ARAG

MACHT STARK.

ANNUAL REPORT 2007 CONSOLIDATED FINANCIAL STATEMENTS

We take care of it.

ARAG Aktiengesellschaft

Certified translation from the German language

We take care of it.

Every life needs protection and security. And someone to watch over it with supreme dedication and total commitment. Someone like ARAG. Our products are backed up with people who work hard to take the worry out of our customers' lives. Our advice, support and assistance are just as much an integral part of our insurance products as top performance in all respects. Whether in legal matters, health care or retirement planning – ARAG combines competence with attention and reliability. We stand beside our customers as a reliable partner. Like a teacher who conscientiously prepares his pupils for the future. – Sound and caring counsel. We take care of it.

Overview

Key data

ARAG AG

(in million euros)	2007	Change	2006	2005
Sales				
Gross premiums written	1,342.2	2.3 %	1,312.0	1,304.1
Earned premiums for own account	1,313.7	2.3 %	1,284.2	1,272.6
Sales revenues from non-insurance subsidiaries	45.4	25.8 %	36.1	55.7
Costs				
Cost of claims for own account	867.9	3.2 %	840.6	844.7
Claims ratio (basis: earned premiums)	66.1 %	0.6 % pts.	65.5 %	66.4 %
Cost of insurance business for own account	430.7	1.8 %	423.3	417.5
Cost ratio (basis: earned premiums)	32.8 %	-0.2 % pts.	33.0 %	32.8 %
Overview of profit and loss				
Underwriting result for own account	48.5	15.2 %	42.1	18.3
Income from capital investments	192.5	2.0 %	188.7	253.2
portion included in underwriting result	131.5	5.0 %	125.3	162.6
Other income	-41.7	10.9 %	-37.6	-53.8
Income from normal business activity	60.2	-10.7 %	67.4	55.2
Extraordinary operating result	0.0	-100.0 %	-20.1	6.0
Net income before external portions	21.1	-65.0 %	60.3	33.9
Underwriting reserves/earned premiums	343.9 %	2.7 % pts.	341.2 %	335.9 %

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
- Household 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
- Mutual fund-linked pension insurance (incl. Riester/Rürup)
- Disability, survivors' and accidental-death supplementary insurance
- Company pension plans

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

International subsidiaries

ARAG Group
Main headquarters
ARAG Platz 1
40472 Dusseldorf
www.ARAG.de

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

ARAG Belgium
ARAG S.A.
Assurance en Protection Juridique
Place du Champ 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

FOYER-ARAG (Luxembourg)
FOYER-ARAG S.A.
Protection Juridique/Rechtsschutz
46, rue Leon Laval
3372 Leudelange
www.ARAG.com

ARAG Netherlands
ARAG Nederland
Algemene Rechtsbijstand
Verzekeringmaatschappij N.V.
Kastanjelaan 2
3833 AN Leusden
www.ARAG.nl

HELP Forsikring AS (Norway)
Nedre Vollgate 4
0124 Oslo
www.helpforsikring.no

ARAG Portugal
ARAG S.A. – Sucursal em Portugal
Rua Julieta Ferrão 10
Planta 13, Oficina A
1600-131 Lisbon

ARAG Slovenia
ARAG Zavarovanje Pravne
Zaščite d.d.
Železna Cesta 14
1000 Ljubljana
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ARAG Compañía Internacional de
Seguros y Reaseguros S.A.
Roger de Flor 16
08018 Barcelona
www.ARAG.es

Winterthur-ARAG (Switzerland)
Rechtsschutzversicherungs-
Gesellschaft
Gartenhofstraße 17
8070 Zurich
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www.ARAG.co.uk

ARAG® North America Inc.
400 Locust Street, Suite 480
Des Moines, Iowa 50309
www.ARAGGroup.com

Structure of the ARAG Group

Asset and Shareholding Management	**ARAG Aktiengesellschaft**					
Operative Group Holding	**ARAG Allgemeine Rechtsschutz-Versicherungs-AG**					
	Central Group Functions	**Group Finances**	**Group Sales National**	**Legal Insurance Underwriting/Services**	**Group IT/ Business Organization**	**Group International**
Operative Insurance Companies	**ARAG Allgemeine Versicherungs-AG** Composite Insurance	**ARAG 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 over 3,400 employees generated a sales and premium volume of around € 1.4 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 twelve 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. The ARAG Allgemeine subsidiary Interlloyd rounds out the Group's portfolio as a brokerage specialist in the private customer segment.

Personal insurance ARAG Kranken und ARAG Leben round out the Group's offerings with new ideas in the market for private health insurance and private retirement savings. ARAG Kranken is one of the Group's fastest growing segments, and at the same time is tightly focused on profitability. Its attractive, high-performance offerings are convincing more and more consumers, and consistently score at the top bracket in product and company ratings. With its family of mutual fund-linked pension insurance products, ARAG Leben has established a customer-oriented retirement savings offering on the market. The fund-linked policies, which can be flexibly adapted in response to individual life circumstances, also achieve top scores in the respective rankings.

Foreword

Dr. Paul-Otto Faßbender

The ARAG Group can look back on a dynamic 2007. The crisis that took hold of large parts of the financial services industry did not dampen the Group's positive development. Our enterprise grew more strongly than in the previous two years and continued to earn well.

ARAG continued to profit from its international commitment. In this sector, we reached an important milestone in the long history of our enterprise. As of last year, the Group's largest line of business is outside of Germany. For the first time, premium revenues in the international legal insurance business exceeded those on the home legal insurance market.

ARAG continued its international expansion, taking a stake in the only legal insurer in the Scandinavian market. This region represents a largely untapped market for legal insurance products.

On the earnings front, the Group's performance remained consistent and unaffected by the turbulence in the wake of the international financial crisis. In this difficult environment, the Group even managed to improve its income from capital investment. The further increase in underwriting earnings, which posted a marked increase from € 42.1 million to € 48.5 million, was particularly satisfying.

In the fiscal year under review, we concentrated on reducing costs and on improving the services of ARAG Rechtsschutz. And we attained both objectives: The cost ratio in this important line of business fell significantly, from 41 to 38 percent. In the industry customer satisfaction survey "Kundenmonitor Assekuranz 2007", ARAG clearly enhanced the satisfaction of its customers as compared with the previous year.

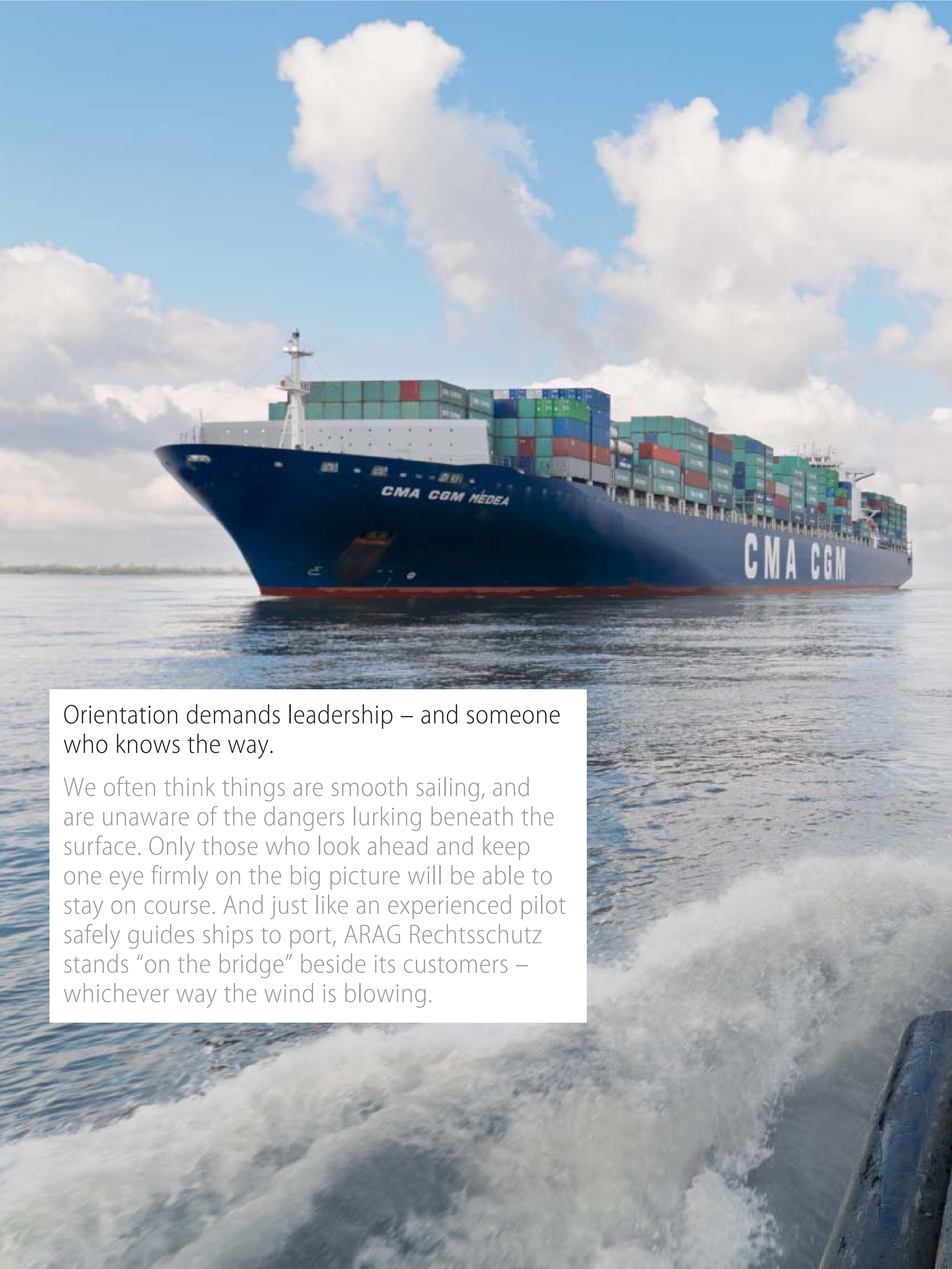
The ARAG Group continued to pursue its business policy of enhancing the internal financial strength of the enterprise throughout 2007. Our actions were focused on profit orientation and not growth orientation. We declined to embark on expensive sales campaigns, nor do we plan to undertake any in future. The Group sees its opportunities for profitable growth primarily in its international business and in the health insurance segment.

We are thus creating the prerequisites for securing the independence of our enterprise over the long term and successfully developing the ARAG Group as an international enterprise.

Dr. Paul-Otto Faßbender

Future demands foresight – and someone to take the lead.

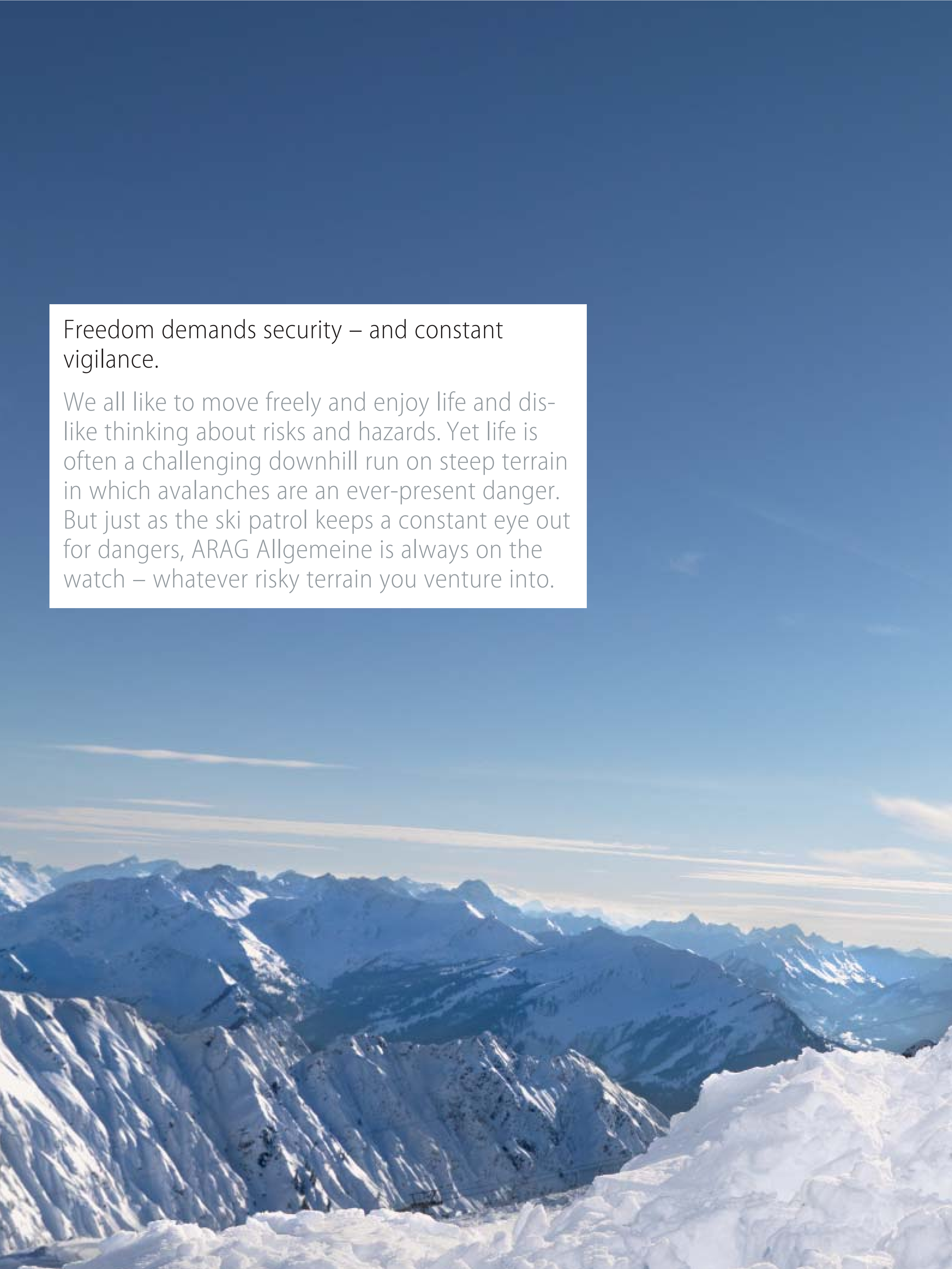
Beyond the known and familiar, new horizons lie waiting to be discovered – by those foresighted few who dare to explore. And just like a teacher makes his students receptive for new ideas and ways of thinking, ARAG is developing innovative approaches and pioneering products to better serve the interests of our customers – whatever the future may bring.



Orientation demands leadership – and someone who knows the way.

