ANNUAL REPORT 2004 CONSOLIDATED FINANCIAL STATEMENT

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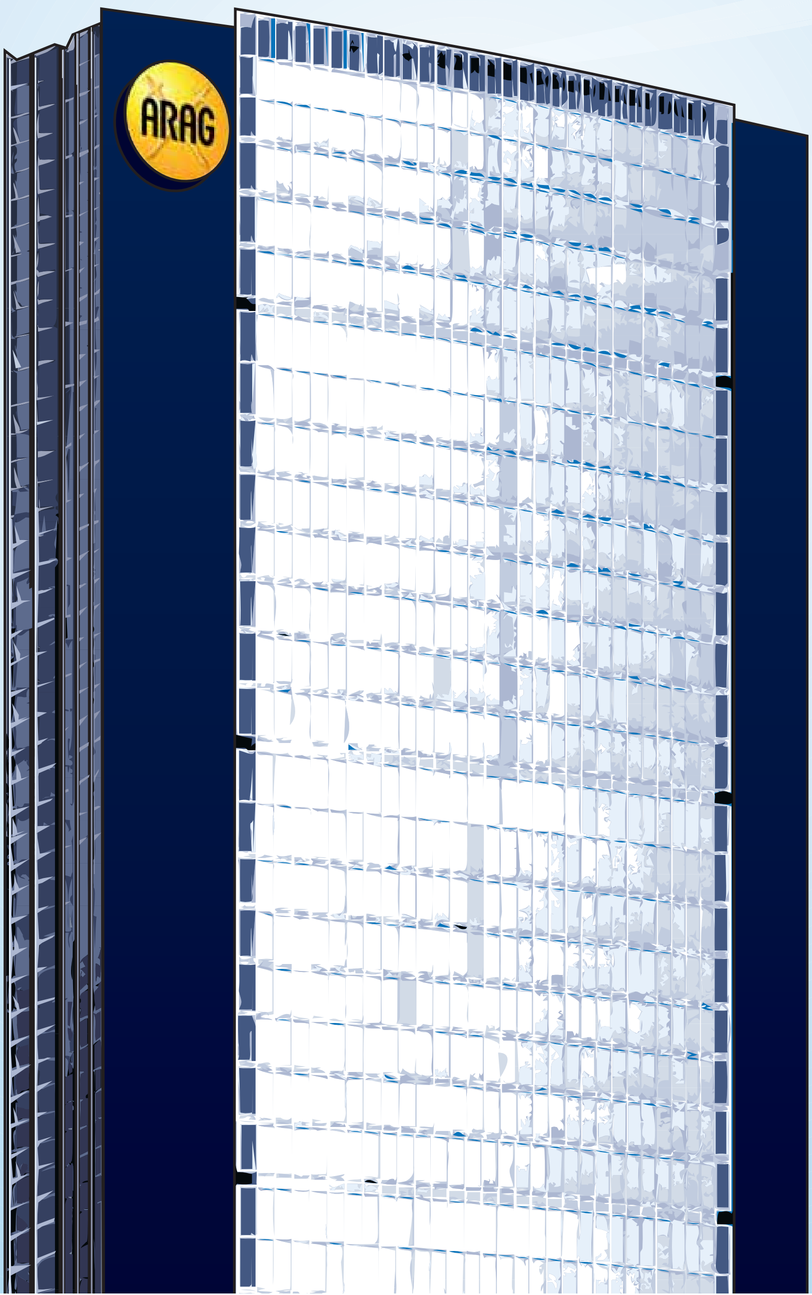
Summa Summarum: Poised for the Future

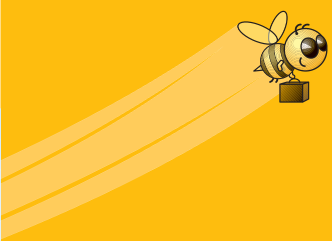
ARAG Aktiengesellschaft



ARAG Aktiengesellschaft _ Consolidated Financial Statement ANNUAL REPORT 2004

Summa Summarum: Poised for the Future

What do the bees have in common with ARAG? Quite simply, bees know exactly when and where to deploy their efforts to best advantage. They tirelessly demonstrate efficiency, precision and team spirit, day in, day out. It is these qualities that weld the individual inhabitants of the bustling beehive into one of Nature's most successful production processes – qualities that underpin ARAG's excellent outlook as well. In the 2004 fiscal year, the Group succeeded in unlocking new potential, securing its market position through effective actions and amassing valuable know-how for its future around the world.



Overview

Key data

ARAG AG

(in million euros)	2004	Change	2003	2002
Sales				
Gross premiums booked	**1,286.1**	**1.9%**	1,262.6	1,228.6
Earned premiums for own account	**1,260.0**	**2.4%**	1,230.8	1,200.6
Sales revenues from non-insurance subsidiaries	**68.0**	**-5.3%**	71.8	101.4
Costs				
Cost of claims for own account	**850.0**	**7.9%**	788.1	766.1
Claims ratio (basis: earned premiums)	**67.5%**	**3.5% pts.**	64.0%	63.8%
Cost of insurance business for own account	**419.9**	**-1.9%**	428.2	427.8
Cost ratio (basis: earned premiums)	**33.3%**	**-1.5% pts.**	34.8%	35.6%
Overview of profit and loss				
Underwriting result for own account	**8.6**	**-62.1%**	22.7	7.5
Income from capital investments	**197.8**	**40.4%**	140.9	144.8
portion included in underwriting result	140.4	39.8%	100.4	79.0
Other income	**-38.5**	**-9.0%**	-42.3	-44.1
Income from normal business activity	**27.9**	**31.0%**	21.3	29.7
Net income after minority interests	**12.9**	**330.0%**	3.0	1.9
Underwriting reserves/earned premiums	**329.6%**	**4.5% pts.**	325.1%	326.5%

Contents

ARAG companies in Germany and their products and services

ARAG Allgemeine Rechtsschutz-Versicherungs-AG
- Legal insurance for motorists, occupational issues, private life, home and business
- Internet legal insurance

ARAG Allgemeine Versicherungs-AG
- Property insurance
- Liability insurance
- Home insurance
- Accident insurance
- Motor vehicle insurance
- Sport insurance
- Special service package
- Special bicyclist insurance package

ARAG Lebensversicherungs-AG
- Term life insurance
- Risk life insurance
- Private pension insurance
- Disability, survivors' and accidental-death supplementary insurance
- Company pension plans

ARAG Krankenversicherungs-AG
- Private health insurance and full-cost plans
- Supplementary insurance for statutory health insurance customers
- Health insurance for travel abroad
- Long-term care insurance

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./N.V.
Assurance en Protection Juridique
Avenue Louise 306, Bte. 16
1050 Brussels
www.ARAG.be

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

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

LE FOYER-ARAG (Luxembourg)
LE FOYER-ARAG S.A.
Protection Juridique/Rechtsschutz
6, rue Albert Borschette
1246 Luxembourg
www.ARAG.com

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

ARAG Portugal
Compañía Internacional de
Seguros y Reaseguros S.A.,
sucursal em Portugal
Rua Julieta Ferrão,
nº 10 - 13º A
1600-131 Lisbon

ARAG Slovenia
ARAG Zavarovanje Pravne
Zaščite D.D.
Železna Cesta 14
1000 Ljubljana
www.ARAG.si

ARAG Spain
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
www.winterthur-ARAG.ch

ARAG USA
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 Lebensversicherungs-AG** Life Insurance
- **ARAG Krankenversicherungs-AG** Health Insurance
- **Interlloyd Versicherungs-AG** Brokerage Specialist
- **International Companies** Legal Insurance/ Legal Services

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

Profile of the ARAG Group

Overview The ARAG Group is the independent legal insurance specialist in Europe and the USA. The Group has more than 4,300 employees and generates sales and premiums in excess of € 1.3 billion. Services pertaining to law form the historical, economic and strategic core of this Dusseldorf-based corporation. 2002 saw the implementation of a comprehensive corporate reengineering program, which resulted in a new Group structure effective as of the beginning of 2003. The ARAG Group is now more clearly aligned with its core business; in this constellation, the ARAG Allgemeine Rechtsschutz-Versicherungs-AG assumes the strategic management of the overall group as well as operative management of the legal insurance business both domestically and internationally. All other insurance companies and the ARAG service companies are grouped below this holding level, and each bears responsibility for the operative management of its respective line of business. As the asset-managing holding company, ARAG AG represents the formal legal umbrella of the ARAG Group with its direct and indirect subsidiaries.

Core business legal insurance ARAG is one of the world's leading legal insurance specialists. ARAG Rechtsschutz actively shapes the markets in this sector both domestically and abroad. By developing new products, the Group continues to extend and refine the concept of effective legal insurance for the benefit of its customers. The Group is successfully exploiting the know-how gained through decades of experience in the home legal insurance market in ten other European countries and in the USA. Over 47 percent of premium income of the legal insurance companies is earned in the international arena.

Operative insurance companies ARAG Allgemeine is the Group's composite insurer. In spite of the extreme competitive pressure in this sector, ARAG Allgemeine is a profitable provider of property, liability, accident and motor vehicle insurance. ARAG Allgemeine is also Europe's largest sport insurer – with some 21 million insured amateur athletes. Interlloyd, a 100 percent subsidiary of ARAG Allgemeine, is active mainly in the private customer segment and distributes its products exclusively through brokers. ARAG Leben and ARAG Kranken round out the Group's personal insurance spectrum with life and health insurance, respectively. In these segments, the ARAG Group has taken an aggressive, proactive position in the market for private pension insurance and private health insurance.

Service companies The brokerage company Cura GmbH & Co. KG handles insurance services within the ARAG Group. It is also one of the largest and most successful multiple agents in the German market, as well as the largest provider of insurance services for exclusive agents of other companies. Since 2003, the international claims settlement activities have been bundled in our Interiura International AG. ARAG is thus taking up an aggressive position in the high-growth international claims settlement market.

