal year, a status proceeding pursuant to Art. 97 AktG was conducted. Accordingly, the makeup of the Supervisory Board no longer corresponds to the Co-determination Act of 1976, but instead now comprises just three members as provided for under Art. 95 AktG. Deliberations in the meetings of the Supervisory Board focused on such issues as: increasing the share capital of a holding, establishing group-wide risk management, isolating asset management from corporate management, the oversight obligations of the company in its role as a pure asset holding company, insurance-law issues relating to the solvability regulations, staffing issues and the Triathlon efficiency enhancement program.

No special monitoring actions were necessary in the fiscal year under review. The Supervisory Board is of the opinion that the Board of Management conducts the business legally, properly and to appropriate ends. Specifically, the Board of Management is fulfilling its obligation to ensure the sustained existence of the Company and its long-term profitability.

The Supervisory Board has reviewed the Consolidated Financial Statement and the Group Management Report. As part of this review, this body exercised its authority pursuant to Art. 111 (2) AktG, in particular through the inspection of the books and correspondence of the Company. The examination was conducted on the basis of the regular reports of the Board of Management, in which information respecting the business situation and all important events was disclosed both in writing and orally, as well as on the basis of the accounting requirements of commercial law governing insurance companies.

The scope of the examination of the Consolidated Financial Statement extended to the discretionary reporting and valuation rights exercised by the Board of Management. This examination led to the following result: The accounting of the Board of Management complies with the legal requirements and the regulations of the Company statute. The Consolidated Management Report is in accord with the Consolidated Financial Statement.

Discretionary decisions with respect to accounting policy were taken to the benefit of the Group.

The auditing firm PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Dusseldorf, audited the Financial Statement as of 31 December 2006 under consideration of our accounting, and the Management Report, as authorized by the Supervisory Board and has certified these reports without reservation. The audit report was submitted to the Supervisory Board on time. After reviewing the report on the basis of its own final examination, the Supervisory Board concurs with the opinion of the auditor of the Consolidated Financial Statement. There are no remarks to be made regarding the auditor's 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, 5 June 2007

Chair, Supervisory Board

Gerd Peskes

Governing Bodies of the Company

Supervisory Board

Until 19 June 2006, the Supervisory Board was constituted in accordance with the Co-determination Act of 1976 (Art. 5 (1) MitbestG) and comprised five members. As of the annual meeting on 19 June 2006, the Supervisory Board was constituted pursuant to Art. 95 AktG, and now comprises the three following members (members for all of 2006):

Gerd Peskes	Auditor, Essen, Chairman
Prof. Dr. Dr. h.c. Rolf Dubs	Professor University St. Gallen, Switzerland Vice-Chairman as of 19 June 2006
Dr. Tobias Bürgers	Attorney, Munich

Supervisory Board Members until 19 June 2006

Manfred Lambertz	Works Council Chair of ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Korschenbroich, Vice-Chair
Dr. Peter Feldhausen	Attorney/tax consultant, Dusseldorf
Peter Berg	Attorney, Dusseldorf
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

Board of Management

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.

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Editorial	ARAG Corporate Communications
Layout	Kuhn, Kammann & Kuhn AG, Cologne
Photos	Andreas Fechner, Dusseldorf
Typesetting	Zerres GmbH, Leverkusen
Printing	Druckpartner, Essen

Parent company of the
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