We often think things are smooth sailing, and are unaware of the dangers lurking beneath the surface. Only those who look ahead and keep one eye firmly on the big picture will be able to stay on course. And just like an experienced pilot safely guides ships to port, ARAG Rechtsschutz stands “on the bridge” beside its customers – whichever way the wind is blowing.


LOTSE 1



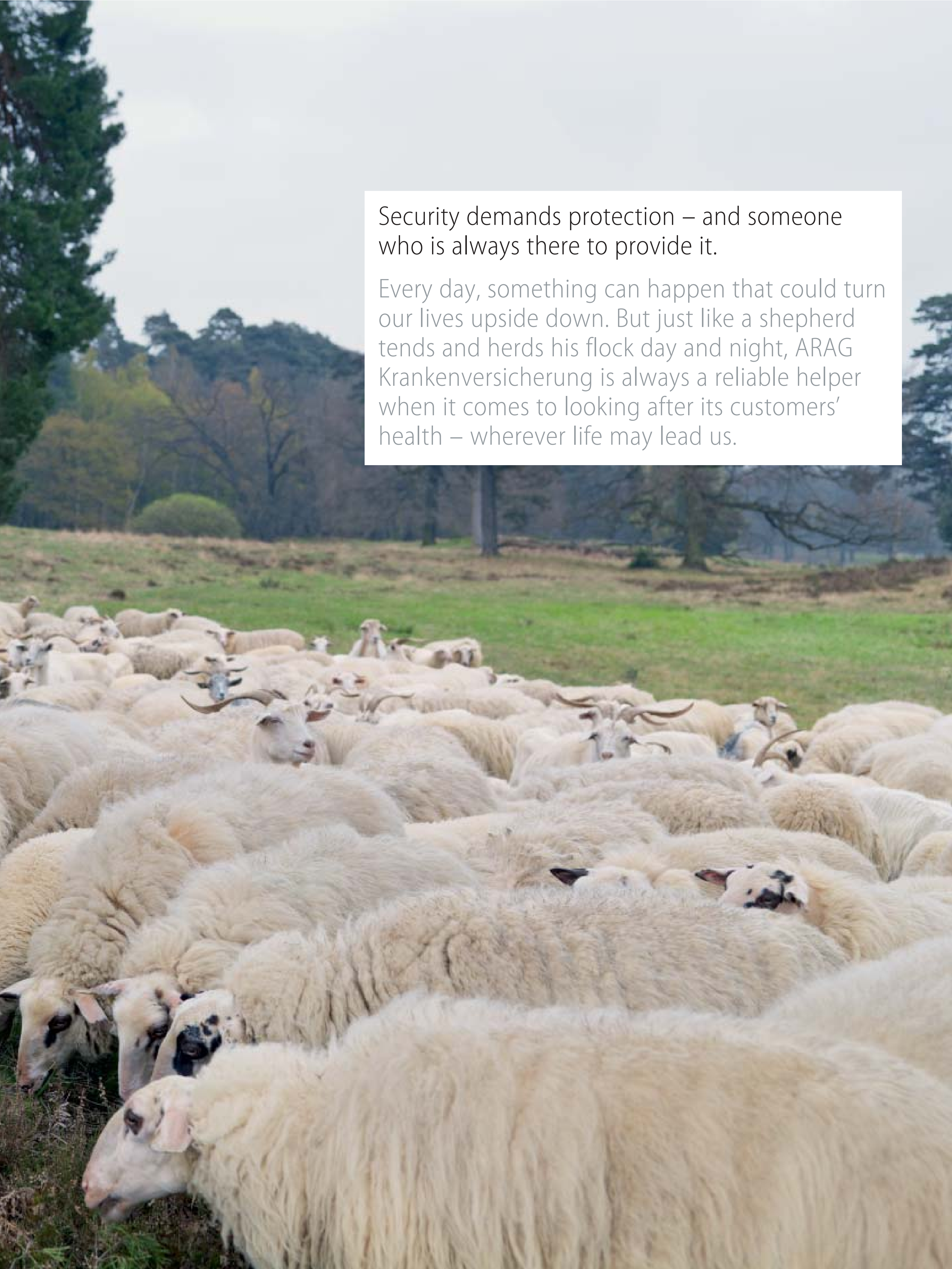
Freedom demands security – and constant vigilance.

We all like to move freely and enjoy life and dislike thinking about risks and hazards. Yet life is often a challenging downhill run on steep terrain in which avalanches are an ever-present danger. But just as the ski patrol keeps a constant eye out for dangers, ARAG Allgemeine is always on the watch – whatever risky terrain you venture into.


SKIWACHT

Growth needs nurturing – and someone to provide it.

Healthy plants have strong, sturdy roots. That is the best prerequisite for satisfactory development. And just as a gardener nurtures his plants so that they can grow and flourish, ARAG Lebensversicherung cultivates financial security, regardless of how conditions develop.



Security demands protection – and someone who is always there to provide it.

Every day, something can happen that could turn our lives upside down. But just like a shepherd tends and herds his flock day and night, ARAG Krankenversicherung is always a reliable helper when it comes to looking after its customers' health – wherever life may lead us.

Management Report

Development of premium income and sales (in million euros)	2007	2006	2005
Legal insurance	**674.6**	654.7	641.6
Domestic	327.0	331.4	336.4
International	347.6	323.3	305.2
Composite	**237.1**	239.5	252.9
Domestic	203.6	211.2	220.3
International	33.5	28.3	32.6
Life	**212.5**	217.9	223.7
Health	**218.0**	200.0	185.9
Service companies	**45.4**	36.1	55.7

- Group's growth stronger than in previous years
- International business and health insurance once again achieve above-average growth
- Underwriting earnings significantly improved
- Significant cost reductions in domestic legal insurance

ARAG Group Management Report for Fiscal Year 2007

I. Business and Market Conditions

The German economy profited significantly from the still-growing world economy with its expansive foreign trade. 2007 was thus a clear growth year, even though a slight cooling in the growth phase was apparent. Domestic demand contracted slightly compared to the previous year. This was because private households had moved necessary purchases forward in 2006, before the increase in value-added tax became applicable. Unemployment continued to decline, continuing the previous year's positive trend.

The financial markets suffered noticeably from the real estate crisis originating in the US. The severe shifts in exchange rates and the unremittingly rising petroleum and commodities prices are also exerting a dampening effect on economic development.

The continuing reluctance to spend on the part of private households had a direct impact on the German insurance industry. It was unable to fully benefit from the economic recovery. Following a 2.5 percent increase in premiums in the previous year, premium revenues in 2007 increased by only 0.8 percent. The main reasons for this were intensive competition, high market saturation and changes in numerous legislative parameters. In this environment, private health insurance in particular posted above-average development, with premium growth of 3.5 percent.

The ARAG Group continued to pursue its development objectives in this challenging and difficult competitive environment. It continued its global expansion. Outside of Germany, the Group – with its international legal insurance and the comparable special service package of ARAG Spain – posted another vigorous growth rate of 8.4 percent. In entering the Norwegian market, the Group pursued its international expansion, gaining a strategically important development opportunity in the entire Scandinavian market. ARAG is now actively serving customers in 13 European countries and the US.

In the year under review as well, the Group profited from the extremely thorough optimization of its business processes. Costs continued to decline, and at 32.8 percent reached a satisfactory level. The cost reductions in the German legal insurance business were particularly significant. The cost ratio here dropped from 41.0 percent to 38.1 percent in the year under review.

In the course of the new Group portfolio strategy in the real estate investment sector, a significant portion of real estate holdings was sold with a gain before the subprime crisis broke out on the financial markets. The Group remained unaffected by the subprime risks in all other respects as well.

The Group's health insurance business continued on its success track in 2007, in spite of more difficult political parameters. With another growth leap of 9 percent, development of the health insurance business significantly exceeded the market average.

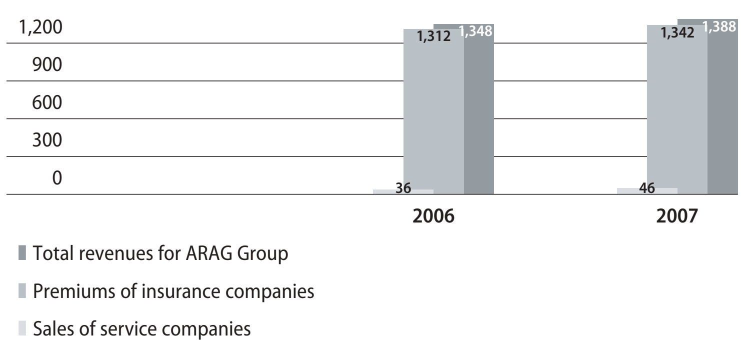
For the ARAG Group, the 2007 fiscal year can be summarized succinctly and positively: ARAG grew, continued to earn well and is on a successful international course.

II. Earnings Situation

Premiums/sales In the year under review, the premium revenues of the insurance subsidiaries of the ARAG Group increased at a greater rate than in the previous year, by 2.3 percent, from € 1.31 billion to € 1.34 billion. Once again, the international legal insurance business and the health insurance business generated the greatest growth. The total revenues of the Group, including sales of the service companies, amounted to € 1.39 billion, following € 1.35 billion in the previous year.

Total revenues

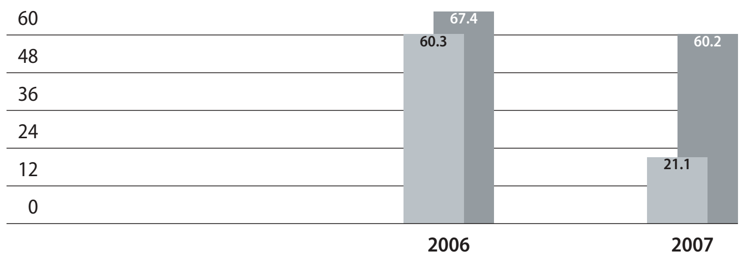
(in million euros)



In all, the Group's portfolios comprise some 6.2 million policies. Our international business accounts for 2.4 million of these. The domestic sport business (composite sector) comprises a further 20.8 million insured risks, which enjoy the benefits of ARAG insurance cover through 15 state sport associations.

Group performance

(in million euros)



Net income from normal business activity

Net Group profit before deduction of external components

Profit situation The ARAG Group demonstrated strong profitability in fiscal 2007. The underwriting account in particular improved further, increasing by 15 percent from € 42.1 million to € 48.5 million. The Group thus continues the improvement trend in this core operational performance indicator of the previous years. Earnings from normal business activity in the year under review declined due to a negative gross operational result in the services segment from € 67.4 million to € 60.2 million. The Group net profit before deduction of external portions declined from the previous year's level of € 60.3 million, which was due to a one-time special effect in corporate income tax, to € 21.1 million. The satisfying development in the Group's underwriting account clearly illustrates the sustained success of the comprehensive optimization actions in all branches of the Group.

The cost of insurance claims rose from € 840.6 million to € 867.8 million. This increase is due to the adjustment of the claims reserves of an international subsidiary that was undertaken on the basis of a modified actuarial assessment. Accordingly, the Group's claims ratio increased slightly, from 65.5 percent to 66.1 percent. At 32.8 percent, the cost ratio for 2007 once more remained practically unchanged from the previous year's level (33.0 percent). Due to the higher cost of claims, the Group's combined ratio rose slightly in the year under review. This was 98.9 percent, as compared to 98.4 percent in the previous year.

In the year under review the return on capital investment increased by 2 percent to € 192.5 million, following € 188.7 million in the previous year. The gains from the sale of the Group real estate as part of the realignment of the investment strategy also played a role here.

To secure the Group's earning power over the long term, the primary focus was on significantly increasing the efficiency of the German ARAG Rechtsschutz. With the Triathlon project, a comprehensive action plan was implemented in 2007. This started producing significant results in the fiscal year under review, and initiated a turnaround in the operational key figures of ARAG Rechtsschutz. It is anticipated that these actions will generate savings of € 16 million annually from 2008 on. The costs for these actions and for the further increase in pension provisions were the reason for the greater total costs under "Other income/expenses".

In the fiscal year under review, income taxes including latent tax effects were incurred amounting to € 39.1 million, following tax gains of € 13.6 million in the previous year. Whereas one-time claims for tax refunds in accordance with Art. 37 (5) of the German corporate income tax statute KStG in the amount of € 38.7 million were capitalized as income in 2006, the tax liability of the high-earning Group subsidiaries impacted Group earnings in full in the year under review due to the lack of a vertical profit equalization.

III. Financial Situation

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

The conservative reserves policy of the ARAG Group was consistently exercised throughout the year under review. The underwriting reserves were increased by an additional 3.2 percent, from € 4.38 billion to € 4.52 billion. The ratio of underwriting reserves to earned premiums correspondingly grew by 2.7 percentage points, from 341.2 percent to 343.9 percent.

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

(in million euros)	2007	2006
Subscribed capital – paid in	200.0	58.4
Reserves	26.3	126.3
Capital shares of minority shareholders	32.3	27.4
Group net profit after external components	20.0	57.4
Total equity	**278.6**	**269.5**
Lower-ranking bond	50.0	50.0
Funds available for coverage	**328.6**	**319.5**
Underwriting reserves	4,517.2	4,381.5
Guarantee funds	**4,845.8**	**4,701.0**

The guarantee funds are covered by capital investments in the amount of € 4,932.2 million (previous year: € 4,799.7 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 € 75.1 million (previous year: € 45.7 million), in particular capital investments totaling € 4,241.5 million (previous year: € 3,842.7 million) that can be liquidated on the capital and financial markets on short notice.

For details respecting the scope of capital investment and intangible assets undertaken in the fiscal year and the development of the Group's liquidity in the fiscal year under review, please refer to the Statement of Cash Flow on page 71.

IV. Asset Situation

The capital investment portfolio of the Group increased in fiscal 2007 by 2.8 percent, from € 4,799.7 million to 4,932.2 million. The current values of these capital investments amounted to € 5,025.1 million as of the day of accounting.