Foreword

Dr. Paul-Otto Faßbender

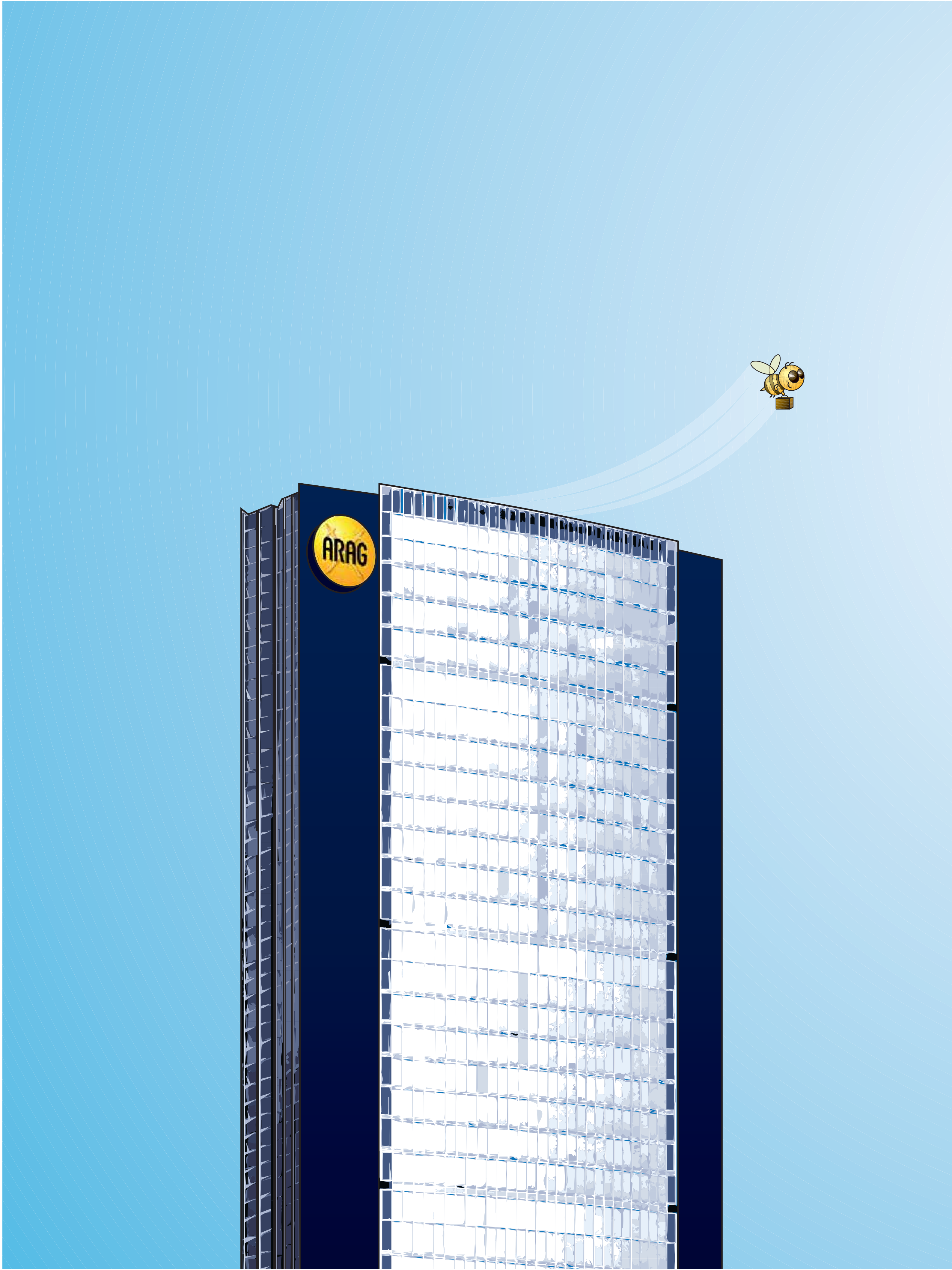
For the ARAG Group, the 2004 fiscal year was one of transition and consolidation. Our enterprise has concentrated on the right issues and lastingly optimized all customer-level business processes. The actions undertaken in our Group have started to take effect in the past fiscal year. Over the course of the previous year, the profitability of the ARAG Group improved noticeably. For the first time, we succeeded in breaking a negative cost trend of many years' standing in our core legal insurance business. However, the new attorney fees legislation RVG, which went into effect on 1 July 2004, resulted in significantly higher claims costs overall. This essentially consumed the realized optimization potential from the point of view of the Group. At the same time, we see this as evidence of the success of our optimization campaign. The efforts undertaken in this process enable the Group to shoulder the significant additional burdens of RVG without risk. This goes to demonstrate once more that ARAG is a solid and extremely healthy insurance company.

But we do not intend to stop half-way. In future, ARAG will become even more effective, flexible and profitable. We will continue to accord top priority to reducing costs through optimization. The deepest cuts were completed or kicked off in the last fiscal year.

This is the right time to develop clear, new entrepreneurial perspectives for the future. Our consolidated Group planning for 2005 through 2009 sets new goals for the Group. ARAG will grow twice as fast in the next five years as in the last five. This corresponds to a 35 percent increase in premium revenues, from just under € 1.3 billion today to € 1.7 billion. With a target return on equity of 10 percent after taxes, the Group is building the basis for satisfactory internal financing capability. The Group will thus honor the owners' financial commitment. The owners have already made significant investments in the Group and will continue to do so in the coming years. Our family enterprise thus continues to adhere to its traditional business principle, "independence through profitability".

ARAG is embarking upon its future optimistically and enthusiastically, with clear, ambitious goals. We are transforming ARAG into a valuable asset in the market – for the benefit of our customers, our employees, and the owners with their long-term commitment.

Dr. Paul-Otto Faßbender


ARAG

By doing what we do best . . .

Day in, day out, the honeybees exhibit diligence, efficiency and a sense for what pays off. They know exactly when and where to deploy their efforts to best advantage. It is not for nothing that the bustling beehive is considered one of nature's most successful production processes. ARAG has also identified and realized valuable potential for its customers. In fiscal 2004, the Group optimized key business processes and at the same time realized significant savings potential; the task now is not only to consolidate the achievements, but – even more important – to unlock new development and growth opportunities.

. . . and nurturing our business . . .

Optimum earnings means growing and developing with our customers. That is why the Group continues to develop and enhance its core specialties. This enables ARAG not only to exploit its opportunities in the home legal insurance market, but to be true to its proven guiding principle: For over four decades, the Group has been promoting customer relationships in Germany – for example by offering attractive, quality products in the life, health and composite insurance segments.

. . . we will discover fields of blooming opportunity . . .

International legal insurance cannot be compared with the German market. But the solid legal insurance business in Germany remains a decisive factor in the success of the Group's international expansion. Today, ARAG is one of the world's leading providers of legal insurance. ARAG is the industry leader in the US legal services industry – and the market leader in Italy and Spain with its innovative products. With successes like these, ARAG is moving into profitable growth fields and reinforcing its position as an internationally successful niche player.

. . . and savor the sweet rewards of success.

ARAG is embarking enthusiastically on its future. Naturally, the international business provides a decisive growth stimulus for the Group. ARAG will leverage this growth to implement its strategic aims for the next five years. In the coming years, the Group will become even more responsive, effective and profitable – and grow more than twice as fast as in the past five years. Achieving such goals requires discipline and diligence. But whoever said that success comes easy? Even the bees need to visit 130,000 flowers to make one kilogram of honey.

Management Report

Development of premium income and sales (in million euros)	2004	2003	2002
Legal insurance			
Domestic	**338.9**	347.3	351.0
International	**278.6**	261.9	244.6
Composite	**257.5**	243.8	232.0
Life	**234.8**	245.0	250.2
Health	**176.5**	164.5	150.8
Service companies	**68.0**	71.8	101.4

- **The Group continues its policy of cautious growth.**
- **Total assets exceed € 5 billion for first time.**
- **Significant increase in earnings in spite of greater cost of claims.**
- **Group's net income increased sharply to € 12.9 million.**

ARAG Group Management Report for Fiscal Year 2004

Overview In fiscal 2004, the weak economy failed to meaningfully improve following three years of economic stagnation in Germany. What growth there was came primarily from the continuing strong export business. Domestic demand, on the other hand, continued weak. The reluctance of consumers and investors persisted. Private consumer spending was inhibited primarily by increased prices due to rising energy costs. Additionally, the uncertainty caused by high unemployment further depressed private consumption. The lack of growth impulses also curtailed the growth of the insurance industry. The situation on the capital market continued to stabilize. However, large, sustained gains in securities prices were not to be expected on account of the political and economic situation.

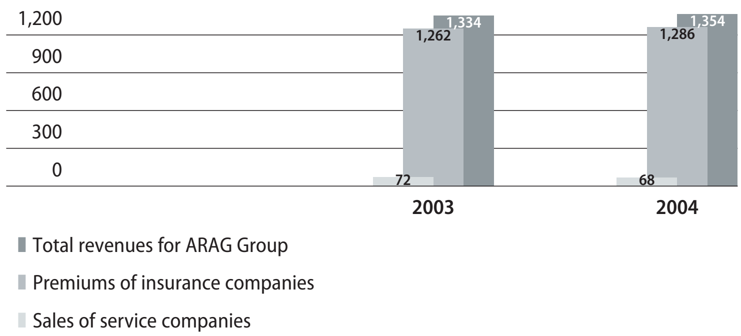
In this difficult business environment, the ARAG Group emphasized its role as a modern, sound niche supplier in the market. In spite of difficult conditions, this future-oriented family enterprise clearly improved its earning power in the fiscal year under review as compared to the previous years. This in spite of the fact that the new German attorney fees legislation which took effect in July 2004 posed additional challenges for ARAG as a legal insurance specialist. But by undertaking timely measures, such as the comprehensive revaluation of risks in the German legal insurance portfolio, a forward-looking reserves policy and the successful optimization program “Impulse ARAG 100”, the Group was able to compensate for the significantly higher claims costs resulting from the new fees legislation.

During the fiscal year under review, the previous holding company of the ARAG Group, FIDA GmbH, was reincorporated as a joint-stock corporation and renamed ARAG AG. This ensures a uniform corporate identity for the entire Group under the well-known ARAG umbrella mark. At the same time, this rechristening also documents the close relationship that the family holding company maintains with the branded subsidiaries of the Group.

With its core-area strategy as an internationally diversified legal insurance specialist, the ARAG Group has staked out a clear position in the market. The Group’s emphasis on private and mass-customer business is an ideal fit for the financial resources of a modern family company, as well as being a key factor in the favorable overall risk structure.

Total revenues

(in million euros)



For the ARAG Group, 2004 was a year of transition and consolidation. With its targeted and successful actions, the Group has clearly advanced its optimization program "Impulse ARAG 100", completing several key components well ahead of schedule. With its effective transformation efforts, the Group is making its business processes even more efficient and reinforcing its sound financial base further by realizing potential savings. The initial savings milestones expected from the Group optimization program were surpassed. As of the end of 2005, ARAG will realize savings of € 50 million annually, according to plan. The target structures will take full effect from 2007 on, enabling further savings.

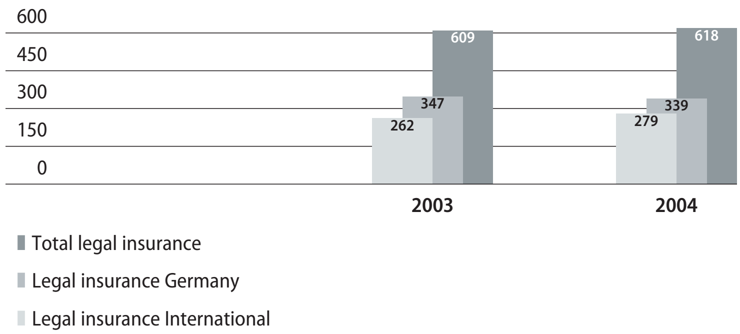
Premiums/sales With an overall volume of € 1.35 billion, premiums and sales of the ARAG Group are slightly over the levels of the previous years. The premium revenues of the insurance companies grew by 1.9 percent, from € 1.26 billion to € 1.28 billion. ARAG is thus continuing its policy of cautious growth, as in previous years. Since 1998, the premiums of the Group's insurance companies have grown by 16 percent. Outside of the insurance business, sales of the service companies declined by 5.3 percent on account of the restructuring measures implemented in 2003.

In all, the Group's portfolios comprise some 6.5 million policies. Our international business accounts for 2.2 million of these. The domestic sport business (composite segment) comprises a further 20.6 million insured risks, insured through 18 state sport associations.

Capital investments In fiscal 2004, the Group's capital investment holdings increased by 3.4 percent, from € 4,312 million to € 4,458 million, even though it was necessary to take extraordinary write-downs of € 17 million on stocks and investment-fund shares. As of 31 December 2004, hidden charges on capital investment no longer exist within the Group.

Uninterrupted growth in international legal insurance business

(in million euros)

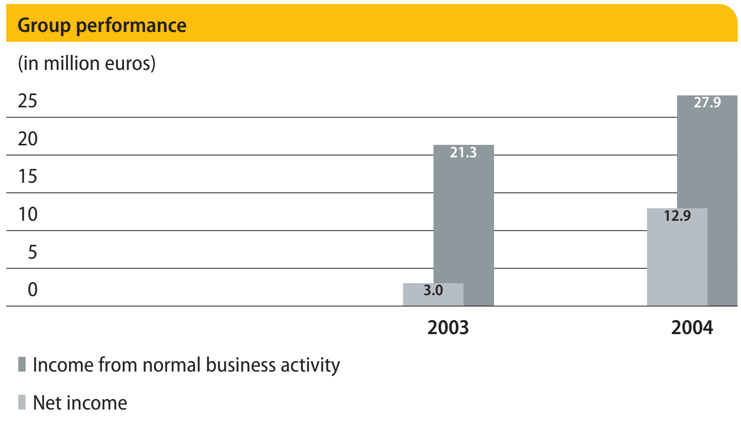


The capital investment structure in comparison to the previous year is as follows:

Type of capital investment

(in million euros)	2004		2003	
I. Real estate and buildings	379.1	8.5%	386.1	9.0%
II. Shares in affiliated companies and holdings	96.5	2.2%	98.7	2.3%
III. Lending to affiliated companies and holdings	8.4	0.2%	7.9	0.2%
IV. Stocks and investment fund shares	1,985.6	44.6%	1,919.8	44.5%
V. Bearer bonds	345.6	7.8%	341.7	7.9%
VI. Mortgages receivable, other similar rights	295.8	6.6%	302.2	7.0%
VII. Registered debentures, promissory notes	972.1	21.8%	904.1	21.0%
VIII. Bank deposits	134.5	3.0%	123.3	2.9%
IX. Other lending	156.9	3.5%	157.9	3.7%
X. Other capital investments	83.3	1.8%	70.7	1.6%
	4,457.8	**100.0%**	**4,312.4**	**100.0%**

The current values of all capital investments total € 4,701 million.