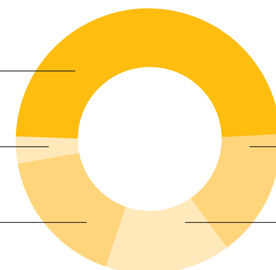
The capital investment structure in comparison to the previous year is as follows:

Type of capital investment				
(in million euros)		2007		2006
I. Real estate and buildings	175.1	3.5 %	357.3	7.4 %
II. Shares in affiliated companies and holdings	81.5	1.7 %	98.6	2.1 %
III. Lending to affiliated companies and holdings	3.8	0.1 %	4.7	0.1 %
IV. Stocks and investment fund shares	1,965.1	39.8 %	1,894.3	39.5 %
V. Bearer bonds	419.6	8.5 %	419.6	8.7 %
VI. Mortgages receivable, other similar rights	250.9	5.1 %	266.6	5.6 %
VII. Registered debentures, promissory notes	1,666.0	33.8 %	1,378.8	28.7 %
VIII. Bank deposits	190.9	3.9 %	132.0	2.7 %
IX. Other lending	88.6	1.8 %	155.7	3.3 %
X. Other capital investments	85.9	1.7 %	88.0	1.8 %
XI. Portfolio assets	4.8	0.1 %	4.1	0.1 %
	4,932.2	**100.0 %**	**4,799.7**	**100.0 %**

V. Segment Reporting

Premiums and sales by segments 2007

(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

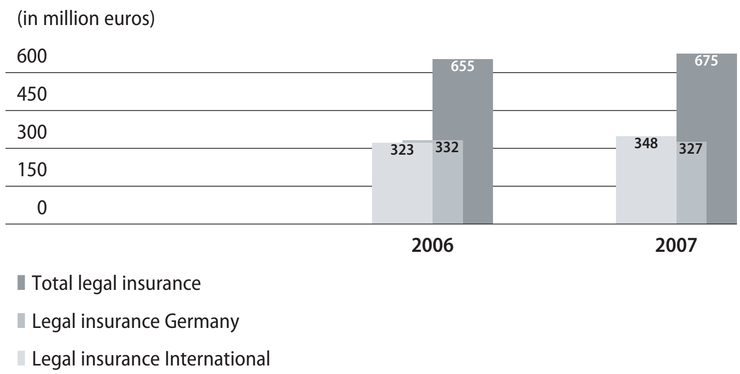
Gross premium revenues		
(in million euros)	2006	**2007**
Legal insurance	655	**675**

Legal insurance business The legal insurance segment continued on its growth course. Gross premium revenues increased by 3.0 percent (previous year: 2.0 percent), from € 654.7 million to € 674.6 milion. For the first time in the history of the ARAG Group, the portion attributable to premiums collected in international legal insurance exceeded that contributed by the German legal insurance business. The international legal insurance business has thus become the largest line of business within the Group. This underscores the successful internationalization course that ARAG has been consistently pursuing for many years.

In the legal insurance segment overall, the cost of insurance claims increased, from € 370.1 million to € 392.2 million. This was due to the adjustment in the claims reserves of ARAG Belgium undertaken in response to a modified actuarial assessment. The claims ratio increased correspondingly, from 57.2 percent to 59.0 percent. Following a profit of € 3.3 million in the previous year, the underwriting account for the legal insurance segment posted a loss of € 2.4 million in the fiscal year under review.

The income from capital investment for the entire legal insurance segment fell from € 43.0 million to € 38.1 million. Income from normal business activity in legal insurance thus declined overall and amounted to € 7.2 million, as opposed to € 20.0 million for the previous year.

Uninterrupted growth in international legal insurance business



International legal insurance remains the Group's growth engine. In this segment, premium revenues increased by 7.5 percent, from € 323.3 million in the previous year to € 347.6 million. The international legal insurance business is thus the Group's largest segment. 52 percent of premium revenues in the legal insurance segment were earned outside of Germany. Additional premium revenues of € 33.5 million are attributable to the comparable special service business of ARAG Spain, which are stated in the composite segment. Including this value, total revenues achieved in the international legal insurance companies amounted to € 381.1 million.

The largest single subsidiaries are active on behalf of ARAG in Spain, the Netherlands and Italy. ARAG posted its greatest growth in Italy, with a 21.1 percent increase in premiums.

In the fiscal year under review, ARAG also expanded its international business activities even further. Through its acquisition of a stake in the only legal insurance provider in Scandinavia, HELP Forsikring in Oslo, the Group is opening up a strategically important development perspective for the entire Scandinavian market. With Norway, ARAG is now active in 13 countries outside of Germany. Previously, ARAG commenced business operations in Great Britain in 2006 with ARAG plc. in Bristol, which is active as an insurance intermediary.

The general conditions remain challenging for the **German legal insurance business** of the ARAG Group. A slight decline in premiums was posted in the year under review. Gross premiums written declined by 1.3 percent, from € 331.4 million to € 327.0 million. This decline is due to the selective underwriting policy of ARAG Rechtsschutz. The extensive changes and investments to revitalize the home legal insurance business, particularly the core sales organization, are gradually developing their full effect.

Important groundwork for a long-term improvement in premiums was laid in fiscal 2007. This includes the focused cooperation with financial service providers in partner sales, which has already generated palpable increases in production. The production in the brokerage business grew by almost 20 percent. Internet sales showed particularly strong production gains.

On the earnings side, a comprehensive program of optimization actions was launched and concluded under the name Triathlon with the aim of achieving a rapid, sustained increase in the efficiency of ARAG Rechtsschutz. The associated restructuring in the area of ARAG Legal Service and ARAG Customer Service is the prerequisite for more rapid, efficient and end-to-end processing of customer issues. The program generated clear successes in 2007. The net cost ratio in the German legal insurance segment dropped significantly, from 41.0 percent in the previous year to 38.1 in the year under review. Simultaneously, customer satisfaction improved noticeably. This is evidenced by the insurance industry customer survey Kundenmonitor Assekuranz 2007.

Gross premium revenues

(in million euros)	2006	**2007**
Composite insurance	240	**237**

Composite insurance business The composite segment of the Group pursued its consolidation course in a stagnant, highly competitive property insurance market and applied its resources toward modernizing its product portfolio in a highly targeted manner. The premium revenues in this segment declined by 1 percent, from € 239.5 million to € 237.1 million. The more significant premium loss of 5 percent in the previous year was essentially halted. Following the cooling off of the price war and in view of the continued good earnings situation of the composite business, a new, more advanced motor vehicle direct rate was rolled out at the end of 2007, with which the Group will now once more take the offensive in this market.

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 and expanded its activities further.

The special service business comparable to legal insurance of ARAG Spain achieved significant premium gains. The international composite business thus expanded by 18.4 percent, from € 28.3 million to € 33.5 million.

In the special sport insurance segment, the expansion of the policy terms with some of the state sport associations and organizations and an increase in supplementary insurance for sport associations and clubs drove further premium growth. This was reinforced by a significant expansion of business with cultural associations, which is very similar to the sport insurance concept. The foreign business of sport insurance also turned in extremely satisfactory results, and now forms an important part of this line of business.

The underwriting account of the composite segment showed a profit of € 17.5 million, following € 21.5 million in the previous year. Earnings from normal business activity amounted to € 31.1 million, slightly below the previous year's level (€ 33.7 million).

Gross premium revenues		
(in million euros)	2006	**2007**
Health insurance	200	**218**

Health insurance business As in the legal insurance business, the size relationships at ARAG's personal insurers changed in fiscal 2007. For the first time, premiums in the health insurance business exceeded those in life insurance in the fiscal year under review. This segment posted premium gains of 9 percent on account of its unbroken success and growth course, once again performing clearly above the market average. Premium revenues totaled € 218.0 million, as opposed to € 200.0 million in the previous year. The unchanged strict conservative underwriting policy ensures the high profitability of the health insurance business. The previous year's excellent profits ratio of 10.8 percent was boosted to 12.7 percent in the year under review, even though insurance benefits increased by 7.6 percent over the same period. The managed capital investments increased by € 90.1 million to € 735.6 million, and income from capital investments amounted to € 29.0 million, compared to € 24.0 million in the previous year. Although the ratio of administrative costs increased slightly from 2.46 to 2.53 percent, it remained below the industry average. Following € 7.7 million for the previous year, underwriting earnings were further enhanced, coming to € 11.3 in the year under review. Earnings from normal business activity almost doubled over the previous year, amounting to € 10.1 million (previous year: 5.9 million). The satisfactory earnings situation enabled transfer of an additional € 19.2 million (previous year: € 15.8 million) to the reserve for premium rebates.

The excellent economic condition of ARAG Krankenversicherung is also reflected in the assessment of the insurance-industry rating agency Assekurata. In the year under review, they affirmed their rating of "A", "good" of 2006. As particularly decisive factors, the analysts cited the high customer satisfaction and the sound financial situation of ARAG Krankenversicherungs-AG.

Gross premium revenues		
(in million euros)	2006	**2007**
Life insurance	218	**212**

Life insurance business The premium revenues in the life insurance segment declined by 2.5 percent, totaling € 212.5 million following € 217.9 million in the previous year. This decline is due mainly to the extremely high level of the regular maturity values. However, this development overshadowed the continuing satisfactory development of new business. The new business was driven to a great extent by the product family of flexible mutual fund-linked pension insurance. This was introduced two years ago, and has since achieved high acceptance among consumers. Professional analysts also gave the flexible ARAG mutual fund-linked policies high marks in the year under review. The mutual fund-linked basic pensions, state subsidized retirement products ("Riester plans") and the ARAG private pension were rated FFF ("excellent") in all evaluation categories by the rating agency Franke und Bornberg. The supplemental occupational disability insurance products also received the top FFF rating. In the current year, Franke und Bornberg have also awarded the new rate generation of the mutual fund-linked policies, adapted to comply with the provisions of the German statute governing insurance contracts this top rating, again in all categories.

The capital investments in the life insurance segment totaled € 2.6 billion, and generated net gains of € 100.5 million as compared to € 100.7 million in the previous year. The consistent optimization efforts of past years continued to bear fruit, particularly on the costs front. Due to consolidation effects, underwriting earnings improved significantly, more than doubling from € 9.6 million to € 22.1 million in the year under review. Earnings from normal business activity in this segment improved correspondingly, rising from € 13.6 million to € 21.0 million. ARAG Lebensversicherung generated a gross profit of € 16.5 million in the year under review. Of this, 90.9 percent or € 15.0 million were transferred to the profit-dependent reserve for premium rebates.

Sales revenues		
(in million euros)	2006	**2007**
Service companies	36	**45**

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 Group's insurance agency subsidiary Cura GmbH & Co. KG, as well as ARAG plc. in Great Britain, which is also active as an insurance intermediary, are also included in this segment. The sales revenues of these non-insurance units with external customers and the other Group segments dropped by € 6.0 million to € 123.4 million, after € 129.4 million in the previous year. After adjusting for intra-Group revenues of the service companies, consolidated sales amounted to € 45.4 million as opposed to € 36.1 million in 2006.

The result from normal business activity deteriorated significantly, from the previous year's loss of € 0.6 million to € 10.0 million in the year under review. This is due to the reorganization actions in the property development business and the start-up losses for the British agency and service company.

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 complement and enhance its palette of customer-oriented products throughout the year under review.

The ARAG Legal Navigator, with which ARAG became the first German legal insurer to offer initial attorney telephone consultation in a fixed rate in 2005, was also successfully launched in the brokerage market in the year under review. The declining deductible for claims-free years is an exclusive, innovative component of the brokerage rate. The brokerage rate in business legal insurance was also made more attractive in the brokerage segment through the addition of new benefits.

In light of the extremely positive experience gained in the ARAG Legal Navigator rate generation, the initial attorney telephone consultation was rolled out in the year under review as a stand-alone product. ARAG JuraTel is a consultation-only product which enables customers to obtain legal advice from an attorney by telephone immediately, 24/7.

In August 2007, the legal insurance product portfolio was enhanced with a new, customized target group product. Medic Rechtsschutz für Heilberufe targets health care professionals; one of its unique features is online receivables management, at no additional premium. This has also been made an integrated component of regular ARAG legal insurance for enterprises and self-employed persons.

As the partner for legal matters and protection, the Group is always looking for new, innovative product and service concepts that combine the strengths of multiple insurance segments and go beyond simple cost assumption. One example of this is the ever broader use of ARAG Online Legal Service – a comprehensive legal database – that is no longer reserved exclusively for ARAG customers. In the year under review, ARAG Online Legal Service was also opened up to customers of ARAG Krankenversicherung and ARAG Allgemeine at no additional premium. Thus, as of the end of 2008, all ARAG customers will be able to research legal issues or download model documents at no additional charge.

In the fiscal year under review, ARAG Unfall-Schutz, an innovative new composite accident product that ideally reflects the enhanced performance and service philosophy of the ARAG Group, was introduced in the composite segment. In addition to comprehensive financial security, it also offers care services – for example assistance and caregiving following a hospital stay – as well as consultation services. Customers can thus consult an attorney by telephone on all aspects of their accident and clarify legal questions on their own using the ARAG Online Legal Service. Additionally, an updated, attractive motor vehicle direct rate was rolled out in the composite segment at the end of 2007, once the price war of the large volume providers in the motor vehicle segment had cooled off.

In the life insurance segment, the Group continues to focus on the product family of mutual fund-linked pension insurance products, for which market demand continues strong. The surplus participation for this was increased to 4.25 percent as of 1 January 2008. In the year under review, ARAG developed the pension product Deutschland RENTE in cooperation with strong partners. This innovative retirement saving product has as its core a mutual fund-linked pension insurance. However, customers can additionally increase their Deutschland RENTE account balances by buying from bonus partners who grant bonuses linked to the sale amount.

In the health insurance segment, ARAG expanded its E900 entry level health insurance rate, introduced in 2004, by adding five additional deductible levels. Additionally, the comfort rate K was introduced in the medium price segment, also with six deductible levels. ARAG is thus demonstrating that it can rapidly adapt to changing legal parameters by offering appropriate products in the health insurance segment as well. In supplementary health insurance, the strength of the ARAG product offerings was reflected in the year under review in excellent rating placements in the highly respected consumer finance magazine Finanztest. ARAG Krankenversicherung was also voted best supplementary insurer by brokers in the 2007 AssCompact Awards.

Further performance factors ARAG Rechtsschutz developed the Triathlon efficiency program in 2006 in order to significantly boost operational performance; the actions from this program were implemented in 2007. The objective of this program was to improve and accelerate all customer-level work processes so as to significantly reduce costs. The employees in the newly restructured ARAG Customer Service unit now help customers resolve their issues rapidly, directly and completely. The same applies for ARAG Legal Service, which was centralized in Dusseldorf effective 1 October 2007. These units are supported using modern IT systems. The program has already achieved clear successes: The net cost ratio in the German legal insurance segment dropped significantly, from 41.0 percent in the previous year to 38.1 in the year under review.

The highly focused international expansion – one of the decisive factors for the Group's entrepreneurial success – continued in fiscal 2007: ARAG acquired a share in Scandinavia's only legal insurer. With this commitment, ARAG is opening up an exciting development perspective in the entire Scandinavian market. In all, the Group is now active in 13 countries outside of Germany. The project GAP (Growth – Acumen – Profit) was initiated to further enhance the profitability and efficiency of the international subsidiaries; the first phase was completed in fiscal 2007. The project aims to identify, analyze and utilize the strengths and optimization potential of the individual international ARAG subsidiaries along the entire underwriting value creation chain and derive best-practice approaches for all subsidiaries.