Profit situation The profit situation of the Group improved considerably, with earnings significantly exceeding expectations. Income from normal business activity increased from € 21.3 million to € 27.9 million, or 30.9 percent. The Group's net profit after deduction of minority interests more than quadrupled, to € 12.9 million as opposed to € 3.0 million in the previous year. In all, the comprehensive optimization efforts in all areas of the Group are showing results. The cost ratio was reduced from 34.8 percent to 33.3 percent.

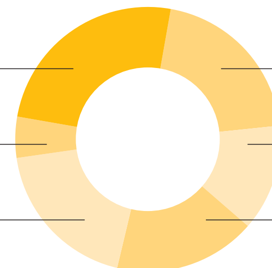
However, the underwriting balance sheet was severely impacted by the high additional costs entailed by the new German attorney fees legislation RVG. The claims ratio increased noticeably, from 64.0 percent to 67.5 percent. The additional costs attributable to RVG necessitated a new, extraordinary transfer to the provision for outstanding claims. In all, an additional € 26.6 million in costs was incurred. The resulting significant reduction in underwriting earnings was accepted as a consequence. This figure dropped to € 8.6 million from the previous year's level of € 22.7 million.

The increase in the Group's net profit was essentially due to a significant improvement in the income from capital investment. This figure rose by 40.4 percent to € 197.8 million from the previous year's level of € 140.9 million.

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

Premiums and sales by segment

(in million euros)



Segments of the ARAG Group

Gross premium revenues		
(in million euros)	2003	**2004**
Total legal insurance	609	**618**

Legal insurance business The core segments of the Group, domestic and international legal insurance, continued to grow in fiscal 2004. Gross premium revenues increased by 1.4 percent overall, from € 609.3 million to € 617.5 million. In the multi-year comparison, the core business has shown continuing growth since 1998, in spite of the difficult situation in the domestic legal insurance market. This trend is driven by the continuing, solid development of the international ARAG subsidiaries.

Underwriting earnings in legal insurance business declined from € 3.0 million to € -18.3 million. This was due in particular to the increased expenditures entailed by greater attorney fees and court costs in the German market. The income from capital investment grew from € 34.0 million to € 54.0 million. Earnings from normal business activity thus increased slightly overall and amounted to € 20.6 million, as opposed to € 17.9 million for the previous year.

Gross premium revenues		
(in million euros)	2003	**2004**
Domestic legal insurance	347	**339**

Domestic legal insurance In its largest segment, German legal insurance, the ARAG Group remains sound, solid and well able to withstand unfavorable developments. For ARAG Allgemeine Rechtsschutz-Versicherungs-AG, the fiscal year under review was most characterized by the significant increase in the cost of claims due to the revised costs legislation, which took effect on 1 July 2004 and which directly impacted the earnings situation.

However, the company was not unprepared for the burdens of RVG. As early as the end of 2003, the company performed a comprehensive revaluation of legal insurance risks with the aim of minimizing profit risks in the insurance portfolio. A drop in premiums was accepted as a consequence. Premiums in self-contracted business dropped by 2.4 percent to € 338.9 million (previous year € 347.3 million). The decline was thus less than anticipated. This is due primarily to the satisfactory development of the brokerage business, which compensated for some of the lost sales.

Underwriting earnings declined from € 2.3 million to € -18.5 million. Once again, the primary drag on this figure was the high transfer to the provision for outstanding insurance claims (deferred claims reserves). The income from capital investment, on the other hand, grew from € 17.8 million to € 38.8 million. Earnings from normal business activity increased accordingly and amounted to € 8.2 million, as opposed to € 3.1 million for the previous year.

Gross premium revenues		
(in million euros)	2003	**2004**
International legal insurance	262	**279**

International legal insurance The legal insurance business on the international markets continued satisfactory throughout fiscal 2004. The segment thus underscores its consistent role as the growth motor of the Group. Premium revenues increased again, by 6.4 percent. This segment thus grew from € 261.9 million to € 278.6 million. An additional € 28.8 million in premium revenues are attributable to the comparable special service package business of ARAG Spain, which was booked under the composite insurance segment. Thus, the total revenues of the international subsidiaries amounted to € 307.4 million. The international subsidiaries thus account for 47 percent of premium revenues in ARAG's core business. As expected, international legal insurance has further reinforced its position as our largest line of business after German legal insurance.

An additional € 36.7 million in premium earnings is attributable to companies in which the ARAG Group holds a minority share. These minority shareholdings are not consolidated and are thus not included in the premium revenues of this segment. International legal insurance continues to operate profitably while posting consistent growth. However, earnings from normal business activity in this segment declined, from € 14.8 million in the previous year to € 12.4 million in the year under review. This was due to an adjustment of claims reserves at one of the international subsidiaries.

Gross premium revenues		
(in million euros)	2003	**2004**
Composite insurance	244	**258**

Composite The composite business, conducted in both the domestic and foreign segments, exceeded its targets, which underscores its important role as an established performer within the ARAG Group. Premium revenues totaled € 257.5 million, as opposed to € 243.8 million in the previous year. The highly successful direct motorist rate "K-Direkt" played a decisive role in the composite business underwritten by ARAG Allgemeine, gaining 35 percent over the fiscal year under review. The brokerage specialist Interlloyd Versicherungs-AG, a wholly owned subsidiary of ARAG Allgemeine, grew its business by a further 17.1 percent and additionally improved its profit over the previous year, making it an important contributor to ARAG Allgemeine's success in the fiscal year under review.

In the sport insurance segment, ARAG Allgemeine expanded its activities beyond Germany's borders. In conjunction with the brokerage partner PontGrup, it has been offering sport insurance in the Spanish market since September 2004. This business focuses entirely on associations, a segment in which ARAG has decades of experience in Germany.

The underwriting account of the composite segment declined slightly. This segment posted a profit for the year of € 7.7 million as compared to a profit of € 8.4 million in the previous year. Earnings from normal business activity fell from € 19.5 million to € 16.6 million.

Gross premium revenues		
(in million euros)	2003	**2004**
Life insurance	245	**235**

ARAG Leben (life insurance) The situation of the Group's personal insurers improved noticeably in 2004. Thanks to its fundamental consolidation program, ARAG Lebensversicherungs-AG, the group's life insurer, achieved important milestones during the fiscal year under review. As expected, the reduction of the surplus participation to 3.25 percent in 2002 resulted in a further drop in premiums. Premiums of € 234.8 million were booked, as against € 245.0 in the previous year. At the beginning of fiscal 2005, the surplus participation was increased to 3.5 percent for new customers. However, clear improvements were already apparent in 2004. In the fiscal year under review, the company eliminated all hidden charges, and as of the day of accounting had formed hidden reserves of € 67 million. The optimization of the risk-return item in capital investments was pursued in a planned, deliberate manner. Capital investments totaling € 2.8 billion generated a net return of € 119.2 million. This represents an increase of 27.5 percent over the previous year's value of € 93.5 million. The net return increased from 3.6 percent to 4.5 percent. A number of optimization actions also contributed to strengthening the subsidiary on the costs side. ARAG Leben succeeded in reducing its administrative costs (excluding commissions) by over 30 percent compared to 2002. Underwriting earnings clearly improved from € 8.0 million to € 14.1 million. Income from normal business activity amounted to € 12.2 million, following earnings of € 5.2 million in the previous year. The subsidiary increased its gross profit 2.4 times, and transferred € 34.5 million, or 92 percent of the gross profit, to profit-dependent reserves for premium rebates.

Gross premium revenues		
(in million euros)	2003	**2004**
Health insurance	165	**177**

ARAG Kranken (health insurance) Our health insurance unit ARAG Krankenversicherungs-AG has also strengthened its solid business base through effective actions. The company occupies a solid position on the market as a high-quality private health insurer, particularly for private supplementary health insurance. In the fiscal year under review, ARAG Kranken's growth again outpaced the market. In spite of its conservative underwriting policy, this unit succeeded in increasing its market share. Booked premiums increased by 7.3 percent over the previous year, from € 164.5 million to € 176.5 million. Although insurance benefits in the year under review increased 7.4 percent over the previous year, ARAG Kranken maintained its pretax profit ratio of 10.9 percent, virtually the same level as in the previous year (11.2 percent). The capital assets managed increased significantly, to € 487.8 million, and generated an income on capital investment of € 20.7 million, as opposed to € 6.8 million in the previous year. The net return increased substantially, from 1.8 percent to 4.6 percent, and is thus significantly greater than the calculatory return. In 2004, ARAG Kranken was completely unencumbered, and has again built up hidden reserves in the two-digit millions. The cost side of ARAG Kranken also benefited from the clear consolidation course. The significantly reduced administrative cost ratio of 2.6 percent is below the industry average. The earnings situation improved noticeably as a consequence of these factors. Underwriting earnings amounted to € 5.2 million, greater than in the previous year (€ 3.6 million). Normal business activities showed a profit of € 4.8 million. Thanks to the strong earnings situation, the company almost doubled its contribution to the reserves for premium rebates, to € 18 million.

Sales revenues		
(in million euros)	2003	**2004**
Service companies	72	**68**

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 segment comprises asset management and housing development companies, as well as wholly owned IT consulting firms. The insurance agency firm Cura GmbH & Co. KG and the Group's call center activities are included here as well. The sales revenues of these non-insurance companies rose by 3.2 percent to € 169.1 million, following € 163.9 million in the previous year. After adjusting for intra-Group revenues of the service companies, consolidated sales amounted to € 68.0 million as opposed to € 71.8 million in 2003. The decline in sales is due primarily to the weakness of the IT services business with external companies as well as the contracting market for housing and business property development. The IT services were unable to decouple themselves from the continued tight technology services market. Due to the restructuring entailed in the optimization program "Impulse ARAG 100", the intra-company sales increased over the previous year.

Employees		
(permanent staff)	2003	2004
Entire Group	4,468	4,306

Employees The number of employees in the ARAG Group was reduced as planned over the course of the fiscal year under review as part of the optimization efforts. As of 31 December 2004, the Group employed a total of 4,306 persons on a permanent basis, as opposed to 4,468 as of 31 December of the previous year. The reduction in staffing primarily affected the domestic insurance subsidiaries, and totaled 161 persons. The number of employees in the international subsidiaries remained virtually unchanged at 1,363. This means that 31 percent of all ARAG employees are employed outside of Germany, a clear reflection of the internationalization of the Group.