The revision of the statute governing insurance contracts (VVG) that took effect on 1 January 2008 fundamentally reformed insurance contract law. In the course of a Group-wide project, comprehensive actions and adaptations to the new legal requirements were implemented punctually in the fiscal year under review. This ensured that the business continued to operate smoothly after the new law went into effect.

Additionally, a Group-wide project to strengthen the ARAG partner sales organization was initiated in spring 2007; the aim of this project is to ensure that brokers receive optimum service through the right combination of products and concepts, market-compliant processes and individual on-site support.

Employees		
(permanent staff)	2006	**2007**
Consolidated companies	3,553	**3,332**
Entire Group	3,642	**3,427**

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 2007, a total of 3,332 persons were employed in the consolidated companies on a permanent basis (previous year: 3,553). Including companies outside the scope of consolidation, 3,427 persons were employed as of 31 December 2007 (previous year: 3,642). This corresponds to a decline of 5.9 percent. During the period under review, 40 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.

As part of the Group vision, the ARAG Essentials, mandatory leadership principles were developed for the ARAG Group as a whole and its individual subsidiaries. These help to implement the performance requirements defined in the ARAG Essentials in daily management practice. The ARAG Leadership Standards were developed with the participation of executives from all domestic and international ARAG subsidiaries. The role, duties and instruments that characterize the daily actions of managers were defined in a close relationship with the values canon of the ARAG Essentials. Following the official roll-out of the leadership principles at the beginning of 2008, their effectiveness is periodically reviewed in the form of leadership surveys.

VII. Supplementary Report

No events of particular importance occurred following the end of the fiscal year under review. Overall, the business development of the 2008 fiscal year is proceeding as expected to date.

VIII. Risk Report

The assumption of risk lies at the core of the business model of an insurance company. This means that the task of risk management is to identify, assess and control risks in a timely manner. This is performed decentrally in the operational units of the ARAG Group, and is the responsibility of the respective executives. Since the Group additionally began assessing the overall risk situation of the individual subsidiaries in its central Group risk management unit in 2005 ahead of the anticipated solvability requirements of Solvency II, this became a standard process in 2007. In particular, the Group's international subsidiaries and the Group as a whole are now components of a unified quarterly risk reporting. The assessments contained therein are performed on the basis of an internal model developed by Group Risk Management and the standard approach developed by the German Insurance Industry Association GDV. The necessary risk capital – the solvency capital requirement – is determined in internal models as the value at risk of the result of the economic profit and loss statement and is measured against the available solvency margin, quantified as equity at market value.

In 2008, the ARAG Group will continue to examine and respond to the quantitative and qualitative aspects of Solvency II through the expansion of its internal model and the implementation of the 9th revision of the German Insurance Supervision Act VAG. In particular, this will include the implementation of a risk-adjusted performance measurement with the aim of generating further momentum for value-oriented enterprise controlling.

In accordance with German Accounting standard No. 5 – 20, which regulates risk reporting of insurance companies, the risk situation of the ARAG Group is as follows:

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 the 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 the 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
2007	65.4	61.8	2.9
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

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 secure 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 surrender value. For life insurance policies in which the claims against the policyholders are capitalized, the risk of cancellation is provided for by means of suitable corrections.

The German law for enhancing competition in the statutory health insurance sector must be considered a significant risk. This could have a negative impact on the full-coverage health insurance business.

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 statements.

As of 31 December 2007, receivables in insurance business more than 90 days past due amounted to € 12.2 million. The average default rate for receivables in 2004 through 2006 amounted to 0.3 percent with reference to written 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 comprise four scenarios, the following simultaneously occurring losses in value are assumed:

Scenario	R10	A35	RA25	AI30
Bonds	-10%	–	-5%	–
Stocks	–	-35%	-20%	-20%
Real Estate	–	–	–	-10%

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 ensures that these can be liquidated at 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 Group 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 Group 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: The German government plans to fundamentally alter the taxation of inheritances through a revision of the statute governing inheritance tax and valuation. This law could put family-run insurance companies at a significant disadvantage in the event of inheritance. The ARAG Group has actively and repeatedly drawn attention to this issue in the course of the legislative process, and also explained its position in a public hearing before the German Bundestag.

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 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 2007 revealed a further significant improvement in level of funds available for coverage.

IX. Outlook

For the current fiscal year 2008, forecasts project a slight deceleration in the growth of real gross domestic product. The main reason for the waning dynamic lies in the subprime crisis, which is weighing on the financial markets. An increase in domestic demand is expected. It cannot yet be assessed whether private consumption will stimulate the insurance industry. Experience of previous years indicates that the private households will tend to respond tentatively.

The financial markets are still under extreme stress on account of the crisis in the US mortgage sector. These tensions have caused the capital market interest on low-risk investments to decline again. The mortgage crisis is expected to be overcome in 2008, so that interest rates are likely to increase.

In 2008, the ARAG Group will align its largest sales channel, the German core sales organization, more consistently toward enhancing its operational effectiveness even further. In recent years, the core sales organization has been unable to sufficiently exploit its excellent potential on the German market. Comparisons with the competition show that this ARAG sales channel is characterized by an exceptionally high quality of consultation. To realize this performance potential more effectively, the core sales organization is being reorganized under a new sales management. The ARAG exclusive partners will additionally receive more incentives and scope for initiative in their daily sales activities. There are also plans to implement a tighter, more efficient exclusive-sales controlling.

A decisive contribution to premium growth is also expected from broker-oriented partner sales. In this sector, the cooperation with leading financial service providers play just as important a role as the strategic realignment of partner sales. In this fiscal year, the proportion of new business attributable to Internet sales has increased significantly.

Additionally, further cooperation contracts with major enterprises in the mail-order and retail sectors, tourism and financial services have been concluded.

On the product side, the ARAG Group will continue to pursue its course as a quality insurer and enhance its range of offerings with consulting and prevention services, in addition to pure claims benefits and cost assumption. In accordance with the new brand strategy, the Group will increasingly position itself as the problem-solver and risk navigator for its customers.

The business expectations of the ARAG Group for the 2008 and 2009 fiscal years are optimistic overall. We expect varying development in the different segments of the Group.

In the legal insurance segment, the international business will continue to expand on its role as largest segment and growth engine of the Group. Growth outside of Germany will continue. In accordance with its international expansion strategy, the Group will continuously examine expansion into new markets and consistently take advantage of good development opportunities. Additionally, earnings growth is once again expected from the international subsidiaries.

In the German legal insurance business, the efficiency enhancement actions of the Triathlon program are beginning to yield their first fruits. The key underwriting indicators are expected to improve correspondingly. Premium growth is not yet expected in German legal insurance in 2008 due to the changes in the controlling of our core sales organization and the resulting adjustment of our business processes. We anticipate that premium revenues will again grow in 2009 as these actions take effect.

The composite segment, managed by ARAG Allgemeine, will re-enter the motor vehicle insurance arena with its K-Direkt rate and leverage the success of its new accident coverage product. Additionally, a comprehensive new homeowner protection product is scheduled to be rolled out in mid-2008, which will enhance production in homeowners insurance.

Encouraged by the successes in the fiscal year under review, we will also step up our efforts to transfer the sport insurance concept to cultural organizations. We will additionally push to expand our sport insurance business in the area of optional supplementary insurance.

We expect that the success of the mutual fund-linked pension insurance will continue to drive the life insurance segment in the coming years. The surplus participation in this area was increased as of 1 January 2008, and is now 4.25 percent. ARAG Lebensversicherung also allows its customers to participate in the valuation reserves of all its products. As part of the timely adaptation to the new insurance contract statute VVG, the range of offerings was revised and matched to the new requirements in the year under review.

The preconditions for continued business success exist in the health insurance segment. In the difficult area of health policy, ARAG Krankenversicherung will use its significantly expanded product range to maintain its solid basis in the full-cost health insurance area. ARAG Krankenversicherung is also excellently positioned in the supplementary health insurance market, which continues to gain in importance. It is able to meet practically any customer need. The numerous excellent placements in performance comparisons highlight the high quality of the available products. In the ratings in the May 2008 issue of the consumer affairs magazine Öko-Test, the ARAG premium-class full-cost health insurance rates and the supplementary dental rates Z100 and Z70 led the field.

The business expectation of the ARAG Group for the coming years remains good. The enterprise will continue to pursue its conservative business policy. It is focusing on ARAG's good to excellent internal financing capability. To this end, the Group is oriented toward earnings, not growth. ARAG sees profitable growth opportunities primarily in international business and health insurance. The Group will continue to examine external growth for its strategic potential, and take advantage of this where the conditions are right. This applies to the legal insurance segment in particular.

Due to the consistent optimization efforts of past years, the ARAG Group will be able to further solidify its good earning power. Overall, earnings are expected to remain at the current level over the next two years.

Consolidated Financial Statements

ARAG Aktiengesellschaft

Consolidated Financial Statements

Consolidated Balance Sheet as of 31 December 2007

Assets
A. 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
B. 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
C. Capital investments for the account and risk of life insurance policyholders
D. 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: € 8,423.65 (previous year: € 105,646.40)
II. Settlement receivables from reinsurance business
III. Other accounts receivable portion from affiliated companies: € 3,092,745.71 (previous year: € 3,090,540.11) portion from companies with which a shareholding relationship exists: € 521,711.05 (previous year: € 1,888,209.90)
E. 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
F. Accrued income
I. Deferred interest and rents
II. Other accrued income
G. Tax deferment item in accordance with Art. 306 in conjunction with Art. 274 (2) HGB
Total assets

Appendix	in euros	in euros	in euros	2007 in euros	2006 in euros
32 p.64					
			0.00		0.00
1 p.57			36,303,655.66		41,069,185.52
2 p.57			8,631,018.15		7,603,756.70
				44,934,673.81	**48,672,942.22**
32 p.64					
3 p.57			175,104,837.27		357,284,831.43
4 p.57					
		4,283,558.51			5,242,126.76
		3,668,123.44			4,534,452.24
		12,716,116.40			33,252,481.04
		64,533,630.01			60,149,062.57
		115,661.90			116,830.20
			85,317,090.26		103,294,952.81
5 p.57		1,965,052,942.72			1,894,290,304.75
5 p.57		419,602,841.69			419,603,759.17
7 p.58		250,920,334.28			266,629,491.82
7 p.58					
	849,640,480.00				608,225,837.62
	816,349,065.69				770,616,449.21
	85,563,462.29				87,618,845.01
6 p.58	88,575,883.02				155,733,925.75
		1,840,128,891.00			1,622,195,057.59
9 p.58		190,929,758.40			131,980,582.41
7 p.58		361,180.09			334,180.09
			4,666,995,948.18		4,335,033,375.83
			4,796,091.34		4,042,994.63
				4,932,213,967.05	**4,799,656,154.70**
8 p.58				**39,039,994.77**	**33,755,411.85**
10 p.58					
	52,895,050.95				51,453,224.47
	15,654,978.47				14,800,248.24
		68,550,029.42			66,253,472.71
		28,884,430.37			20,054,974.07
			97,434,459.79		86,308,446.78
			14,959,190.73		16,160,390.66
			29,902,600.33		31,650,080.68
				142,296,250.85	**134,118,918.12**
			44,834,043.04		36,008,870.01
11 p.58 12 p.58			21,714,974.55		27,026,686.11
			75,127,460.70		45,721,879.79
13 p.58			83,634,780.07		75,652,444.39
				225,311,258.36	**184,409,880.30**
14 p.58					
			53,420,193.61		59,909,962.40
			2,003,749.32		3,186,791.63
				55,423,942.93	**63,096,754.03**
15 p.58 28 p.62				**2,622,432.43**	**7,629,612.20**
				5,441,842,520.20	**5,271,339,673.42**

Consolidated Balance Sheet as of 31 December 2007

Liabilities
A. Equity
I. Subscribed capital
Outstanding contributions not yet called in
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. Provision 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	2007 in euros	2006 in euros
29 p. 62 38 p. 72				
	200,000,000.00			200,000,000.00
	0.00			-141,610,000.00
		200,000,000.00		58,390,000.00
	3,941,258.00			2,953,862.00
	60,560,736.02			159,192,118.06
	-2,194,807.94			168,712.09
	-35,998,458.11			-35,998,458.11
		26,308,727.97		126,316,234.04
	19,975,495.57			57,427,908.26
		19,975,495.57		57,427,908.26
		32,303,304.85		27,338,700.27
			278,587,528.39	**269,472,842.57**
30 p. 62			**0.00**	**0.00**
16 p. 59			**50,000,000.00**	**50,000,000.00**
17 p. 59			**4,957.87**	**4,957.87**
18 p. 59				
	220,788,414.93			217,495,558.02
	-10,211,755.32			-13,978,347.74
		210,576,659.61		203,517,210.28
19 p. 59				
	2,944,649,591.12			2,861,239,428.60
	-69,614,833.00			-69,361,110.00
		2,875,034,758.12		2,791,878,318.60
20 p. 60				
	1,202,705,397.46			1,118,560,726.40
	-77,176,130.09			-51,444,731.66
		1,125,529,267.37		1,067,115,994.74
		236,113,820.40		240,825,341.20
21 p. 61		65,528,021.00		72,843,419.00
22 p. 61				
	4,688,817.34			5,311,119.56
	-274,417.50			0.00
		4,414,399.84		5,311,119.56
			4,517,196,926.34	**4,381,491,403.38**
		10,285,183.88		4,966,012.06
		28,754,810.89		28,789,399.79
			39,039,994.77	**33,755,411.85**
			4,884,829,407.37	**4,734,724,615.67**

Consolidated Balance Sheet as of 31 December 2007

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. Accounts payable for self-contracted insurance business to:
1. Policyholders
2. Insurance agents portion to affiliated companies: € 851.67 (previous year: € 16,849.10)
II. Settlement liabilities from reinsurance business
III. Debts to banks
IV. Other liabilities portion from taxes: € 20,893,353.79 (previous year: € 16,434,276.32) portion attributable to social security: € 556,484.01 (previous year: € 455,139.09) portion to affiliated companies: € 668,787.70 (previous year: € 950,629.67) portion to companies with which a shareholding relationship exists: € 1,404,503.84 (previous year: € 2,267,093.49)
J. Deferred liabilities
Total liabilities

Appendix	in euros	in euros	2007 in euros	2006 in euros
			4,884,829,407.37	**4,734,724,615.67**
23 p. 61		184,202,259.15		180,789,938.59
		22,869,818.81		5,147,986.79
		1,376,258.00		0.00
24 p. 61		72,327,851.29		72,857,298.10
			280,776,187.25	**258,795,223.48**
25 p. 62			**78,165,468.62**	**77,825,906.00**
25 p. 62				
26 p. 62				
	63,383,614.03			71,046,084.38
	27,146,771.95			25,037,468.91
		90,530,385.98		96,083,553.29
26 p. 62		2,008,688.63		1,196,989.40
		29,929,570.51		32,962,176.00
		72,533,124.17		65,540,806.80
			195,001,769.29	**195,783,525.49**
27 p. 62			**3,069,687.67**	**4,210,402.78**
			5,441,842,520.20	**5,271,339,673.42**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2007

Item
I. Underwriting account for property and accident insurance business
1. Earned premiums for own account
a) Gross premiums written
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	in euros	in euros	2007 in euros	2006 in euros
31 p. 63	911,712,009.67			894,226,794.79
	-15,185,967.60			-17,443,233.68
		896,526,042.07		876,783,561.11
	-7,907,865.80			-5,924,126.20
	-543,638.72			-1,062,673.30
		-8,451,504.52		-6,986,799.50
			888,074,537.55	**869,796,761.61**
			572,007.67	**510,200.59**
			2,682,165.71	**2,640,342.09**
	474,799,466.16			476,281,770.19
	-13,002,617.24			-9,102,976.59
		461,796,848.92		467,178,793.60
	58,757,241.19			33,323,358.06
	-416,156.30			-5,408,084.94
		58,341,084.89		27,915,273.12
			520,137,933.81	**495,094,066.72**
		0.00		0.00
		849,201.02		81,580.12
			849,201.02	**81,580.12**
37 p. 69			**6,504.57**	**4,816.33**
36 p. 69				
		367,788,658.76		361,616,196.04
		-4,894,621.75		-4,888,659.51
			362,894,037.01	**356,727,536.53**
			1,452,663.32	**1,534,586.28**
			7,686,773.24	**19,667,878.55**
			7,315,398.00	**5,090,348.00**
			15,002,171.24	**24,758,226.55**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2007

Item
II. Underwriting account for life and health insurance business
1. Earned premiums for own account
a) Gross premiums written
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: € 604,609.94 (previous year: € 0.00)
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: € 28,353,690.52 (previous year: € 14,616,736.25)
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	2007 in euros	2006 in euros
31 p. 63	430,505,988.59			417,808,957.51
	-6,068,847.13			-4,668,451.25
		424,437,141.46		413,140,506.26
	1,393,069.78			1,653,950.90
	-239,950.16			-360,116.75
		1,153,119.62		1,293,834.15
			425,590,261.08	**414,434,340.41**
			22,900,419.95	**16,316,989.69**
		3,148,992.42		2,857,937.12
		0.00		574,208.47
	8,776,573.42			15,202,179.52
	130,603,725.50			125,580,306.67
		139,380,298.92		140,782,486.19
		834,522.61		7,696,830.17
		36,258,505.19		1,563,487.98
		0.00		0.00
			179,622,319.14	**153,474,949.93**
35 p. 68			**179,580.03**	**3,227,655.07**
			868,712.79	**339,176.59**
	353,351,826.03			353,407,053.49
	-4,442,527.40			-10,121,914.57
		348,909,298.63		343,285,138.92
	1,193,783.52			-2,419,269.65
	-3,246.75			207,332.91
		1,190,536.77		-2,211,936.74
			347,718,761.86	**345,497,075.66**
	-88,730,176.34			-77,959,249.23
	253,723.00			-2,617,291.00
		-88,476,453.34		-80,576,540.23
		44,343.00		-2,822,052.41
			-88,432,110.34	**-83,398,592.64**
37 p. 69			**37,900,975.50**	**42,874,660.27**
36 p. 69				
	56,773,617.05			52,641,418.05
	14,600,060.64			14,256,498.31
		71,373,677.69		66,897,916.36
		-3,541,084.14		-330,629.16
			67,832,593.55	**66,567,287.20**
		6,060,721.52		9,753,658.32
		30,352,347.18		18,105,592.98
		12,257,289.51		872,875.60
			48,670,358.21	**28,732,126.90**
			1,387,834.13	**378.31**
			3,747,956.48	**3,423,453.45**
			33,470,702.92	**17,299,537.26**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2007

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: € 713,500.00 (previous year: € 641,330.00)
b) Earnings from associated companies
c) Earnings from other capital investments portion from affiliated companies: € 367,382.81 (previous year: € 262,719.47)
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: € 14,704,579.54 (previous year: € 5,224,027.33)
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: € 4,765,529.86 (previous year: € 4,444,672.30)
9. Non-underwriting result
10. Income from normal business activity
11. Extraordinary earnings
12. Extraordinary expenses
13. Taxes on income and earnings
14. Other taxes
15. Profit/loss for year before minority interests
16. Profit attributable to other shareholders
17. Loss attributable to other shareholders
18. Net income

Appendix	in euros	in euros	in euros	2007 in euros	2006 in euros
			15,002,171.24		24,758,226.55
			33,470,702.92		17,299,537.26
				48,472,874.16	**42,057,763.81**
		1,012,483.13			924,203.13
		979,478.75			981,788.27
	19,420,405.13				17,936,242.70
	69,220,056.68				61,332,082.63
		88,640,461.81			79,268,325.33
		758,460.35			6,862,256.67
		10,425,234.68			5,423,093.68
		0.00			0.00
			101,816,118.72		93,459,667.08
		13,505,963.65			15,288,691.43
		24,801,546.05			13,485,888.38
		1,973,045.17			769,494.75
		0.00			0.00
		0.00			0.00
			40,280,554.87		29,544,074.56
				61,535,563.85	**63,915,592.52**
				-571,013.00	**-509,608.00**
				45,434,148.56	**36,052,538.38**
				52,952,112.57	**36,560,060.82**
			30,482,345.08		30,584,218.56
			72,204,543.41		68,157,248.27
				-41,722,198.33	**-37,573,029.71**
				11,724,388.51	**25,325,432.37**
				60,197,262.67	**67,383,196.18**
33 p. 66			0.00		0.00
33 p. 66			0.00		-20,135,533.69
				0.00	**-20,135,533.69**
34 p. 66			36,860,041.33		-13,580,845.51
			2,237,609.31		539,685.48
				39,097,650.64	**-13,041,160.03**
				21,099,612.03	**60,288,822.52**
			-7,660,888.40		-4,528,505.41
			6,536,771.94		1,667,591.15
				-1,124,116.46	**-2,860,914.26**
				19,975,495.57	**57,427,908.26**

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

Legal basis for preparation of the Consolidated Financial Statements The Year-End Consolidated Financial Statements of ARAG Aktiengesellschaft for fiscal 2007 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 on 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 Rechnungslegungs-standards"). The latter were applied only insofar as they do not impair the continuity of valuation, insofar as the exercise of legal alternatives is significant for reporting the asset, financial and earnings situation of the Group.
In accordance with Art. 58 (1) RechVersV, forms 1 and 4 were used for the structure of the Consolidated Financial Statements. 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 Statements report on 41 subsidiaries in accordance with Art. 301 (1) HGB as of 31 December 2007. Five companies in the scope of consolidation were included as associated companies pursuant to Art. 311 HGB, whereby one of the companies lost its significant influence over the course of the fiscal year under review. One company was liquidated as of 5 December 2007 and de facto merged with another Group subsidiary through universal succession. In the third quarter, shares in a Norwegian insurance company were acquired, which is numbered among the associated Group subsidiaries as of that date.
As of 31 December 2007, the scope of consolidation including associated companies comprises 16 insurance companies (previous year: 15), two service providers in the area of electronic data processing and business organization (previous year: two), nine real estate management companies (previous year: nine), 14 other service companies (previous year: 16) and six holding and asset management companies (including the top-level company) (previous year: six). The Consolidated Financial Statements omit 36 Group subsidiaries, as on account of the minor significance of these companies their omission from the scope of consolidation in no way impairs the asset, financial or earnings situation of the Group.

The following companies were included in the Consolidated Financial Statements:

	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 the 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 Compania 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	91.23
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., Bristol, 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	79.32
38	Prinzregent Immobilien-Management GmbH, Munich	79.32
39	Prinzregent Vermögensverwaltung GmbH & Co. KG, Munich (until 5 December 2007)	79.32
40	Rechtswijzer B.V., Leusden, Netherlands	94.55
41	SolFin GmbH, Dusseldorf	71.29
42	TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Dusseldorf	94.93
43	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	25.10
3	Winterthur-ARAG Rechtsschutzversicherungsgesellschaft, Zurich, Switzerland	29.17
4	HELP Forsikring AS, Oslo, Norway (first included as of 31 December 2007)	33.40

The following companies were not included in the Consolidated Financial Statements 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	176,075.87	30,805.06
2	Agencia de Seguros Cap. ARAG S.A., Barcelona, Spain	94.93	109,733.86	15,019.00
3	ALVA Aktiengesellschaft, Munich	79.32	281,933.79	-47,635.51
4	ARAG International BV, Leusden, Netherlands	94.74	22,202.00	-1,938.00
5	ARAG Legal Service S.L., Barcelona, Spain	94.93	310,288.81	-4,711.19
6	ARAG Service S.R.L., Verona, Italy	93.98	253,916.00	78,597.00
7	ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison, France	94.93	15,888.76	-3,379.92
8	ARCA-A GmbH, Munich	79.32	25,531.70	258.65
9	ARCA-B GmbH, Munich	79.32	25,809.88	338.14
10	ARCA-C GmbH, Munich	79.32	25,590.12	490.81
11	ARCA-D GmbH, Munich	79.32	25,658.72	384.22
12	ARCA-E GmbH, Munich	79.32	15,804.91	-9,673.53
13	ARCA-F GmbH, Munich	79.32	25,658.29	389.75
14	ARCA-G GmbH, Munich	79.32	25,659.47	383.48
15	ARCA-H GmbH, Munich	79.32	25,664.78	388.82
16	ARCA-I GmbH, Munich	79.32	25,768.56	430.61
17	ARCA-J GmbH, Munich	79.32	25,432.74	340.31
18	ARCANSA Beteiligungsverwaltung GmbH, Munich	79.32	-527,547.07	25,220.15
19	BuZ Vermittlungsgesellschaft mbH, Münster	79.32	-825,741.52	115,432.56
20	INTERIURA Deutschland GmbH, Dusseldorf	94.93	413,150.00	962.00
21	INTERIURA-Italy s. r. l., Verona, Italy	94.94	399,031.00	-70,366.00
22	INTERIURA Polska Spólka z organiczona odpowiedzialnoscia, Wroclaw, Poland	94.93	-55,775.00	-23,385.00
23	INTERIURA Magyarország Nemzetközi Kárrendezési Kft., Budapest, Hungary	91.76	62,322.00	26,759.00
24	INTERIURA Schadenregulierungs-AG, Basel, Switzerland	94.93	63,547.00	34,677.00
25	INTERIURA Schadenregulierungsges. mbH, Vienna, Austria	94.93	953,620.00	113,786.00

	Name of company	Group share in %	Equity in euros	Profit/loss for year in euros
26	INTERIURA Sociedade Internacional Reguladore de Sinistros Lda., Lisbon, Portugal	94.93	102,730.00	33,206.00
27	INTERIURA United Kingdom Limited, Manchester, Great Britain	94.93	472,785.00	191,136.00
28	INTERIURA-Belgium s.p.r.l., Brussels, Belgium	94.81	625,337.00	44,602.00
29	INTERIURA-FRANCE S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison, France	94.93	-56,259.00	-319,642.00
30	INTERIURA-INTERRECHT S.A., Barcelona, Spain	94.93	1,610,947.00	565,945.00
31	INTERIURA-Nederland Schadenregelingsbureau B.V., Leusden, Netherlands	94.93	169,562.00	-660.00
32	INTERJURA Internationale Schadenregulierungsgesellschaft mbH, Athens, Greece	94.84	43,126.75	-16,612.70
33	Prinzregent Vermögensverwaltung-GmbH, Munich	79.32	43,127.00	-16,613.00
34	Stella Gesellschaft mbH Werbeagentur, Dusseldorf	54.61	160,654.18	1,530.19
35	VIA Beratungsgesellschaft mbH, Dusseldorf	92.61	390,446.21	32,434.82
36	VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Dusseldorf	94.93	68,132.42	37,462.29

Consolidation principles The Consolidated Financial Statements were 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 2007 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. Any resulting asset side differences were allocated to the valuations of the assets of the respective subsidiary, insofar as valuation scope existed. 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 German Commercial Code (HGB)).

Insofar as subsidiaries were included in the 1989 Consolidated Financial Statements under application of Art. 27 EGHGB, 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 in past years as per Art. 309 (1) sen. 3 HGB. The offsetting of differences and revenue reserves is now no longer performed for initial consolidations, as this is no longer recognized under DRS 4.28. As offsetting in accordance with Art. 309 (1) sen. 3 HGB remains permissible, the offsets previously performed were retained.

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 was performed in an income-neutral manner in past years.

The final consolidation of the subsidiaries eliminated from the consolidation scope is always performed so as to be income-relevant by setting off the assets and liabilities of the subsidiary sold as a proportion of consolidated values against the sale proceeds. No final consolidations were necessary in the fiscal year under review, even though one subsidiary was dissolved without liquidation effective 5 December 2007. By means of universal succession, all assets and liabilities of this subsidiary 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 (2) through (4) HGB was taken into account. The values as of the time of acquisition, respectively the date of the first financial statements following acquisition, were used for the first-time application of the equity method, insofar as no interim financial statements were available.

Intra-Group profits subject to elimination were deducted from the valuations of the respective assets in an income-relevant manner, insofar as they are of more than minor significance for obtaining an accurate understanding of the asset, financial and earnings situation when taken as a whole. Accounts receivable and payable between Group subsidiaries were set off against each other. Earnings from services between companies included in the Consolidated Financial Statements were set off against their respective shares of the costs of the service providers.

Mutual agency services for companies included in the Consolidated Financial Statements are performed by a company included in the Consolidated Financial Statements 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. 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 withdrawn from the revenue reserves in an income-neutral manner in the amount of € 2,363,520.03.

Accounting and valuation methods Preparation of these Financial Statements 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 Statements 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 German associated companies correspond to those of the Group subsidiaries. A Norway-based holding prepared its annual financial statements according to the Norwegian accounting statute, the Kredittilsynet. Adapting the financial statements was waived on account of the largely identical Norwegian accounting methodology with respect to HGB.