Risk report The risks within the insurance industry are classified by risk categories:

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

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

Fiscal year	Claims ratio for self-contracted business, gross, total						Settlement result, self-contracted business		
	Ratio for fy			Balance			in % of initial reserves		
	Legal	Property/ liability/ accident	Domestic, total	Legal	Property/ liability/ accident	Domestic, total	Legal	Property/ liability/ accident	Domestic, total
2004	66.6	59.0	63.6	65.5	55.2	61.5	0.7	4.3	1.7
2003	65.2	67.8	66.2	57.5	45.9	53.1	4.9	20.2	9.4
2002	66.2	74.9	69.4	58.9	66.2	61.5	4.8	8.7	5.9
2001	64.5	65.4	64.8	60.5	60.3	60.4	2.8	5.3	3.4
2000	62.4	67.0	64.0	58.4	51.2	56.0	2.9	17.0	6.6
1999	64.3	67.7	65.4	60.4	55.8	58.8	3.0	13.6	5.7
1998	65.3	68.2	66.3	60.5	51.0	57.4	3.9	19.6	7.9
1997	68.6	71.2	69.5	63.6	57.8	61.6	4.1	16.3	7.2
1996	68.6	69.9	69.0	64.4	61.4	63.5	3.4	11.4	5.3
1995	70.4	68.8	69.9	66.4	61.6	64.9	3.5	10.8	5.2

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 under special consideration of the constant fulfillment of contractual obligations by calculating the premiums and insurance benefits and the corresponding provisions to be made in accordance with recognized actuarial principles under observance of all statutory requirements.

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

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

The development of mortality was studied by a working group of the German association of actuaries, Deutsche Aktuarvereinigung e.V. The conclusions of this study led to an adjustment of the mortality table for pension insurance which will take effect starting in 2005. The actuarial provisions for existing pension insurance policies were reviewed at the end of fiscal 2004 on the basis of the new pension tables, and the resulting subsequent reserve requirements met.

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

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

As of 31 December 2004, receivables in insurance business more than 90 days past due amounted to € 12,551,296. The average default rate for receivables in 2002 through 2004 amounted to 0.55 percent with reference to booked premiums.

Risks from capital investment: As of 31 December 2004, no hidden charges against securities held in capital investment existed in any of the insurance subsidiaries of the Group.

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

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

Scenario	R 10	A 35	RA 25
Bonds	-10%	–	-5%
Stocks	–	-35%	-20%

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

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

The liquidity risk is limited by revolving financial planning which identifies the payment flows in good time and allows them to be matched through asset-liability management. In addition, the high fungibility of our capital investments ensures that these can be liquidated on short notice. Derivative financial instruments are used solely as a hedge against the risk of price and interest rate fluctuations.

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 ARAG Group has installed planning and controlling systems in order to guarantee efficiency and performance. These systems include detailed short, medium and long-term plans and budgets as well as timely information for decision makers.

In particular, operational risks are considered to include the risks arising from the use of technical systems and processes in the Company. The most significant risk is that of partial or complete failure of all information systems. To guard against this risk the Group has implemented numerous technical and organizational safeguards (strict access control, backup and recovery concepts, firewalls etc.); these are reviewed on a regular basis and upgraded as developments warrant.

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

With regard to our risk management activities, the Group regards the continuing development of its risk management system as a significant success factor in achieving its long-term strategic objectives and consolidating and expanding its market position. The asset-liability management system is an integral part of the risk management system.

Other risks: There are no further specific risks or other risks endangering the Company to be reported.

Outlook In the current 2005 fiscal year as well, no clear improvement in the economic situation in Germany is anticipated. Particularly the high level of unemployment dampens domestic demand and contributes to consumer uncertainty. For these reasons, it is not likely that any new stimulus for insurance demand will arise.

In the current fiscal year, the ARAG Group will continue to pursue its successful consolidation course and is facing the future confidently with an ambitious five-year plan. The positive effects of optimized business processes and realized savings potential will become ever greater. The Group also continues to advance its successful optimization efforts. As an extension of this, ARAG will launch a Group-wide initiative “value-based management”. The aim of this initiative is to increase the goodwill of the insurance companies within the ARAG Group under consideration of the profit-risk relation.

Closely related to the “value-based management” initiative is the Group planning, with which ARAG has established a clear entrepreneurial perspective for the period from 2005 to 2009: in these five years, the ARAG Group will grow twice as fast as in the past five years. This means an increase in total premium revenues of 35 percent, from € 1.3 billion to € 1.7 billion by 2009. On the earnings side, our stated aim remains the same: to realize a return on equity after taxes of at least 10 percent.

To achieve these targets, the ARAG Group is investing heavily in enhancing the effectiveness of its German core sales organization. The successfully implemented branch office structure will be expanded significantly in the course of the ARAG Sales Initiative. This will provide all our exclusive representatives, the “ARAG associates”, a new working environment that will free them of administrative burdens and equip them to provide optimum customer service. The new compensation system to be introduced concurrently additionally provides better rewards for the performance of our ARAG associates. In the course of the sales initiative, ARAG will create 400 new jobs for exclusive representatives in its German sales organization over the coming years.

In German legal insurance, ARAG’s core market, the effects of the new attorney fees legislation will finally become apparent in their full extent in 2005. The ARAG Group was able to absorb the initial impact of the cost avalanche set off by the new cost legislation through the proactive realization of savings potential in the course of its optimization program, and through its conservative reserves policy.

The portfolio review in German legal insurance, now nearing completion, will additionally strengthen the profitability of our legal insurance portfolios over the long term. However, we anticipate that the drastic rise in costs will make premium increases inevitable over the medium term.

As an innovative legal insurance specialist, the Group is constantly seeking new ways to offer our customers added value. For instance, as of the beginning of 2005, all legal insurance customers have access to our online legal service with over 600 example contracts and a knowledge base functionality for explanations of legal issues. With this comprehensive service, ARAG has again assumed a pioneer role in the German legal insurance market. The same is true for our online policy generation system. The customer's online application for an insurance policy is processed completely electronically. The customer receives the complete policy by mail, and not just an application form – in contrast to conventional methods.

The ARAG Group continues to pursue its core-area strategy as an internationally diversified legal insurance specialist. The Group planning generates vital momentum for greatly expanding the legal insurance business while increasing profitability – both in Germany and in the international markets.

The composite and personal insurance segments also clearly benefit from the success of the optimization actions in the ARAG Group. Particularly ARAG Leben and ARAG Kranken, which were hard hit by the capital market upheavals of recent years, continue to build up their hidden reserves and are pursuing a thorough program of cost reduction. ARAG Leben has increased its surplus participation for new customers from 3.25 to 3.5 percent. Additionally, this subsidiary plans to introduce a completely new product family at the end of the current year that is ideally tailored to the new German old-age income legislation and tax code revisions. ARAG Kranken will continue to position itself as an attractive, high-quality provider of health insurance services. Thanks to the successful corporate reengineering of the past years, ARAG's health insurer is able to maintain customer premiums essentially unchanged. For our composite insurer ARAG Allgemeine, 2005 promises to be a year of sustained premium growth, due primarily to the further stabilized cross-selling ratio represented by the premium-grade combined legal and property policy "Recht&Heim", the slightly modified "K-Direkt" rate for motorist insurance and the new stimulus of optimized accident insurance products.

In the segment of non-insurance subsidiaries, the ARAG Group divested itself of its IT specialist ALLDATA SYSTEMS, which was acquired by T-Systems in 2005. ARAG no longer sees external IT services as being of strategic interest as an independent line of business, and will in future concentrate on its core competence as an insurer.

On the basis of our optimization achievements, and with our eyes fixed firmly on the objectives of our ambitious Group planning, the ARAG Group is facing the future with confidence and optimism – and our customers, employees and owners will all profit from this. The optimization achievements of the Group will demonstrate their full effect in the current fiscal year. This will improve ARAG's profitability and solvability even further.

Consolidated Financial Statement

ARAG Aktiengesellschaft

Consolidated Financial Statement

Consolidated Balance Sheet as of 31 December 2004

Assets
A. Outstanding contributions to subscribed capital of parent company
B. Intangible assets
1. Costs for start-up and expansion of business activity according to art. 269 (1) sen. 1 HGB
2. Goodwill
3. Other intangible assets
C. Capital investments
I. Real estate, comparable rights and buildings including those on third-party property
II. Capital investments in affiliated companies and shareholdings
1. Shares in affiliated companies
2. Lending to affiliated companies
3. Holdings in associated companies
4. Other holdings
5. Lending to companies with which a shareholding relationship exists
III. Other capital investments
1. Stocks, investment fund shares and other non-fixed interest securities
2. Bearer bonds and other fixed-interest securities
3. Mortgages receivable, other similar rights and fixed-interest debts
4. Other lending
a) Registered debentures
b) Promissory notes and loans
c) Loans and advance disbursements on insurance policies
d) Other lending
5. Bank deposits
6. Other capital investments
IV. Portfolio assets from assumed reinsurance business
D. Capital investments for the account and risk of life insurance policyholders
E. Accounts receivable
I. Accounts receivable for self-contracted insurance business from:
1. Policyholders
a) Claims due
b) Claims not yet due
2. Insurance agents portion from affiliated companies: € 267,114.15 (previous year € 0.00)
II. Settlement receivables from reinsurance business
III. Other accounts receivable portion from affiliated companies: € 4,016,480.12 (previous year € 3,066,613.61) portion from companies with which a shareholding relationship exists: € 763,296.43 (previous year € 561,228.37)
F. Other assets
I. Real estate intended for sale and other assets of non-insurance companies
II. Tangible assets and supplies
III. Current bank balances, checks and cash in hand
IV. Other assets
G. Accrued income
I. Deferred interest and rents
II. Other accrued income
H. Tax deferment item in accordance with art. 306 in conjunction with art. 274 (2) HGB
Total assets

Appendix	in euros	in euros	in euros	2004 in euros	2003 in euros
				149,610,000.00	**149,610,000.00**
29 p.58					
1 p.53			482,957.00		965,913.00
2 p.53			64,781,382.38		73,228,481.62
3 p.53			11,831,787.85		14,073,223.97
				77,096,127.23	**88,267,618.59**
29 p.58					
4 p.53			379,125,868.44		386,111,043.21
5 p.53					
		4,658,454.77			3,906,919.73
		5,192,725.22			4,779,205.92
		35,224,680.09			34,284,674.84
		56,567,022.60			60,535,342.18
		3,216,831.20			3,100,001.00
			104,859,713.88		106,606,143.67
6 p.53		1,985,609,893.12			1,919,806,639.07
6 p.53		345,608,462.68			341,728,912.51
7 p.53		295,759,203.08			302,157,352.01
7 p.53					
	279,193,118.89				188,532,538.61
	692,877,787.62				715,566,128.95
	79,634,930.86				67,331,139.59
	156,948,166.80				157,873,438.82
		1,208,654,004.17			1,129,303,245.97
9 p.53		134,497,109.63			123,273,665.97
7 p.53		293,680.09			293,680.09
			3,970,422,352.77		3,816,563,495.62
			3,358,488.48		3,171,181.59
				4,457,766,423.57	**4,312,451,864.09**
8 p.53				**22,630,366.44**	**19,844,795.49**
10 p.53					
	52,513,608.25				47,286,866.51
	19,692,999.90				18,726,540.70
		72,206,608.15			66,013,407.21
		24,680,425.99			22,942,673.70
			96,887,034.14		88,956,080.91
			17,356,794.35		15,220,455.70
			31,911,274.16		31,710,249.18
				146,155,102.65	**135,886,785.79**
			50,878,491.48		65,896,631.21
11 p.54 12 p.54			27,636,546.20		27,753,962.99
			48,908,620.55		36,277,737.40
13 p.54			30,778,202.89		37,304,660.94
				158,201,861.12	**167,232,992.54**
14 p.54					
			55,326,135.34		49,226,359.05
			4,815,129.91		5,376,175.06
				60,141,265.25	**54,602,534.11**
15 p.54 27 p.56				**6,191,315.67**	**4,021,885.88**
				5,077,792,461.93	**4,931,918,476.49**

Consolidated Balance Sheet as of 31 December 2004

Liabilities
A. Equity
I. Subscribed capital
II. Revenue reserves
1. Statutory reserves
2. Other revenue reserves
3. Currency exchange rate reserves
4. Difference according to art. 309 (1) HGB
III. Group profit/loss
1. Group net profit
IV. Balancing item for shares of other shareholders
B. Difference from consolidation of capital
C. Special reserve item
D. 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
E. 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	2004 in euros	2003 in euros
30 p. 60				
		200,000,000.00		200,000,000.00
	343,538.01			0.00
	127,926,338.34			128,976,770.45
	0.00			0.00
	-45,837,733.99			-45,730,337.23
		82,432,142.36		83,246,433.22
	12,901,455.75			2,976,884.75
		12,901,455.75		2,976,884.75
		22,249,259.03		19,617,350.75
			317,582,857.14	**305,840,668.72**
31 p. 62			**13,888,174.44**	**13,888,173.97**
16 p. 54 32 p. 63			**244,990.50**	**944,337.87**
17 p. 54				
	209,237,943.94			218,806,621.90
	-6,928,003.71			-11,893,104.90
		202,309,940.23		206,913,517.00
18 p. 54				
	2,709,510,655.89			2,649,630,400.78
	-70,881,996.00			-73,947,906.00
		2,638,628,659.89		2,575,682,494.78
19 p. 55				
	1,067,167,339.73			1,032,386,574.16
	-42,231,553.38			-59,887,241.02
		1,024,935,786.35		972,499,333.14
		183,859,581.85		153,294,798.43
20 p. 55		72,875,140.00		65,203,518.00
21 p. 56				
	7,459,344.19			8,168,119.94
	0.00			-258,327.66
		7,459,344.19		7,909,792.28
			4,130,068,452.51	**3,981,503,453.63**
		973,675.09		622,732.74
		21,656,691.35		19,222,062.75
			22,630,366.44	**19,844,795.49**
			4,484,414,841.03	**4,322,021,429.68**

Consolidated Balance Sheet as of 31 December 2004

Liabilities
Carryover:
F. 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
G. Portfolio liabilities for reinsured insurance business
H. Other liabilities
I. Liabilities for self-contracted insurance business to:
1. Policyholders
2. Insurance agents portion to affiliated companies: € 0.00 (previous year € 30,529.53)
II. Settlement liabilities from reinsurance business
III. Debts to banks
IV. Other liabilities portion from taxes: € 17,422,326.60 (previous year € 19,194,170.15) portion attributable to social security: € 3,944,094.46 (previous year € 4,291,459.24) portion to affiliated companies: € 1,668,142.64 (previous year € 1,414,530.90) portion to companies with which a shareholding relationship exists: € 1,201,680.89 (previous year € 1.218.643.55)
I. Deferred liabilities
Total liabilities

Appendix	in euros	in euros	2004 in euros	2003 in euros
			4,484,414,841.03	**4,322,021,429.68**
22 p. 56		161,883,877.18		157,138,827.46
		17,093,891.37		28,432,687.22
27 p. 56		0.00		0.00
23 p. 56		72,770,649.97		86,760,822.99
			251,748,418.52	**272,332,337.67**
24 p. 56			**79,616,765.28**	**81,887,749.81**
24 p. 56				
25 p. 56				
	93,364,442.64			101,025,766.10
	26,315,815.83			23,709,306.94
		119,680,258.47		124,735,073.04
25 p. 56		1,872,558.90		828,011.44
		63,863,147.49		56,719,893.94
		71,374,950.71		67,351,922.26
			256,790,915.57	**249,634,900.68**
26 p. 56			**5,221,521.53**	**6,042,058.65**
			5,077,792,461.93	**4,931,918,476.49**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2004

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

Appendix	in euros	in euros	2004 in euros	2003 in euros
28 p. 57	874,935,394.74			853,072,865.02
	-23,313,105.77			-21,310,933.51
		851,622,288.97		831,761,931.51
	3,365,093.37			-2,914,020.47
	53,525.00			-65,197.00
		3,418,618.37		-2,979,217.47
			855,040,907.34	**828,782,714.04**
			494,072.00	**434,858.01**
			2,441,480.67	**2,420,948.54**
	468,609,827.37			466,335,214.06
	-10,538,507.32			-12,355,636.83
		458,071,320.05		453,979,577.23
	48,608,250.05			-8,533,486.61
	3,071,208.64			14,916,876.58
		51,679,458.69		6,383,389.97
			509,750,778.74	**460,362,967.20**
		62.00		-1,436.00
		425,375.09		4,854.26
			425,437.09	**3,418.26**
35 p. 64			**4,136.00**	**0.00**
34 p. 64				
		359,231,053.48		355,392,215.18
		-8,931,647.73		-5,641,009.12
			350,299,405.75	**349,751,206.06**
			1,371,367.41	**858,039.08**
			-3,023,790.80	**20,669,726.51**
			-7,671,622.00	**-9,195,071.00**
			-10,695,412.80	**11,474,655.51**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2004

Item
II. Underwriting account for life and health insurance business
1. Earned premiums for own account
a) Gross premiums booked
b) Premiums for reinsured business
c) Change in gross unearned premiums
d) Change in reinsurers' portion of gross unearned premiums
2. Premiums from gross reserve for premium rebates
3. Earnings from capital investments
a) Earnings from shareholdings
b) Earnings from associated companies
c) Earnings from other capital investments portion from affiliated companies: € 45,303.11 (previous year € 16,688.06)
ca) Income from real estate, comparable rights and buildings including those on third-party property
cb) 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
ab) Reinsurers' portion
b) Change in provision for outstanding claims
ba) Gross amount
bb) Reinsurers' portion
7. Change in other net underwriting reserves
a) Net actuarial provision
aa) Gross amount
ab) 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: € 6,578,424.14 (previous year € 110,256,948.98)
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	2004 in euros	2003 in euros
28 p. 57	411,242,931.75			409,485,181.43
	-7,385,827.40			-7,113,995.83
		403,857,104.35		402,371,185.60
	1,038,673.52			770,666.76
	68,080.13			-1,095,667.13
		1,106,753.65		-325,000.37
			404,963,858.00	402,046,185.23
			4,363,963.85	10,250,514.49
		2,683,356.43		1,892,800.36
		1,788,776.87		2,998,645.65
	14,481,823.96			16,039,614.73
	129,072,062.69			134,029,198.89
		143,553,886.65		150,068,813.62
		9,690,670.46		348,689.89
		2,707,663.08		68,578,663.78
		0.00		0.00
			160,424,353.49	223,887,613.30
33 p. 64			2,019,688.20	1,890,164.23
			657,577.15	716,565.85
	349,174,850.79			337,018,126.63
	-10,430,000.79			-8,601,065.59
		338,744,850.00		328,417,061.04
	-1,512,609.30			1,396,028.33
	32,017.08			-634,850.45
		-1,480,592.22		761,177.88
			340,225,442.22	327,655,883.16
	-60,231,259.46			-66,989,370.41
	-3,065,910.00			-140,711.70
		-63,297,169.46		-67,130,082.11
		-1,941,075.61		-1,941,037.90
			-65,238,245.07	-69,071,120.01
35 p. 64			52,874,551.87	22,948,003.76
34 p. 64				
	55,767,902.36			62,469,967.65
	15,348,738.77			17,823,770.14
		71,116,641.13		80,293,737.79
		-1,519,858.02		-1,891,631.36
			69,596,783.11	78,402,106.43
		9,278,905.89		9,662,091.05
		10,771,209.43		113,743,774.58
		427,858.52		507,998.98
			20,477,973.84	123,913,864.61
			0.00	0.03
			4,699,020.33	5,556,202.98
			19,317,424.25	11,243,862.12

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2004

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: € 1,159,665.00 (previous year € 1,064,266.43)
b) Earnings from associated companies
c) Earnings from other capital investments portion from affiliated companies: € 298,188.35 (previous year € 80,210.34)
ca) Income from real estate, comparable rights and buildings including those on third-party property
cb) 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: € 10,471,196.53 (previous year € 25,143,939.70)
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: € 6,096,446.28 (previous year € 4,109,192.00)
9. Non-underwriting result
10. Income from normal business activity
11. Taxes on income and earnings
12. Other taxes
13. Profit/loss for year before minority interests
14. Profit attributable to other shareholders
15. Loss attributable to other shareholders
16. Net income

				2004	**2003**
	in euros	in euros	in euros	in euros	in euros
			-10,695,412.80		11,474,655.51
			19,317,424.25		11,243,862.12
				8,622,011.45	**22,718,517.63**
		1,263,528.83			1,203,006.65
		1,998,949.72			1,099,090.71
	13,512,252.79				15,190,073.72
	65,625,543.30				56,585,503.75
		79,137,796.09			71,775,577.47
		4,814,327.77			1,282,297.88
		2,900,880.84			5,533,473.35
		0.00			0.00
			90,115,483.25		80,893,446.06
		11,040,078.79			8,362,892.02
		19,127,253.91			30,892,695.58
		1,628,947.11			344,156.27
		0.00			0.00
		0.00			0.00
			31,796,279.81		39,599,743.87
				58,319,203.44	**41,293,702.19**
				-494,072.00	**-434,858.01**
				67,970,495.14	**71,825,799.99**
				-72,944,591.45	**-74,726,351.70**
			28,650,760.14		31,843,715.99
			62,225,608.05		71,201,922.83
				-33,574,847.91	**-39,358,206.84**
				19,276,187.22	**-1,399,914.37**
				27,898,198.67	**21,318,603.26**
			11,594,682.44		15,305,938.41
			773,332.79		1,338,356.95
				12,368,015.23	**16,644,295.36**
				15,530,183.44	**4,674,307.90**
			-4,217,333.85		-2,656,871.02
			1,588,606.16		959,447.87
				-2,628,727.69	**-1,697,423.15**
				12,901,455.75	**2,976,884.75**

Statement of Consolidated Cash Flow for Fiscal Year 2004

	2004 in euros	2003 in euros
I. Cash flow from current business		
Net income	15,530,183	4,674,308
Change in net underwriting reserves	151,350,570	81,327,439
Change in portfolio assets and liabilities and settlement assets and liabilities	-3,550,083	-2,645,075
Change in other receivables and payables	-2,020,511	-21,715,238
Profit/loss from sale of capital investments	-3,551,738	-73,259,982
Changes in other assets and liabilities	-9,822,806	928,007
Depreciation on intangible assets	13,860,660	11,898,184
Write-downs on capital investments	29,898,463	144,636,470
Write-ups on capital investments	-14,504,998	-1,630,988
Changes in special reserve item	-699,347	-5,235,956
Effects of currency exchange rates	2,072,069	6,029,038
Cash flow from current business	**178,562,462**	**145,006,207**
II. Cash flow from investment activities		
Payments received from sale of consolidated companies and other business units	0	0
Disbursements for purchase of consolidated companies and other business units	0	0
Payments received from sale and maturity of other capital investments	699,818,493	1,529,961,492
Disbursements for the purchase of other capital investments	-858,419,495	-1,671,040,181
Other payments received	1,245,018	24,485
Other disbursements	-4,375,595	-8,663,610
Cash flow from investment activities	**-161,731,579**	**-149,717,814**
III. Cash flow from financing activities		
Shareholder contributions	0	10,000,000
Disbursements to company owners and minority shareholders	0	0
Dividend payments	-4,200,000	-4,200,000
Payments and disbursements from other financing activities	0	0
Cash flow from financing activities	**-4,200,000**	**5,800,000**
Effective changes in cash reserves	**12,630,884**	**1,088,393**
Cash reserves at start of fiscal year	36,277,737	35,189,344
Cash reserves at end of fiscal year	48,908,621	36,277,737
Change in cash reserves in fiscal year	**12,630,884**	**1,088,393**

Segment Reporting

This segment reporting has been largely adapted to conform with applicable German regulatory requirements and accounting standards ("Deutscher Rechnungslegungsstandard DRS 3-20 des Deutschen Standardisierungsrates", DSR).

The segment figures are represented after consolidation of internal transactions within the respective line of business. The relationship to the consolidated value is shown by the information in the column "Consolidation".

The definition of segments by strategic lines of business was undertaken according to the internal organization and management structure of the ARAG Group. The chosen segments reflect the risks and opportunities of the Group.

The individual Group subsidiaries in the segments "life insurance" and "services and asset management" were in some cases categorized differently from the previous year.