The financial statements of the significant associated companies present the following picture:

1. Allrecht Rechtsschutzversicherung AG	in thousand euros
A. Outstanding contributions	3,642
B. Intangible assets	918
C. Capital investments	84,889
D. Accounts receivable	2,493
E. Other assets	1,390
F. Accrued and deferred items	973
Balance sheet assets	**94,305**
A. Equity	12,965
B. Underwriting reserves	76,160
C. Other provisions	2,960
D. Liabilities	2,213
E. Accrued and deferred items	7
Balance sheet liabilities	**94,305**
I. Underwriting earnings	-2,270
II. Income from capital investments	3,723
III. Other income/expenses	-229
IV. Tax expenditure	-474
V. Net income	**750**

2. HELP Forsikring AS	in thousand NOK
A. Capital investments	15,557
B. Accounts receivable	3,596
C. Other assets	45,476
D. Accrued and deferred items	413
Balance sheet assets	**65,042**
A. Equity	43,023
B. Underwriting reserves	17,585
C. Liabilities	1,795
D. Accrued and deferred items	2,639
Balance sheet liabilities	**65,042**
I. Underwriting earnings	-25,701
II. Income from capital investments	592
III. Tax expenditure	0
IV. Net income	**-25,109**

3. Winterthur-ARAG Rechtsschutzversicherung	in thousand CHF
A. Capital investments	128,110
B. Accounts receivable	11,155
C. Other assets	1,664
D. Accrued and deferred items	3,470
Balance sheet assets	**144,399**
A. Equity	20,564
B. Underwriting reserves	111,687
C. Other provisions	3,247
D. Liabilities	3,030
E. Accrued and deferred items	5,871
Balance sheet liabilities	**144,399**
I. Underwriting earnings	3,643
II. Income from capital investments	4,813
III. Other income/expenses	-1,303
IV. Tax expenditure	-1,590
V. Net income	**5,563**

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 € 8,631,018.15 breaks down as € 7,569,287.89 for IT software, € 911,335.11 attributable to goodwill from the acquisition of a company in the US, € 100,395.15 for tenant improvements to business premises in Italy and € 50,000.00 for an industrial property right. Software is primarily depreciated linearly over three years. The goodwill value resulting from the acquisition has a residual period of use of nine years. Tenant improvements are linearly depreciated over the remaining term of the lease. No depreciation was taken against the industrial property right. No unplanned write-downs were taken in the fiscal year under review.

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. Unplanned write-downs in the amount of € 506,992.60 were taken on real estate on account of the anticipated permanent reduction in value. Real estate with a book value of € 11,513,117.61 is encumbered with land charges as security for bank liabilities.

4 Shares of affiliated companies not included in the Consolidated Financial Statements and the other holdings are valued at their acquisition costs in accordance with Art. 253 (2) HGB, reduced by extraordinary write-downs as appropriate on account of permanent reductions in value totaling € 1,429,146.72. 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 Statements, respectively, increased or decreased by the proportional amount of equity changes in subsequent years. In the fiscal year under review, 33.4 percent of the shares of a Norwegian company were acquired for € 5,118,674.71. This corresponds to a proportional equity of € 1,811,262.91. The goodwill value resulting from the first-time application of the equity method amounts to € 3,307,411.80, and is to be depreciated linearly over a period of four years, beginning as of 1 January 2008.

Lending to affiliated companies is stated at par value. Value adjustments amounting to € 276,114.00 were taken.

5 Stocks, investment fund shares, bearer bonds and other fixed-interest securities are always valued in accordance with Art. 341b (2) HGB (German Commercial Code) in connection with Art. 253 (1) and (3) HGB at acquisition cost or at the lower value at the day of accounting respectively. For investment fund shares attributed to capital investment in fiscal 2002, an assessment 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, extraordinary write-downs of € 12,632,361.70 were necessary in the fiscal year under review. In addition, write-downs in the amount of € 32,591,883.17 were required on account of the anticipated long-term loss of value. No hidden charges exist. Valuation reserves in the amount of € 21.7 million exist.

In accordance with Art. 8a of the law governing senior part-time employment, investment-fund shares in the amount of € 3,364,297.49 have been pledged to employees as security for performance arrears in accordance with the block model. Additionally, bearer bonds totaling € 5,711,700.00 are pledged as security for bank sureties.

6 The **other lending** consists of registered participation certificates, other loans and prepayments against insurance certificates. These are valued at the nominal value minus redemption payments.

7 **Other lending, mortgages receivable, other similar rights, fixed-interest debts and other capital investments** are stated at their par or redemption values, respectively. Depreciation according to Art. 253 (2) sen. 3 HGB (German Commercial Code) in the amount of € 1,568,302.55 was taken. Discounts are distributed straight-line using the accrual method of income recognition.

8 **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.

9 **Bank deposits** are stated at par value.

10 **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 non-payment; receivables against agents are adjusted using individual bad debt charges plus a general charge equivalent to the expected bad debts.

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

12 **Supplies** are determined by taking a physical inventory. These are valued at their procurement costs. The supplies of the non-insurance companies were valued at their cost of production, to which appropriate portions of general administrative costs and precisely calculable portions of financing costs attributable to the period of production have been added. Supplies with a book value of € 42.9 million of the Group's property development company are encumbered with land charges in favor of the financing banks.

13 **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.

14 **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 € 105,346.19 from the difference determined according to Art. 341c (2) sen. 2 HGB.

15 The **tax deferment item in accordance with Art. 306 in conjunction with Art. 274 (2) HGB** reflects the anticipated tax relief in subsequent fiscal years in the amount of the current or future income tax rates, respectively, insofar as their valuation is sufficiently reliable, 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 Statements 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 30 percent (previous year: 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 income in the amount of € 510,766.03. The specific national earnings tax rates were used in the calculation. The tax expenditure includes a charge of € 3,220,000.00 for tax liabilities caused by consolidation actions. Fur this purpose a uniform earnings tax rate of 30 percent was assumed. The capitalized amount of tax liabilities from revaluation and consolidation as of 31 December 2007 amounts to € 610,200.00 and is stated together with the capitalized tax liabilities from the individual financial statements totalling € 2,012,232.43.

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

17 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, superseding 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 Statements in an income-relevant manner.

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

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

19 The 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: assumed rates of interest of 3.0 percent and

3.5 percent, maximum zillmerization 35 per mil of insured amount (exception: rates with higher death benefit) as well as mortality rates according to the mortality tables ADSt 24/26 M, ADSt 60/62 mod. M and ADSt 1986, separately for men and women.

The coverage provisions for new insurance policies subject to premium payment were calculated on a contract-by-contract basis according to the prospective method with implied consideration of future administrative costs. For non-contributory policies – particularly bonus insured amounts and insurance policies with an abbreviated contribution period – an explicit provision was formed for administrative costs in the non-contributory periods. The German Federal Financial Supervisory Authority has been informed of the calculation principles used in this calculation in compliance with Art. 13d No. 6 VAG.

The coverage provisions for endowment insurance policies were calculated with an accountable interest rate of 4.0 percent, 3.25 percent, 2.75 percent and 2.25 percent with a zillmerization rate of 33 and 40 per mil of the insured amount (depending on the rate structure) and mortality rates in accordance with mortality table DAV 1994 R, separately for men and women. In a guideline published on 21 June 2004, the DAV released new mortality tables for both new business and existing pension insurance portfolios. 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 also calculated according to the new tables as of 31 December 2007 and a positive difference of € 7.25 million between the old and new coverage provision was additionally allocated to the coverage provision.

Effective 1 January 2005, the rate structure for pension insurance according to the previous calculation basis was closed for new policies. Since then, new pension insurance policies have been concluded solely using rates according to the latest calculation base with an assumed rate of interest of 2.75 percent (rate structure 2004) and 2.25 percent (rate structures 2007 and 2008), respectively.

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.

20 Provisions for outstanding claims for the self-contracted property and accident insurance business are organized by year of occurrence, separated into those claims reported during the respective fiscal year and those reported after the 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"). The provision for outstanding claims of the German property insurers was reduced by claim reimbursement receivables of € 1,065,081.60 expected to be realized in 2008.

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 outside the balance 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 surrenders reported but not yet settled as of the day of accounting were formed on the basis of experiential values. Additional provision was made for claims from previous fiscal years not yet filed as of the date of accounting in accordance with experience. Settlement costs for resolution of these insurance claims were put in reserve under consideration of the tax regulations. In accordance with the ruling of the German Federal Court respecting fiduciary proceedings issued on 12 October 2005 an additional lump-sum increase in the coverage provision was made for the affected non-contributory policies and for the surrender of terminated life insurance policies for insurance claims not yet settled under consideration of the probable claim.

In the health insurance segment, this provision was determined on the basis of claim figures in the year under review for prior years under consideration of the increase in volume. Special affects compared to the previous year were taken into account separately. A comparable method was applied for statutory long-term care insurance.

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

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

23 Pension reserves for the domestic subsidiaries are calculated on the basis of Art. 6a of the German income-tax law (EStG). Dr. Klaus Heubeck's table 2005G with an assumed rate of interest of 5.25 percent is used as a reference base for the calculation of the partial value. The discretionary right of Art. 28 (1) EGHGB (Introductory Law to German Commercial Code) to waive the establishment of pension reserves for prior commitments was not exercised.

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

24 The reserves for early retirement obligations were formed solely to cover those persons having entitlements under the collective early retirement agreement that expired on 31 December 1997, as well as persons with analogous individual contractual guarantees. 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 Consolidated Balance Sheet.

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

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

27 The **deferred liabilities** contain differences in accordance with Art. 341c (2) sen. 1 HGB in the amount of € 571,027.81.

28 **Tax deferment** Due to the elimination of intra-Group profits and the income-effective debt consolidations, a differing (lesser) tax liability was determined as of 31 December 2007 arising from temporary differences with respect to the total of the individual financial statements; this amounted to € 460k for subsequent fiscal years (previous year: € 3,680k). This is stated as the tax deferment item in the amount of € 610k pursuant to Art. 274, 306 HGB.

29 **Group equity** A detailed representation of the Group's equity is presented on pages 72 and 73. This representation was compiled in compliance with DRS 7. The self-generated Group equity is stated as that portion of the Group's equity that was formed from the Group's net profit for the fiscal year under review and/or previous fiscal years. It comprises revenue reserves, profit carried forward and the net profit and is differentiated for the majorities and the minorities that directly or indirectly hold shares in the subsidiaries included in the Consolidated Financial Statements.
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. All shares are fully paid in.

30 **Difference from capital consolidation** The liabilities-side difference of € 13,888k was entirely dissolved in the previous fiscal year.

Associated companies The total of all goodwill values from inclusion of associated companies under application of the equity method amounts to € 4,508k. Through the acquisition of a share in a Norwegian insurance company in the fiscal year under review, the total goodwill value increased by € 3,307k.

31 II. Source of Insurance Business by Written 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	326,938,553.05	203,624,997.29	212,498,230.74	218,007,757.85	15,711.23	
Netherlands	71,270,176.00				29,290,973.00	
Spain	58,420,928.28	28,356,165.89			12,885,013.96	5,143,130.27
Austria	40,963,104.01				697,507.53	
USA	35,897,898.44				5,997,227.42	
Belgium	19,707,293.04				254,734.26	
Italy	27,418,854.93				38,939,719.14	
Greece	2,234,847.56				2,450,910.23	
Slovenia	1,204,264.14					
Grand total	**584,055,919.45**	**231,981,163.18**	**212,498,230.74**	**218,007,757.85**	**90,531,796.77**	**5,143,130.27**

32 III. Development of Assets A., B. I. through IV. in Fiscal 2007

	Balance sheet values 2006	Purchases
	in euros	in euros
A. Intangible assets		
1. Costs for start-up and expansion of business activity	0.00	0.00
2. Purchased goodwill	41,069,185.52	0.00
3. Other intangible assets	7,603,756.70	5,043,179.31
Total A.	**48,672,942.22**	**5,043,179.31**
B. I. Real estate, comparable rights and buildings including those on third-party property	**357,284,831.43**	**136,441.34**
B. II. Capital investments in affiliated companies and shareholdings		
1. Shares in affiliated companies	5,242,126.76	43,552,196.47
2. Lending to affiliated companies	4,534,452.24	535,893.84
3. Shareholdings	93,401,543.61	13,021,538.54
4. Lending to companies with which a shareholding relationship exists	116,830.20	0.00
5. Total B. II.	**103,294,952.81**	**57,109,628.85**
B. III. Other capital investments		
1. Stocks, investment fund shares and other non-fixed interest securities	1,894,290,304.75	231,546,504.60
2. Bearer bonds and other fixed-interest securities	419,603,759.17	167,662,680.52
3. Mortgages receivable, other similar rights and fixed-interest debts	266,629,491.82	11,374,743.49
4. Other lending		
a) Registered debentures	608,225,837.62	333,174,355.64
b) Promissory notes and loans	770,616,449.21	137,227,744.42
c) Loans and advance disbursements on insurance policies	87,618,845.01	11,683,225.62
d) Other lending	155,733,925.75	399,684.92
5. Bank deposits	131,980,582.41	58,949,175.99
6. Other capital investments	334,180.09	27,000.00
7. Total B. III.	**4,335,033,375.83**	**952,045,115.20**
Total B. I. to B. III.	**4,795,613,160.07**	**1,009,291,185.39**
B. IV. Portfolio assets from assumed reinsurance business	**4,042,994.63**	**753,096.71**
Total capital investments	**4,799,656,154.70**	**1,010,044,282.10**

Real estate, comparable rights and buildings on third-party property with a balance-sheet value of € 119,062,052.00 (previous year: € 131,739,200.68) were used by the Group's insurance companies for their own operations.

Of the bearer bonds, other fixed-interest securities and bank deposits, a total of € 7.7 million (previous year: € 6.5 million) is pledged as security.

Sales	Currency rate adjustments	Write-ups	Write-downs	Balance sheet values 2007	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	0.00	0.00	4,765,529.86	36,303,655.66		
104,885.00	- 106,177.04	0.00	3,804,855.82	8,631,018.15		
104,885.00	**- 106,177.04**	**0.00**	**8,570,385.68**	**44,934,673.81**		
176,551,706.56	**0.00**	**490,780.73**	**6,255,509.67**	**175,104,837.27**	**255,730**	**80,625**
43,759,231.92	0.00	0.00	751,532.80	4,283,558.51	13,807	9,523
1,126,108.64	0.00	0.00	276,114.00	3,668,123.44	4,534	866
28,509,005.19	0.00	413,570.37	1,077,900.92	77,249,746.41	95,949	18,699
1,168.30	0.00	0.00	0.00	115,661.90	116	0
73,395,514.05	**0.00**	**413,570.37**	**2,105,547.72**	**85,317,090.26**	**114,406**	**29,089**
120,822,861.11	- 161,782.33	368,234.83	40,167,458.02	1,965,052,942.72	1,984,151	19,098
160,243,138.09	-2,679,420.09	315,747.03	5,056,786.85	419,602,841.69	422,186	2,583
25,519,948.48	0.00	4,350.00	1,568,302.55	250,920,334.28	267,535	16,615
91,759,713.26	0.00	0.00	0.00	849,640,480.00	811,167	- 38,473
91,495,427.94	0.00	300.00	0.00	816,349,065.69	799,717	- 16,632
13,738,608.34	0.00	0.00	0.00	85,563,462.29	85,563	0
67,557,439.23	0.00	0.00	288.42	88,575,883.02	88,576	0
0.00	0.00	0.00	0.00	190,929,758.40	190,930	0
0.00	0.00	0.00	0.00	361,180.09	361	0
571,137,136.45	**-2,841,202.42**	**688,631.86**	**46,792,835.84**	**4,666,995,948.18**	**4,650,187**	**- 16,809**
821,084,357.06	**-2,841,202.42**	**1,592,982.96**	**55,153,893.23**	**4,927,417,875.71**	**5,020,322**	**92,904**
0.00	**0.00**	**0.00**	**0.00**	**4,796,091.34**	**4,796**	**0**
821,084,357.06	**-2,841,202.42**	**1,592,982.96**	**55,153,893.23**	**4,932,213,967.05**	**5,025,118**	**92,904**

IV. Additional Information

Information in compliance with Art. 280, 285 (1) HGB Write-ups according to Art. 280 (1) HGB in the amount of € 1,592,982.96 (previous year: € 14,559,086.84) were taken in the fiscal year under review. Debts with a remaining term of more than five years exist in the amount of € 3,673,182.21 (previous year: € 8,469,000.00). Debts to financial institutions in the amount of € 32,487,311.62 (previous year: € 32,962,030.00) are secured by property liens.

33 **Extraordinary operating result** The extraordinary operating result of the previous year was impacted by the indirect effects of the restructuring program implemented in the year under review – severance costs as well as vacancy costs and restoration obligations for the closings of satellite offices in Germany – totaling € 7.8 million. Additionally, 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 was adjusted to a long-term rate of interest of 5.25 percent. The resulting charge amounted to € 12.3 million.

34 **Tax expenditure** The taxes on income and earnings for the previous year contained tax gains from the claim for reimbursement of the offsettable corporate income tax within the meaning of Art. 37 (5) KStG an amount of € 38,718,213.79 for the German subsidiaries. In the fiscal year under review, the tax expenditure of € 3,475,475.78 contains tax liabilities (previous year: € 1,694,698.10).

Other financial obligations Contribution obligations in the amount of € 23,625,830.00 exist from the holding in the Protektor Lebensversicherungs-AG; these can be called in as necessary. Pursuant to Art. 124ff. 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 the 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. 124ff. VAG, ARAG Krankenversicherungs-AG is a member of the security fund for private health insurers through its membership in the private health insurer's industry association Verband der privaten Krankenversicherung e.V. The receiving company Medicator AG 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 to Medicator AG 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 € 1,026,019.40. Yearly rental payment obligations in the amount of approx. € 2.8 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:

Company name	(in euros)
Allrecht Rechtsschutzversicherung AG	947,000.00
High Tech Beteiligungen GmbH & Co. KG	375,000.00
INVESCO Beteiligungsverwaltungs GmbH & Co. KG	4,894,790.12
RREEF Pan European Infrastructure Feeder GmbH & Co. KG	6,271,902.80
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG	239,592.41

35 **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 not taken in the fiscal year under review. Extraordinary write-downs in the amount of € 751,532.80 were taken on shares in associated companies not included in the scope of consolidation and € 48,253,556.36 on other capital assets.

36 The gross cost of insurance business comprises

(in euros)	2007	2006
Sale of insurance policies	218,246,085.62	207,484,512.58
Administration of insurance policies	220,916,250.83	221,029,599.82
Total costs	**439,162,336.45**	**428,514,112.40**

37 Costs of premium rebates for own account

(in euros)	2007	2006
Costs of profit-dependent premium rebates	34,259,233.89	40,003,865.17
Costs of profit-independent premium rebates	3,648,246.18	2,875,611.43
Total costs	**37,907,480.07**	**42,879,476.60**

Commissions and other compensation for insurance representatives, employee costs

(in euros)	2007	2006
1. Commissions of all types for insurance representatives within the meaning of Art. 92 HGB for self-contracted insurance business	193,816,449.03	184,055,696.17
2. Other compensation for insurance representatives within the meaning of Art. 92 HGB	11,297,131.43	12,176,467.16
3. Wages and salaries	164,043,796.11	171,526,704.77
4. Social security and support expenses	31,424,057.50	33,299,797.82
5. Expenses for pension plans	15,548,520.63	18,087,690.02
6. Total costs	**416,129,954.70**	**419,146,355.94**

Average employment for year On average over the entire year, the companies completely included in the Consolidated Financial Statements employed 3,406 (previous year: 3,664) persons. As of 31 December 2007, the ARAG Group employed a total of 3,427 persons (31 December 2006: 3,642 persons).
The insurance companies employed 3,035 (previous year: 3,204) persons on average. On average, 371 persons (previous year: 460) were employed in the management and service companies. The German Group subsidiaries additionally employed some 24 (previous year: 35) vocational trainees.

Compensation for Supervisory Board and Board of Management of ARAG AG Compensation for the Supervisory Board amounted to € 181,421.00.
The compensation for Board members of all Group subsidiaries amounted to € 950,099.37. There are no current pensions or vested pension rights for former Board members or their survivors.

Dusseldorf, 26 May 2008

Board of Management

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

Statement of Consolidated Cash Flow for Fiscal Year 2007

	2007 in euros	2006 in euros
I. Cash flow from current business		
Net income	21,099,612	60,288,823
Change in net underwriting reserves	135,705,523	112,342,984
Change in portfolio assets and liabilities and settlement assets and liabilities	1,599,366	-5,958,580
Change in other receivables and payables	-10,971,988	-22,751,151
Profit/loss from sale of capital investments	-32,453,405	-5,344,211
Changes in other assets and liabilities	26,687,619	-29,443,507
Depreciation on intangible assets	8,570,385	9,020,986
Write-downs on capital investments	56,541,727	31,591,859
Write-ups on capital investments	-1,772,563	-17,450,940
Effects of currency exchange rates	583,859	806,411
Cash flow from current business	**205,590,135**	**133,102,674**
II. Cash flow from investment activities		
Payments received from sale and maturity of other capital investments	853,537,762	754,885,931
Disbursements for the purchase of other capital investments	-1,009,291,185	-870,983,194
Payments received from sale of capital investments of mutual fund-linked life insurance	8,018,755	4,236,322
Disbursements for sale of capital investments of mutual fund-linked life insurance	-14,511,592	-6,451,320
Other payments received	104,885	567,074
Other disbursements	-5,043,179	-2,882,476
Cash flow from investment activities	**-167,184,554**	**-120,627,663**
III. Cash flow from financing activities		
Shareholder contributions	0	8,000,000
Dividend payments	-9,000,000	-16,000,000
Payments and disbursements from other financing activities	0	0
Cash flow from financing activities	**-9,000,000**	**-8,000,000**
Effective changes in cash reserves	**29,405,581**	**4,475,011**
Cash reserves at start of fiscal year	45,721,880	41,246,869
Cash reserves at end of fiscal year	75,127,461	45,721,880
Change in cash reserves in fiscal year	**29,405,581**	**4,475,011**

38 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 2006	200,000,000.00	-141,610,000.00	183,575,430.21	168,712.09	242,134,142.30
Issue of shares	141,610,000.00		-141,610,000.00		0.00
Purchase/retirement of own shares	-141,610,000.00	141,610,000.00			0.00
Dividends paid			-9,000,000.00		-9,000,000.00
Changes in the scope of consolidation					0.00
Other changes			-4,461,894.30	-2,363,520.03	-6,825,414.33
Group profit/loss for year			19,975,495.57		19,975,495.57
Other Group profit/loss					0.00
Overall Group profit/loss for year			19,975,495.57	0.00	19,975,495.57
Values as of 31 December 2007	**200,000,000.00**	**0.00**	**48,479,031.48**	**-2,194,807.94**	**246,284,223.54**
II. Minority shareholders					
As of 31 December 2006	0.00	0.00	27,335,258.76	3,441.51	27,338,700.27
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-1,314,485.62		-1,314,485.62
Changes in the scope of consolidation					0.00
Other changes			5,268,422.71	-113,448.97	5,154,973.74
Group profit/loss for year			1,124,116.46		1,124,116.46
Other Group profit/loss					0.00
Overall Group profit/loss for year			1,124,116.46	0.00	1,124,116.46
Values as of 31 December 2007	**0.00**	**0.00**	**32,413,312.31**	**-110,007.46**	**32,303,304.85**
III. Group equity					
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
Issue of shares	141,610,000.00		-141,610,000.00		0.00
Purchase/retirement of own shares	-141,610,000.00	141,610,000.00			0.00
Dividends paid			-10,314,485.62		-10,314,485.62
Changes in the scope of consolidation					0.00
Other changes			806,528.41	-2,476,969.00	-1,670,440.59
Group profit/loss for year			21,099,612.03		21,099,612.03
Other Group profit/loss					0.00
Overall Group profit/loss for year			21,099,612.03	0.00	21,099,612.03
Values as of 31 December 2007	**200,000,000.00**	**0.00**	**80,892,343.79**	**-2,304,815.40**	**278,587,528.39**

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 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
Overall Group profit/loss for year			57,427,908.26	0.00	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
Overall Group profit/loss for year			2,860,914.26	0.00	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
Overall Group profit/loss for year			60,288,822.52	0.00	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 previous year are primarily due to the transfer from the liabilities-side difference from capital consolidation to other reserves (€ 11,007,315.36).

Segment Reporting – Balance Sheet

(in thousand euros)	Legal insurance		Composite insurance		Life insurance	
	2007	2006	2007	2006	2007	2006
A. Intangible assets	**6,693**	**4,883**	**0**	**0**	**387**	**517**
B. Capital investments	**1,551,030**	**1,507,917**	**489,640**	**476,516**	**2,639,798**	**2,624,507**
I. Real estate and buildings including those on third-party property	93,177	117,509	37,153	38,147	35,651	187,361
II. Capital investments in affiliated companies and shareholdings	349,769	326,206	80,537	76,891	159,096	172,272
III. Other capital investments	1,103,308	1,060,159	371,929	361,479	2,445,051	2,264,873
IV. Portfolio assets from assumed reinsurance business	4,776	4,043	20	0	0	0
C. Capital investments for the account and risk of life insurance policyholders	**0**	**0**	**0**	**0**	**39,040**	**33,755**
D. Other assets by segment	**203,316**	**168,401**	**8,849**	**13,924**	**93,088**	**102,204**
Total segment assets	**1,761,040**	**1,681,201**	**498,490**	**490,440**	**2,772,312**	**2,760,983**
A. Underwriting reserves	**1,011,590**	**961,969**	**340,681**	**330,648**	**2,458,050**	**2,463,595**
I. Unearned premiums	171,000	170,987	40,625	35,951	8,828	10,205
II. Actuarial provision	0	0	5	6	2,327,440	2,313,432
III. Provision for outstanding claims	854,968	798,302	299,636	270,965	16,805	17,757
IV. Reserve for premium rebates	24	17	0	0	178,101	195,299
V. Fluctuation provision	350	3,192	65,178	69,652	0	0
VI. Other underwriting reserves	1,723	2,031	2,853	3,123	63	79
VII. Reinsurers' share of underwriting reserves	-16,475	-12,559	-67,615	-49,048	-73,187	-73,176
B. Underwriting reserves in the life insurance segment, to the extent that the investment risk is borne by the policyholders	**0**	**0**	**0**	**0**	**39,040**	**33,755**
C. Other liabilities by segment	**305,949**	**296,725**	**43,349**	**41,861**	**162,118**	**168,599**
Total segment liabilities	**1,317,539**	**1,258,694**	**384,031**	**372,508**	**2,659,209**	**2,665,950**
Equity*						
Total liabilities						

* Equity of the Group including shares of other shareholders and difference from capital consolidation.

This report by segments 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.

The strategic lines of business are:

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

Health insurance		Services and asset management		Total		Consolidation		Group total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
81	102	1,744	2,375	8,905	7,878	36,030	40,795	44,935	48,673
735,648	645,521	300,037	333,030	5,716,153	5,587,491	-783,939	-787,835	4,932,214	4,799,656
0	2,862	10,201	12,484	176,182	358,362	-1,078	-1,078	175,105	357,285
18,806	18,865	259,971	295,818	868,179	890,052	-782,861	-786,757	85,317	103,295
716,842	623,795	29,865	24,728	4,666,996	4,335,033	0	0	4,666,996	4,335,033
0	0	0	0	4,796	4,043	0	0	4,796	4,043
0	0	0	0	39,040	33,755	0	0	39,040	33,755
14,766	15,391	110,210	89,328	430,230	389,249	-4,576	7	425,654	389,255
750,496	661,014	411,990	424,733	6,194,328	6,018,372	-752,485	-747,033	5,441,843	5,271,340
706,875	625,279	0	0	4,517,197	4,381,491	0	0	4,517,197	4,381,491
336	352	0	0	220,788	217,496	0	0	220,788	217,496
617,205	547,802	0	0	2,944,650	2,861,239	0	0	2,944,650	2,861,239
31,296	31,537	0	0	1,202,705	1,118,561	0	0	1,202,705	1,118,561
57,989	45,509	0	0	236,114	240,825	0	0	236,114	240,825
0	0	0	0	65,528	72,843	0	0	65,528	72,843
50	78	0	0	4,689	5,311	0	0	4,689	5,311
0	0	0	0	-157,277	-134,784	0	0	-157,277	-134,784
0	0	0	0	39,040	33,755	0	0	39,040	33,755
14,733	11,957	80,868	68,638	607,018	587,781	0	-1,161	607,018	586,620
721,608	637,237	80,868	68,638	5,163,255	5,003,028	0	-1,161	5,163,255	5,001,867
								278,588	269,473
								5,441,843	5,271,340

In addition to the top-level parent company and the other asset-managing intermediate holding companies, the service and asset management companies include the residential real estate 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. In the fiscal year under review a subsidiary in England active as a broker was transferred from the segment “Legal insurance” to the segment “Services and asset management” as registration as an insurance company is no longer being sought in the medium term. The previous year’s figures were not adjusted, as the Company did not engage in business to any significant extent in the previous year.

The income tax charge from profit pooling relationships was attributed to the segment of the subsidiary in accordance with the economic situation, as was the comparison with the previous year.