The strategic lines of business are:

- Domestic legal insurance
- International legal insurance
- Domestic composite insurance
- International composite insurance
- Life insurance
- Health insurance
- Services and asset management

In addition to the top-level parent company and the other asset-managing intermediate holding companies, the service and asset management companies include our real estate companies, IT enterprises and insurance support service companies.

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

Segment Reporting – Balance Sheet

(in thousand euros)	Domestic legal insurance		International legal insurance		Domestic composite insurance		International composite insurance	
	2004	2003	2004	2003	2004	2003	2004	2003
A. Intangible assets	**590**	**653**	**6,606**	**35,300**	**789**	**1,849**	**0**	**0**
B. Capital investments	**1,104,204**	**1,058,522**	**324,572**	**295,978**	**418,280**	**357,538**	**12,595**	**11,770**
I. Real estate and buildings including those on third-party property	110,279	132,461	16,635	13,783	41,676	44,179	0	0
II. Capital investments in affiliated companies and shareholdings	332,731	273,157	3,345	2,498	78,962	39,207	75	0
III. Other capital investments	661,194	652,904	301,234	276,526	297,634	274,144	12,528	11,770
IV. Portfolio assets from assumed reinsurance business	0	0	3,358	3,171	8	8	-8	0
C. Capital investments for the account and risk of life insurance policyholders	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
D. Other assets by segment	**40,131**	**59,946**	**91,299**	**93,250**	**33,076**	**27,633**	**3,750**	**4,119**
Total segment assets*	**1,144,925**	**1,119,121**	**422,477**	**424,528**	**452,145**	**387,020**	**16,345**	**15,889**
A. Underwriting reserves	**646,562**	**631,873**	**303,710**	**285,810**	**293,687**	**275,077**	**13,373**	**9,863**
I. Unearned premiums	77,278	87,728	82,907	76,380	28,801	34,712	6,728	5,424
II. Actuarial provision	0	0	0	0	6	6	0	0
III. Provision for outstanding claims	570,137	545,636	221,400	209,403	230,408	233,421	4,221	4,439
IV. Reserve for premium rebates	0	0	4	0	0	0	0	0
V. Fluctuation provision	1,253	0	0	0	71,622	65,204	0	0
VI. Other underwriting reserves	1,362	2,302	307	851	3,168	4,792	2,424	0
VII. Reinsurers' share of underwriting reserves	-3,468	-3,793	-908	-824	-40,318	-63,058	0	0
B. Underwriting reserves in the life insurance segment, to the extent that the investment risk is borne by the policyholders	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
C. Other liabilities by segment	**166,141**	**201,778**	**55,848**	**53,010**	**41,383**	**37,823**	**861**	**718**
Total segment liabilities	**812,703**	**833,651**	**359,558**	**338,820**	**335,070**	**312,900**	**14,234**	**10,581**
Equity**								
Total liabilities								

* Excluding outstanding contributions to the subscribed capital of € 149,610k.
** Equity of the Group including shares of other shareholders and difference from capital consolidation minus outstanding contributions of subscribed capital.

Life insurance		Health insurance		Services and asset management		Consolidation		Group	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
1,551	15,492	294	30,647	8,184	4,326	59,082	0	77,096	88,267
2,781,815	2,524,560	487,769	420,181	341,630	272,955	-1,013,099	-629,052	4,457,766	4,312,452
194,537	218,718	2,949	3,068	9,424	7,821	3,626	-33,918	379,126	386,112
373,172	117,773	18,197	17,839	305,539	235,182	-1,007,161	-579,050	104,860	106,606
2,214,106	2,188,069	466,623	399,274	26,667	29,952	-9,564	-16,076	3,970,422	3,816,563
0	0	0	0	0	0	0	-8	3,358	3,171
22,630	19,845	0	0	0	0	0	0	22,630	19,845
99,725	102,033	12,510	13,465	90,547	124,578	-348	-63,280	370,690	361,744
2,905,721	2,661,930	500,573	464,293	440,361	401,859	-954,365	-692,332	4,928,182	4,782,308
2,397,336	2,369,897	475,400	408,985	0	0	0	0	4,130,068	3,981,505
13,103	14,128	421	435	0	0	0	0	209,238	218,807
2,291,244	2,284,899	418,261	364,725	0	0	0	0	2,709,511	2,649,630
14,398	12,839	26,603	26,649	0	0	0	0	1,067,167	1,032,387
153,810	136,225	30,045	17,070	0	0	1	0	183,860	153,295
0	0	0	0	0	0	0	0	72,875	65,204
128	117	70	106	0	0	0	0	7,459	8,168
-75,347	-78,311	0	0	0	0	-1	0	-120,042	-145,986
22,630	19,845	0	0	0	0	0	0	22,630	19,845
201,428	233,413	8,671	11,837	127,336	148,741	-8,045	-76,481	593,623	610,839
2,621,394	2,623,155	484,071	420,822	127,336	148,741	-8,045	-76,481	4,746,321	4,612,189
								181,861	170,119
								4,928,182	4,782,308

Segment Reporting – Statement of Profit and Loss

(in thousand euros)	Domestic legal insurance		International legal insurance		Domestic composite insurance		International composite insurance	
	2004	2003	2004	2003	2004	2003	2004	2003
Underwriting earnings								
Gross premiums booked	**338,867**	**347,360**	**278,642**	**261,931**	**228,677**	**219,347**	**28,750**	**24,512**
Self-contracted business	338,867	347,338	218,331	205,380	224,827	215,389	17,664	14,410
Assumed business	0	22	60,311	56,551	3,850	3,958	11,086	10,102
Premiums for reinsured business	-2,001	-2,292	-249	-420	-20,732	-18,599	-331	-77
Change in net unearned premiums	10,340	2,871	-5,161	-6,050	916	968	-2,676	-768
Earned premiums for own account	**347,206**	**347,939**	**273,232**	**255,461**	**208,861**	**201,716**	**25,743**	**23,667**
Premiums from gross reserve for premium rebates	0	0	0	0	0	0	0	0
Assigned capital gains from underwriting account	0	0	0	0	494	435	0	0
Unrealized gains from capital investments	0	0	0	0	0	0	0	0
Other underwriting earnings for own account	1,893	1,934	105	85	443	402	0	0
Total underwriting earnings	**349,099**	**349,873**	**273,337**	**255,546**	**209,798**	**202,553**	**25,743**	**23,667**
Underwriting costs								
Cost of claims for own account	-228,449	-200,563	-146,399	-139,996	-120,549	-105,311	-14,355	-14,493
Change in other net underwriting reserves	940	180	83	-77	1,365	-99	-1,963	0
Costs for premium rebates	0	0	-4	0	0	0	0	0
profit-dependent portion	0	0	0	0	0	0	0	0
profit-independent portion	0	0	-4	0	0	0	0	0
Unrealized losses from capital investments	0	0	0	0	0	0	0	0
Cost of insurance business	-139,847	-147,141	-125,400	-117,340	-77,798	-79,871	-7,254	-5,456
portion attributable to cost of sales	-43,308	-52,496	-85,815	-66,009	-19,198	-44,315	-3,884	-3,000
portion attributable to administrative costs	-97,228	-95,576	-39,628	-51,376	-66,757	-40,219	-3,412	-2,474
reinsurance portion	689	931	43	45	8,157	4,663	42	18
Assigned capital costs from underwriting account	0	0	0	0	0	0	0	0
Other underwriting costs for own account	-289	0	-83	0	-904	-858	0	0
Total underwriting costs	**-367,645**	**-347,524**	**-271,803**	**-257,413**	**-197,886**	**-186,139**	**-23,572**	**-19,949**
Subtotal	**-18,546**	**2,349**	**1,534**	**-1,867**	**11,912**	**16,414**	**2,171**	**3,718**
Change in fluctuation reserve and similar provisions	0	0	-1,253	2,511	-6,419	-11,706	0	0
Underwriting result for own account	**-18,546**	**2,349**	**281**	**644**	**5,493**	**4,708**	**2,171**	**3,718**
Earnings from capital investments	58,180	60,134	18,136	18,157	14,303	15,670	590	629
Costs of capital investments	-19,413	-42,316	-2,940	-1,981	-3,735	-3,782	-18	-25
Income from capital investments	**38,767**	**17,818**	**15,196**	**16,176**	**10,568**	**11,888**	**572**	**604**
Capital investment operating result assigned to underwriting account	0	0	0	0	494	435	0	0
Sales revenues	0	0	0	0	0	0	0	0
Production costs	0	0	0	0	0	0	0	0
Gross operating result	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other earnings	84,275	77,364	1,145	1,391	4,620	4,178	0	0
Other costs	-96,282	-94,387	-4,205	-3,406	-6,284	-5,140	0	0
Other income	**-12,007**	**-17,023**	**-3,060**	**-2,015**	**-1,664**	**-962**	**0**	**0**
Income from normal business activity	**8,214**	**3,144**	**12,417**	**14,805**	**13,903**	**15,199**	**2,743**	**4,322**
Extraordinary operating result	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Operating result before taxes	**8,214**	**3,144**	**12,417**	**14,805**	**13,903**	**15,199**	**2,743**	**4,322**
Tax expenditure	5,760	-2,939	-7,034	-5,842	-8,040	-282	-960	-1,664
Net income	**13,974**	**205**	**5,383**	**8,963**	**5,863**	**14,917**	**1,783**	**2,658**
Minority interests	0	0	0	0	0	0	0	0
Group profit/loss for year	**13,974**	**205**	**5,383**	**8,963**	**5,863**	**14,917**	**1,783**	**2,658**

Life insurance		Health insurance		Services and asset management		Total		Consolidation		Group	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
234,790	245,004	176,453	164,481	0	0	1,286,179	1,262,635	0	-76	1,286,179	1,262,559
234,790	245,004	176,453	164,481	0	0	1,210,932	1,192,002	0	2	1,210,932	1,192,004
0	0	0	0	0	0	75,247	70,633	0	-78	75,247	70,555
-6,581	-6,309	-805	-805	0	0	-30,699	-28,502	0	76	-30,699	-28,426
1,092	-336	14	11	0	0	4,525	-3,304	0	0	4,525	-3,304
229,301	238,359	175,662	163,687	0	0	1,260,005	1,230,829	0	0	1,260,005	1,230,829
2,817	441	1,547	9,810	0	0	4,364	10,251	0	0	4,364	10,251
138,820	206,328	21,525	20,161	0	0	160,839	226,924	79	-2,602	160,918	224,322
2,020	1,890	0	0	0	0	2,020	1,890	0	0	2,020	1,890
414	485	244	232	0	0	3,099	3,138	0	0	3,099	3,138
373,372	447,503	198,978	193,890	0	0	1,430,327	1,473,032	79	-2,602	1,430,406	1,470,430
-242,127	-236,358	-98,098	-91,298	0	0	-849,977	-788,019	0	0	-849,977	-788,019
-11,737	-15,150	-53,501	-53,921	0	0	-64,813	-69,067	0	0	-64,813	-69,067
-34,483	-13,858	-18,392	-9,090	0	0	-52,879	-22,948	0	0	-52,879	-22,948
-34,483	-13,858	-14,829	-7,638	0	0	-49,312	-21,496	0	0	-49,312	-21,496
0	0	-3,563	-1,452	0	0	-3,567	-1,452	0	0	-3,567	-1,452
0	0	0	0	0	0	0	0	0	0	0	0
-47,190	-55,981	-22,407	-22,485	0	0	-419,896	-428,274	0	120	-419,896	-428,154
-37,861	-44,719	-17,907	-17,751	0	0	-207,973	-228,290	0	18	-207,973	-228,272
-10,850	-13,154	-4,500	-4,734	0	0	-222,375	-207,533	0	120	-222,375	-207,413
1,521	1,892	0	0	0	0	10,452	7,549	0	-18	10,452	7,531
-19,628	-112,821	-831	-13,330	0	0	-20,459	-126,151	-18	2,237	-20,477	-123,914
-4,126	-5,375	-573	-181	0	0	-5,975	-6,414	-95	0	-6,070	-6,414
-359,291	-439,543	-193,802	-190,305	0	0	-1,413,999	-1,440,873	-113	2,357	-1,414,112	-1,438,516
14,081	7,960	5,176	3,585	0	0	16,328	32,159	-34	-245	16,294	31,914
0	0	0	0	0	0	-7,672	-9,195	0	0	-7,672	-9,195
14,081	7,960	5,176	3,585	0	0	8,656	22,964	-34	-245	8,622	22,719
138,820	206,328	21,525	20,161	2,807	4,535	254,361	325,614	-3,821	-20,834	250,540	304,780
-19,628	-112,821	-831	-13,330	-5,986	-901	-52,551	-175,156	277	11,643	-52,274	-163,513
119,192	93,507	20,694	6,831	-3,179	3,634	201,810	150,458	-3,544	-9,191	198,266	141,267
119,192	93,507	20,694	6,831	0	0	140,380	100,773	60	-365	140,440	100,408
1	0	0	0	169,076	163,906	169,077	163,906	-101,107	-92,080	67,970	71,826
-578	0	0	0	-181,796	-163,602	-182,374	-163,602	109,429	88,875	-72,945	-74,727
-577	0	0	0	-12,720	304	-13,297	304	8,322	-3,205	-4,975	-2,901
3,065	16,376	457	617	9,160	13,256	102,722	113,182	-74,071	-81,340	28,651	31,842
-4,346	-19,149	-843	-879	-7,013	-17,836	-118,973	-140,797	56,747	69,596	-62,226	-71,201
-1,281	-2,773	-386	-262	2,147	-4,580	-16,251	-27,615	-17,324	-11,744	-33,575	-39,359
12,223	5,187	4,790	3,323	-13,752	-642	40,538	45,338	-12,640	-24,020	27,898	21,318
0	0	0	0	1,717	0	1,717	0	-1,717	0	0	0
12,223	5,187	4,790	3,323	-12,035	-642	42,255	45,338	-14,357	-24,020	27,898	21,318
-689	-1,725	-1,771	-2,323	588	-4,233	-12,146	-19,008	-222	2,364	-12,368	-16,644
11,534	3,462	3,019	1,000	-11,447	-4,875	30,109	26,330	-14,579	-21,656	15,530	4,674
0	0	0	0	0	0	0	0	-2,629	-1,697	-2,629	-1,697
11,534	3,462	3,019	1,000	-11,447	-4,875	30,109	26,330	-17,208	-23,353	12,901	2,977

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

Legal basis for preparation of the consolidated financial statement The year-end consolidated financial statement of ARAG Aktiengesellschaft for fiscal 2004 and the Group management report were prepared according to the provisions of the German Commercial Code (HGB) for large corporations, under observance of the supplementary requirements for insurance companies promulgated 8 November 1994 (RechVersV) under particular consideration of the accounting regulations for conglomerates as set forth in art. 341i, 341j HGB and art. 58 to 60 RechVersV as well as the German accounting standards ("Deutsche Rechnungslegungsstandards") (applicable as principles of orderly accounting within the meaning of art. 342 (2) HGB). The latter were applied insofar as the necessary information could be obtained under consideration of economy and internally set deadlines.

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

Scope of consolidation The consolidated financial statement reports on 55 subsidiaries in accordance with art. 301 (1) HGB. Four companies within the scope of consolidation were included as associated companies within the meaning of art. 311 HGB.

The consolidation scope comprises 15 insurance companies, three service enterprises in the field of information technology and business organization, 14 real estate management companies, 19 miscellaneous service companies and nine holding and asset management companies (including the top-level parent company).

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

The following companies were included as Group subsidiaries:

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

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

The following companies were included as associated companies:

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

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

	Name of company	Group share in %	Equity in euros	Profit/loss for year in euros
1	ABRAL Beteiligungsverwaltung GmbH, Munich	79.35	131,436.45	17,310.48
2	Agencia de Seguros Cap. ARAG S.A., Barcelona/Spain	94.93	60,110.00	4,054.23
3	ALVA Aktiengesellschaft, Munich	79.35	298,962.18	26,606.61
4	ARAG-pojišt'ovna právní ochrany a.s., Prague/Czech Republic	94.93	856,173.14	-444,728.64
5	ARAG International B.V., Leusden/Netherlands	94.74	23,983.00	334.00
6	ARAG Jogvédelmi Biztosító Részvénytársaság, Budapest/Hungary	94.93	1,971,464.03	-254,206.94
7	ARAG Service S.R.L., Verona/Italy	93.98	88,767.00	9,724.00
8	ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison/France	94.93	20,947.22	-8,197.16
9	ARCA-A GmbH, Munich	79.35	24,341.51	466.78
10	ARCA-B GmbH, Munich	79.35	24,339.77	466.78
11	ARCA-C GmbH, Munich	79.35	24,128.98	259.01
12	ARCA-D GmbH, Munich	79.35	24,341.51	466.78
13	ARCA-E GmbH, Munich	79.35	24,352.47	466.78
14	ARCA-F GmbH, Munich	79.35	24,334.57	466.78
15	ARCA-G GmbH, Munich	79.35	24,346.00	466.78
16	ARCA-H GmbH, Munich	79.35	24,345.99	466.78
17	ARCA-I GmbH, Munich	79.35	24,451.98	466.78
18	ARCA-J GmbH, Munich	79.35	24,116.94	224.14
19	ARCANSA Beteiligungsverwaltung GmbH (formerly ARCAP Beteiligungsverwaltungs-Gesellschaft mbH), Munich	79.35	301,058.99	69,483.62
20	BuZ Vermittlungsgesellschaft mbH, Munster	79.35	-1,212,167.99	127,879.50
21	INTERIURA Deutschland GmbH, Dusseldorf	94.93	457,941.42	203,144.89
22	INTERIURA-Italy s.r.l., Verona/Italy	94.94	346,806.00	8,549.00
23	INTERIURA Polska Spólka z organiczona odpowiedzialnoscia, Wroclaw/Poland	94.93	6,726.76	15,276.38
24	INTERIURA Magyarország Nemzetközi Kárrendezési Kft., Budapest/Hungary	91.76	33,085.77	21,817.08

25	INTERIURA Schadenregulierungs-AG, Basel/Switzerland	94.93	245,642.25	-223,963.06
26	INTERIURA Schadenregulierungsges. mbH, Vienna/Austria	94.93	724,798.73	123,253.00
27	INTERIURA Sociedade Internacional Reguladore de Sinistros Lda., Lisbon/Portugal	94.93	31,090.99	5,734.75
28	INTERIURA United Kingdom Limited, Manchester/Great Britain	94.93	-92,013.60	12,193.55
29	INTERIURA-Belgium s.p.r.l., Brussels/Belgium	94.81	599,877.78	-6,413.65
30	INTERIURA-FRANCE S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison/France	94.93	196,516.94	-69,112.95
31	INTERIURA-INTERRECHT S.A., Barcelona/Spain	94.93	1,428,370.05	478,081.64
32	INTERIURA-Nederland Schadenregeluigsbureau B.V., Leusden/Netherlands	94.93	132,980.00	22,221.00
33	INTERJURA Internationale Schadenregulierungsgesellschaft mbH, Athens/Greece	94.84	20,580.25	5,918.64
34	Prinzregent Vermögensverwaltung-GmbH, Munich	79.35	25,788.74	2,150.09
35	Stella Gesellschaft mbH Werbeagentur, Dusseldorf	54.61	148,306.24	71,612.46
36	VIA Beratungsgesellschaft mbH, Dusseldorf	92.61	401,356.88	12,660.59

Consolidation principles The consolidated financial statement was prepared on the basis of the individual financial statements of the respective subsidiaries. The fiscal year comprises the period from 1 January to 31 December 2004 and is identical to all fiscal years of the subsidiaries involved. The consolidation of capital was undertaken using the book-value method through offsetting of the acquisition costs of the shareholdings of the subsidiaries involved with their proportional equity as of the date they were first selected for consolidation. The resulting asset-side difference was initially attributed to the valuations of the assets of the respective subsidiaries. The asset-side difference that exceeds the permissible attribution was in all cases stated as the goodwill and depreciated over the anticipated period of use (Art. 309 (1) sen. 1 HGB, German Commercial Code). Insofar as subsidiaries were included in the 1989 consolidated financial statement under application of art. 27 EGHGB (Introductory Law to German Commercial Code), or the asset-side difference represents a loss that was reflected in previous years' financial statements of the parent company, or a charge against future revenues appeared unjustified, an open offsetting against the revenue reserves was performed as per art. 309 (2) sen. 3 HGB.

The final consolidation of the subsidiaries eliminated from the consolidation scope is always performed so as to be income-relevant by setting the proportional equity sold against the sale proceeds. In the fiscal year under review, the final consolidation of ARAG BAVARIA INVESTMENT CORPORATION, Seattle, USA, was effected, as the liquidation of this entity was concluded during fiscal 2004. The subsidiaries Einhorn Grundbesitz Kommanditgesellschaft mbH & Co. KG and SECTOR Dritte Grundbesitz GmbH & Co. KG were dissolved without liquidation in the fiscal year under review and thus have been eliminated from the scope of consolidation.

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

Currency conversion The financial statements prepared in foreign currencies were converted into euros using the reporting-date principle on the basis of the mean exchange rate as of the date of accounting. Conversion from currencies which belong to the unified euro currency zone as of 1 January 1999 resp. 1 January 2001 was performed using the official euro exchange rates. The difference between the historical exchange rate and the equity converted at the lower date of accounting exchange rate that is attributable to the Group was stated as costs in the amount of € 853,751.55. A non-income relevant offsetting against currency reserves formed in the past was not possible due to the ongoing trends in the euro exchange rates. DRS 14 was not applied as this was not sufficiently practical.

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

1 **Costs for start-up and expansion of business activity** were capitalized according to art. 269 HBG (German Commercial Code) due to investments of the personal insurance segment in IT systems to handle new retirement policies ("Riester Rente"). This capitalization is depreciated in accordance with art. 282 HGB.

2 **Goodwill** arises from the capital consolidation. 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.

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

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

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

Lending to affiliated companies is stated at par value.

6 **Stocks, investment fund shares, bearer bonds and other fixed-interest securities** are always valued in accordance with art. 341b (2) HGB 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, a write-down on the value to be reported was taken in the amount of € 5,078,567.78 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. In addition, extraordinary write-downs of € 4,418,800.48 were necessitated due to the long-term nature of the loss in value. All hidden charges have thus been completely eliminated. Valuation reserves in the amount of € 52.5 million exist.

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

8 **Capital 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 E.

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

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

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

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

13 Other assets are stated at par value.

14 Accrued income mainly includes deferred interest not yet payable in the period of income up to the day of accounting as well as disbursements that are payable as expenses after the date of accounting. This item also contains € 1,253,554.60 from the difference determined according to art. 341c (2) sen. 2 HGB.

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

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

17 Gross unearned premiums for the self-contracted insurance business are calculated on the basis of booked premiums and cancellations using the pro rata temporis method and reduced by the charges for installments contained therein. The unearned premiums of the domestic insurance subsidiaries are reduced by the portion ineligible for carrying forward in accordance with the memorandum of the German Finance Ministry of 30 April 1974. 85 percent of agent commissions and other compensation is classified as non-transferable parts of the revenues.

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

18 The actuarial provision is calculated individually in conformance with art. 341f HGB in accordance with actuarial principles, which (insofar as is mandatory) are registered with the BaFin (German Federal Financial Supervisory Authority), on the basis of the respective policy data. Studies of the German association of actuaries Deutsche Aktuarvereinigung (DAV) with respect to life expectancy trends reveal that the current mortality table is no longer appropriate for determining pension

insurance reserves. Under consideration of the individual cancellation and capital settlement probabilities of the subsidiaries, the actuarial provision for the entire portfolio of deferred and current pension insurance policies was recalculated using the modified mortality tables of DAV issued 21 June 2004, and supplementary reserves set aside for positive differences between the old and new calculations discovered in this process on an individual-policy basis.