Segment Reporting – Statement of Profit and Loss by Insurance Segments

(in thousand euros)	Legal insurance		Composite insurance		Life insurance	
	2007	2006	2007	2006	2007	2006
Underwriting earnings						
Gross premiums written	**674,588**	**654,695**	**237,124**	**239,532**	**212,498**	**217,855**
Self-contracted business	584,056	570,228	231,981	235,303	212,498	217,855
Assumed business	90,532	84,468	5,143	4,229	0	0
Premiums for reinsured business	-1,685	-1,833	-13,501	-15,610	-6,064	-4,664
Change in net unearned premiums	-7,681	-5,522	-770	-1,465	1,137	1,261
Earned premiums for own account	**665,222**	**647,340**	**222,853**	**222,456**	**207,571**	**214,452**
Premiums from gross reserve for premium rebates	0	0	0	0	17,268	7,714
Assigned capital gains from underwriting account	0	0	572	510	148,847	127,227
Unrealized gains from capital investments	0	0	0	0	180	3,228
Other underwriting earnings for own account	2,318	2,270	364	370	711	121
Total underwriting earnings	**667,539**	**649,611**	**223,789**	**223,337**	**374,577**	**352,741**
Underwriting costs						
Cost of claims for own account	-392,204	-370,133	-127,934	-124,961	-231,022	-237,029
Change in other net underwriting reserves	308	97	541	-15	-19,058	-13,091
Costs for premium rebates	-7	-5	0	0	-15,046	-24,200
profit-dependent portion	-7	-5	0	0	-15,046	-24,200
profit-independent portion	0	0	0	0	0	0
Unrealized losses from capital investments	0	0	0	0	-1,388	0
Cost of insurance business	-280,572	-275,149	-82,324	-81,576	-35,871	-39,415
portion attributable to cost of sales	-138,324	-132,503	-23,149	-22,340	-30,322	-30,411
portion attributable to administrative costs	-142,932	-143,294	-63,387	-63,477	-9,090	-9,335
reinsurance portion	683	647	4,212	4,241	3,541	331
Assigned capital costs from underwriting account	0	0	0	0	-46,885	-26,505
Other underwriting costs for own account	-357	-474	-1,096	-1,060	-3,180	-2,944
Total underwriting costs	**-672,832**	**-645,664**	**-210,812**	**-207,613**	**-352,449**	**-343,185**
Subtotal	**-5,293**	**3,946**	**12,977**	**15,724**	**22,128**	**9,556**
Change in fluctuation reserve and similar provisions	2,841	-648	4,474	5,738	0	0
Underwriting result for own account	**-2,452**	**3,298**	**17,451**	**21,462**	**22,128**	**9,556**
Earnings from capital investments	72,619	70,295	25,104	20,014	147,354	127,227
Costs of capital investments	-34,471	-27,268	-3,851	-3,672	-46,885	-26,505
Income from capital investments	**38,149**	**43,026**	**21,253**	**16,342**	**100,468**	**100,722**
Capital investment operating result assigned to underwriting account	0	0	-572	-510	-101,962	-100,722
Sales revenues	0	0	0	0	0	0
Production costs	0	0	0	0	0	0
Gross operating result	**0**	**0**	**0**	**0**	**0**	**0**
Other earnings	19,197	16,813	1,317	4,263	4,717	6,859
Other costs	-47,644	-43,184	-8,354	-7,867	-4,306	-2,858
Other income	**-28,447**	**-26,371**	**-7,037**	**-3,604**	**411**	**4,000**
Income from normal business activity	**7,250**	**19,954**	**31,096**	**33,690**	**21,045**	**13,557**
Extraordinary operating result	**0**	**-9,383**	**0**	**-1,429**	**0**	**-685**
Operating result before taxes	**7,250**	**10,571**	**31,096**	**32,262**	**21,045**	**12,872**
Tax expenditure*	-11,255	3,292	-11,118	-10,340	-4,813	-3,404
Net income	**-4,005**	**13,862**	**19,977**	**21,922**	**16,233**	**9,468**
Minority interests	0	0	0	0	0	0
Group profit/loss for year	**-4,005**	**13,862**	**19,977**	**21,922**	**16,233**	**9,468**

* The tax expense was allocated in accordance with the economic reason (in the previous year as well).

Health insurance		Services and asset management		Total		Consolidation		Group total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
218,008	**199,954**	**0**	**0**	**1,342,218**	**1,312,036**	**0**	**0**	**1,342,218**	**1,312,036**
218,008	199,954	0	0	1,246,543	1,223,339	0	0	1,246,543	1,223,339
0	0	0	0	95,675	88,697	0	0	95,675	88,697
-5	-5	0	0	-21,255	-22,112	0	0	-21,255	-22,112
16	33	0	0	-7,298	-5,693		0	-7,298	-5,693
218,019	**199,982**	**0**	**0**	**1,313,665**	**1,284,231**	**0**	**0**	**1,313,665**	**1,284,231**
5,632	8,603	0	0	22,900	16,317	0	0	22,900	16,317
30,775	26,248	0	0	180,194	153,985	0	0	180,194	153,985
0	0	0	0	180	3,228	0	0	180	3,228
158	218	0	0	3,551	2,980	0	0	3,551	2,980
254,584	**235,052**	**0**	**0**	**1,520,490**	**1,460,740**	**0**	**0**	**1,520,490**	**1,460,740**
-116,697	-108,468	0	0	-867,857	-840,591	0	0	-867,857	-840,591
-69,374	-70,307	0	0	-87,583	-83,317	0	0	-87,583	-83,317
-22,855	-18,674	0	0	-37,907	-42,879	0	0	-37,907	-42,879
-19,207	-15,799	0	0	-34,259	-40,004	0	0	-34,259	-40,004
-3,648	-2,876	0	0	-3,648	-2,876	0	0	-3,648	-2,876
0	0	0	0	-1,388	0	0	0	-1,388	0
-31,962	-27,154	0	0	-430,729	-423,295	2	0	-430,727	-423,295
-26,455	-22,231	0	0	-218,249	-207,485	0	0	-218,249	-207,485
-5,507	-4,924	0	0	-220,916	-221,030	2	0	-220,914	-221,030
0	0	0	0	8,436	5,219	0	0	8,436	5,219
-1,785	-2,225	0	0	-48,670	-28,730	0	-2	-48,670	-28,732
-568	-480	0	0	-5,201	-4,958	0	0	-5,201	-4,958
-243,241	**-227,309**	**0**	**0**	**-1,479,335**	**-1,423,771**	**2**	**-2**	**-1,479,333**	**-1,423,773**
11,342	**7,743**	**0**	**0**	**41,155**	**36,970**	**2**	**-2**	**41,157**	**36,967**
0	0	0	0	7,315	5,090	0	0	7,315	5,090
11,342	**7,743**	**0**	**0**	**48,470**	**42,060**	**2**	**-2**	**48,473**	**42,058**
30,775	26,248	4,211	3,696	280,063	247,480	1,375	-545	281,438	246,935
-1,785	-2,225	-1,957	-1,247	-88,950	-60,917	0	2,641	-88,950	-58,276
28,990	**24,023**	**2,254**	**2,449**	**191,113**	**186,563**	**1,375**	**2,096**	**192,489**	**188,659**
-28,990	-24,023	0	0	-131,524	-125,256	0	2	-131,524	-125,253
0	0	123,356	129,373	123,356	129,373	-77,922	-93,320	45,434	36,053
0	0	-130,874	-127,064	-130,874	-127,064	77,922	90,504	-52,952	-36,560
0	**0**	**-7,518**	**2,309**	**-7,518**	**2,309**	**0**	**-2,816**	**-7,518**	**-508**
323	599	4,897	2,051	30,450	30,584	33	0	30,482	30,584
-1,514	-2,480	-9,607	-7,424	-71,424	-63,814	-781	-4,344	-72,205	-68,157
-1,191	**-1,881**	**-4,710**	**-5,374**	**-40,974**	**-33,229**	**-748**	**-4,344**	**-41,722**	**-37,573**
10,151	**5,863**	**-9,974**	**-616**	**59,568**	**72,447**	**629**	**-5,064**	**60,197**	**67,383**
0	**-154**	**0**	**-8,485**	**0**	**-20,136**	**0**	**0**	**0**	**-20,136**
10,151	**5,708**	**-9,974**	**-9,101**	**59,568**	**52,312**	**629**	**-5,064**	**60,197**	**47,248**
-5,894	-2,567	-2,862	27,935	-35,943	14,917	-3,155	-1,876	-39,098	13,041
4,257	**3,142**	**-12,836**	**18,834**	**23,625**	**67,229**	**-2,526**	**-6,940**	**21,100**	**60,289**
0	0	0	0	0	0	-1,124	-2,861	-1,124	-2,861
4,257	**3,142**	**-12,836**	**18,834**	**23,625**	**67,229**	**-3,650**	**-9,801**	**19,975**	**57,428**

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

(in thousand euros)	National	
	2007	**2006**
Underwriting earnings		
Gross premiums written	**961,137**	**960,417**
Self-contracted business	961,074	960,404
Assumed business	63	13
Premiums for reinsured business	-20,888	-21,984
Change in net unearned premiums	2,583	2,185
Earned premiums for own account	**942,832**	**940,617**
Premiums from gross reserve for premium rebates	22,900	16,317
Assigned capital gains from underwriting account	180,193	153,985
Unrealized gains from capital investments	180	3,228
Other underwriting earnings for own account	3,171	2,797
Total underwriting earnings	**1,149,276**	**1,116,943**
Underwriting costs		
Cost of claims for own account	-666,975	-670,704
Change in other net underwriting reserves	-87,594	-83,312
Costs for premium rebates	-37,901	-42,875
profit-dependent portion	-34,253	-39,999
profit-independent portion	-3,648	-2,876
Unrealized losses from capital investments	-1,388	0
Cost of insurance business	-263,872	-275,674
portion attributable to cost of sales	-112,511	-114,908
portion attributable to administrative costs	-159,664	-165,940
reinsurance portion	8,302	5,175
Assigned capital costs from underwriting account	-48,670	-28,730
Other underwriting costs for own account	-4,865	-4,435
Total underwriting costs	**-1,111,266**	**-1,105,730**
Subtotal	**38,010**	**11,213**
Change in fluctuation reserve and similar provisions	4,474	5,738
Underwriting result for own account	**42,485**	**16,951**
Earnings from capital investments	256,661	227,005
Costs of capital investments	-80,870	-55,802
Income from capital investments	**175,791**	**171,203**
Capital investment operating result assigned to underwriting account	-131,523	-125,256
Sales revenues	123,356	129,373
Production costs	-130,874	-127,064
Gross operating result	**-7,518**	**2,309**
Other earnings	29,558	28,978
Other costs	-65,654	-59,672
Other income	**-36,097**	**-30,694**
Income from normal business activity	**43,138**	**34,513**
Extraordinary operating result	**0**	**-20,136**
Operating result before taxes	**43,138**	**14,377**
Tax expenditure*	-23,198	29,691
Net income	**19,940**	**44,068**
Minority interests	0	0
Group profit/loss for year	**19,940**	**44,068**

* The tax expense was allocated in accordance with the economic reason (in the previous year as well).

International		Consolidation		Group total	
2007	2006	2007	2006	2007	2006
381,081	**351,619**	**0**	**0**	**1,342,218**	**1,312,036**
285,469	262,936	0	0	1,246,543	1,223,339
95,612	88,684	0	0	95,675	88,697
-367	-127	0	0	-21,255	-22,112
-9,881	-7,878	0	0	-7,298	-5,693
370,833	**343,614**	**0**	**0**	**1,313,665**	**1,284,231**
0	0	0	0	22,900	16,317
1	0	0	0	180,194	153,985
0	0	0	0	180	3,228
380	183	0	0	3,551	2,980
371,214	**343,797**	**0**	**0**	**1,520,490**	**1,460,740**
-200,882	-169,887	0	0	-867,857	-840,591
12	-5	0	0	-87,583	-83,317
-7	-5	0	0	-37,907	-42,879
-7	-5	0	0	-34,259	-40,004
0	0	0	0	-3,648	-2,876
0	0	0	0	-1,388	0
-166,857	-147,621	2	0	-430,727	-423,295
-105,738	-92,576	0	0	-218,249	-207,485
-61,253	-55,089	2	0	-220,914	-221,030
134	45	0	0	8,436	5,219
0	0	0	-2	-48,670	-28,732
-336	-523	0	0	-5,201	-4,958
-368,069	**-318,040**	**2**	**-2**	**-1,479,333**	**-1,423,773**
3,145	**25,757**	**2**	**-2**	**41,157**	**36,967**
2,841	-648	0	0	7,315	5,090
5,986	**25,109**	**2**	**-2**	**48,473**	**42,058**
23,402	20,475	1,375	-545	281,438	246,935
-8,080	-5,114	0	2,641	-88,950	-58,276
15,322	**15,360**	**1,375**	**2,096**	**192,489**	**188,659**
-1	0	0	2	-131,524	-125,253
0	0	-77,922	-93,320	45,434	36,053
0	0	77,922	90,504	-52,952	-36,560
0	**0**	**0**	**-2,816**	**-7,518**	**-508**
892	1,606	33	0	30,482	30,584
-5,769	-4,141	-781	-4,344	-72,205	-68,157
-4,877	**-2,535**	**-748**	**-4,344**	**-41,722**	**-37,573**
16,430	**37,934**	**629**	**-5,064**	**60,197**	**67,383**
0	**0**	**0**	**0**	**0**	**-20,136**
16,430	**37,934**	**629**	**-5,064**	**60,197**	**47,248**
-12,745	-14,774	-3,155	-1,876	-39,098	13,041
3,685	**23,160**	**-2,526**	**-6,940**	**21,100**	**60,289**
0	0	-1,124	-2,861	-1,124	-2,861
3,685	**23,160**	**-3,650**	**-9,801**	**19,975**	**57,428**

Auditor's Report*

We have audited the consolidated financial statements prepared by the ARAG Aktiengesellschaft, Düsseldorf, 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 2007. 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 ("Handelsgesetzbuch": "German Commercial Code") 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, 26 May 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Alfons Koch
Wirtschaftsprüfer

ppa. Jens-Erik Paustian
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. Six 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 Group with the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Group. The progress of strategy implementation was regularly discussed in the meetings. Deliberations in the meetings of the Supervisory Board focused on such issues as optimizing the equity structure, 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 Group and its long-term profitability.

The Supervisory Board has reviewed the Consolidated Financial Statements 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.

The scope of the examination of the Consolidated Financial Statements 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 Statements.

Discretionary decisions with respect to accounting policy were taken to the benefit of the Group.
The auditing firm PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Dusseldorf, audited the Consolidated Financial Statements as of 31 December 2007 under consideration of the 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 Statements. There are no remarks to be made regarding the auditor's report.
In its final conclusion of its review of the Consolidated Financial Statements, the Group Management Report and the Auditors' Report, the Supervisory Board raises no objections.

Dusseldorf, 9 June 2008

Chairman, Supervisory Board

Gerd Peskes

Governing Bodies of the Company

Supervisory Board

The Supervisory Board is made up of the following persons:

Gerd Peskes	Auditor, Essen, Chairman
Prof. Dr. Dr. h.c. Rolf Dubs	Professor University St. Gallen, Switzerland Vice-Chairman
Dr. Tobias Bürgers	Attorney, 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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