To the extent that claims against life insurance policyholders for accountable sales costs not yet redeemed could not be set off against the actuarial provision, these were stated under receivables from self-contracted insurance business after deduction of general bad-debt provisions in the amount of the expected defaults for claims not yet due.

19 Provisions for outstanding claims for the self-contracted property and accident insurance business are organized by year of occurrence, separated into those claims reported during the respective fiscal year and those reported after the day of accounting as well as those to be expected. In addition, reserves for claim settlement costs were calculated according to art. 341g (1) HGB (for domestic subsidiaries according to the "Coordinated Regulations of the Federal States from 2 February 1973"). Provisions for outstanding claims were reduced by claim reimbursement receivables which can be expected in 2005.

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

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

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

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

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

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

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

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

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

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

23 The **reserves for early retirement obligations** were formed solely to cover those persons having entitlements under the collective early retirement agreement that expired on 31 December 1997, as well as persons with analogous individual contractual guarantees. This reserve was computed according to actuarial principles. In the fiscal year under review, a reserve was set up in accordance with the **old-age part-time agreement** for the private insurance industry, adopted on 11 June 1997, based on the IDW's (Institute of Auditors) publication dated 18 November 1998, with an assumed rate of interest of 5.5 percent. The reserve concept takes into account the natural staff turnover and the probability that those candidates with whom no specific agreement has yet been made will make use of the early retirement provisions.

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

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

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

26 The **deferred liabilities** contain differences in accordance with art. 341c (2) sen. 1 HGB in the amount of € 504,351.43.

27 **Tax deferment** Due to the elimination of intra-Group profits and the income-effective debt consolidations, a differing (lesser) tax liability was determined as of 31 December 2004 arising from temporary differences with respect to the total of the individual financial statements; this amounted to € 2,934k for subsequent fiscal years (previous year € 605k). This deferred tax credit was balanced with the accrued and deferred items for deferred taxes from the individual financial statements and stated as the tax deferment item in accordance with art. 274, 306 HGB (total: € 6,191k).

28 II. Source of Insurance Business by Booked Premiums

(in euros)				Self-contracted business		Assumed reinsurance business
	Legal insurance	Property and accident	Life insurance	Health insurance	Legal insurance	Property and accident
Germany	338,866,529.54	224,826,825.70	234,790,280.18	176,452,651.57	0.00	3,830,842.00
Netherlands	61,328,713.00				18,469,946.00	
Spain	57,151,157.24	17,663,748.02			7,719,197.83	11,085,630.81
Austria	32,322,210.16				516,052.02	
USA	30,889,943.20				10,122,905.67	
Belgium	17,058,161.28				0.00	
Italy	17,554,521.95				22,365,039.27	
Greece	1,932,191.67				1,036,035.49	
Other countries	94,124.00				82,769.94	18,849.95
Total	557,197,552.04	242,490,573.72	234,790,280.18	176,452,651.57	60,311,946.22	14,935,322.76
				1,210,931,057.51		**75,247,268.98**
Grand total						**1,286,178,326.49**

29 III. Development of Assets B., C. I. through IV. in Fiscal 2004

	Balance sheet values 2003	Purchases	Added/removed from scope of consolidation	Transfers
	in euros	in euros	in euros	in euros
B. Intangible assets				
1. Costs for start-up and expansion of business activity	965,913.00	0.00	0.00	0.00
2. Purchased goodwill	73,228,481.62	0.00	0.00	0.00
3. Other intangible assets	14,073,223.97	4,375,595.65	0.00	0.00
4. Total B.	**88,267,618.59**	**4,375,595.65**	**0.00**	**0.00**
C. I. Real estate, comparable rights and buildings including those on third-party property	**386,111,043.21**	**16,698,079.42**	**0.00**	**0.00**
C. II. Capital investments in affiliated companies and shareholdings				
1. Shares in affiliated companies	3,906,919.73	365,758.00	0.00	0.00
2. Lending to affiliated companies	4,779,205.92	1,991,256.01	0.00	0.00
3. Shareholdings	94,820,017.02	4,445,630.90	0.00	0.00
4. Lending to shareholdings	3,100,001.00	116,830.20	0.00	0.00
5. Total C. II.	**106,606,143.67**	**6,919,475.11**	**0.00**	**0.00**
C. III. Other capital investments				
1. Stocks, investment fund shares and other non-fixed interest securities	1,919,806,639.07	105,205,060.89	0.00	0.00
2. Bearer bonds and other fixed-interest securities	341,728,912.51	136,458,223.95	0.00	-4,390,485.23
3. Mortgages receivable, other similar rights and fixed-interest debts	302,157,352.01	16,978,657.02	0.00	0.00
4. Other lending				
a) Registered debentures	188,532,538.61	106,721,770.30	0.00	4,390,485.23
b) Promissory notes and loans	715,566,128.95	130,001,088.65	0.00	0.00
c) Loans and advance disbursements on insurance policies	67,331,139.59	23,465,568.98	0.00	0.00
d) Other lending	157,873,438.82	82,166.16	0.00	0.00
5. Bank deposits	123,273,665.97	315,889,404.07	0.00	0.00
6. Other capital investments	293,680.09	0.00	0.00	0.00
7. Total C. III.	**3,816,563,495.62**	**834,801,940.02**	**0.00**	**0.00**
Total C. I. through C. III.	**4,309,280,682.50**	**858,419,494.55**	**0.00**	**0.00**
C. IV. Portfolio assets from assumed reinsurance business	**3,171,181.59**	**852,658.14**	**0.00**	**0.00**
Total capital investments	**4,312,451,864.09**	**859,272,152.69**	**0.00**	**0.00**

Real estate, comparable rights and buildings ion third-party property with a balance-sheet value of € 191,992,991.02 (previous year € 199,571,799.21) 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 € 10.0 million (previous year € 10.8 million) is pledged as security.

Sales	Currency rate adjustments	Write-ups	Write-downs	Balance sheet values 2004	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	482,956.00	482,957.00		
236,821.70	-275,605.64	0.00	7,934,671.90	64,781,382.38		
1,008,197.12	-165,802.12	27,725.63	5,470,758.16	11,831,787.85		
1,245,018.82	**-441,407.76**	**27,725.63**	**13,888,386.06**	**77,096,127.23**		
12,087,207.83	**0.00**	**387,237.87**	**11,983,284.23**	**379,125,868.44**	**452,584**	**73,458**
252,760.04	-22,462.92	661,000.00	0.00	4,658,454.77	20,132	15,474
313,577.78	0.00	0.00	1,264,158.93	5,192,725.22	5,193	0
5,464,386.79	0.00	2,156,000.00	4,165,558.44	91,791,702.69	109,871	18,079
0.00	0.00	0.00	0.00	3,216,831.20	3,217	0
6,030,724.61	**-22,462.92**	**2,817,000.00**	**5,429,717.37**	**104,859,713.88**	**138,413**	**33,553**
40,973,611.07	-27,342.97	11,096,515.46	9,497,368.26	1,985,609,893.12	2,038,100	52,490
126,372,844.53	-1,580,712.62	187,038.14	421,669.54	345,608,462.68	362,946	17,338
23,305,805.95	0.00	0.00	71,000.00	295,759,203.08	295,759	0
20,451,675.25	0.00	0.00	0.00	279,193,118.89	298,678	19,485
150,210,906.04	0.00	16,900.00	2,495,423.94	692,877,787.62	730,847	37,969
11,161,777.71	0.00	0.00	0.00	79,634,930.86	79,635	0
1,007,744.94	0.00	306.76	0.00	156,948,166.80	165,555	8,607
304,664,456.85	-1,503.56	0.00	0.00	134,497,109.63	134,497	0
0.00	0.00	0.00	0.00	293,680.09	294	0
678,148,822.34	**-1,609,559.15**	**11,300,760.36**	**12,485,461.74**	**3,970,422,352.77**	**4,106,311**	**135,889**
696,266,754.78	**-1,632,022.07**	**14,504,998.23**	**29,898,463.34**	**4,454,407,935.09**	**4,697,308**	**242,900**
665,351.25	**0.00**	**0.00**	**0.00**	**3,358,488.48**	**3,358**	**0**
696,932,106.03	**-1,632,022.07**	**14,504,998.23**	**29,898,463.34**	**4,457,766,423.57**	**4,700,666**	**242,900**

30 IV. 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 2003	200,000,000.00	-149,610,000.00	86,223,317.97		136,613,317.97
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-4,200,000.00		-4,200,000.00
Changes in the scope of consolidation			-107,397.84		-107,397.84
Other changes			516,222.23		516,222.23
Group profit/loss for year			12,901,455.75		12,901,455.75
Other Group/profit loss					0.00
Overall Group profit/loss for year			12,901,455.75		12,901,455.75
Values as of 31 December 2004	**200,000,000.00**	**-149,610,000.00**	**95,333,598.11**	**0.00**	**145,723,598.11**
II. Minority shareholders					
As of 31 December 2003			19,617,350.75		19,617,350.75
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-144,000.03		-144,000.03
Changes in the scope of consolidation			138,730.31		138,730.31
Other changes			9,811.07	-1,360.76	8,450.31
Group profit/loss for year			2,628,727.69		2,628,727.69
Other Group/profit loss					0.00
Overall Group profit/loss for year			2,628,727.69		2,628,727.69
Values as of 31 December 2004	**0.00**	**0.00**	**22,250,619.79**	**-1,360.76**	**22,249,259.03**
III. Group equity					
Values as of 31 December 2003	200,000,000.00	-149,610,000.00	105,840,668.72		156,230,668.72
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-4,344,000.03		-4,344,000.03
Changes in the scope of consolidation			31,332.47		31,332.47
Other changes			526,033.30	-1,360.76	524,672.54
Group profit/loss for year			15,530,183.44		15,530,183.44
Other Group/profit loss					0.00
Overall Group profit/loss for year			15,530,183.44		15,530,183.44
Values as of 31 December 2004	**200,000,000.00**	**-149,610,000.00**	**117,584,217.90**	**-1,360.76**	**167,972,857.14**

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 2002	160,000,000.00	-119,610,000.00	97,354,081.99	-351,288.93	137,392,793.06
Issue of shares	40,000,000.00	-30,000,000.00			10,000,000.00
Purchase/retirement of own shares					0.00
Dividends paid			-4,200,000.00		-4,200,000.00
Changes in the scope of consolidation			305,789.90		305,789.90
Other changes			-10,213,438.67		-10,213,438.67
Group profit/loss for year			2,976,884.75		2,976,884.75
Other Group/profit loss				351,288.93	351,288.93
Overall Group profit/loss for year			2,976,884.75	351,288.93	3,328,173.68
Values as of 31 December 2003	**200,000,000.00**	**-149,610,000.00**	**86,223,317.97**	**0.00**	**136,613,317.97**
II. Minority shareholders					
As of 31 December 2002			19,297,909.69		19,297,909.69
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-1,409,105.65		-1,409,105.65
Changes in the scope of consolidation			31,123.56		31,123.56
Other changes					0.00
Group profit/loss for year			1,697,423.15		1,697,423.15
Other Group/profit loss					0.00
Overall Group profit/loss for year			1,697,423.15		1,697,423.15
Values as of 31 December 2003	**0.00**	**0.00**	**19,617,350.75**	**0.00**	**19,617,350.75**
III. Group equity					
Values as of 31 December 2002	160,000,000.00	-119,610,000.00	116,651,991.68	-351,288.93	156,690,702.75
Issue of shares	40,000,000.00	-30,000,000.00			10,000,000.00
Purchase/retirement of own shares					0.00
Dividends paid			-5,609,105.65		-5,609,105.65
Changes in the scope of consolidation			336,913.46		336,913.46
Other changes			-10,213,438.67		-10,213,438.67
Group profit/loss for year			4,674,307.90		4,674,307.90
Other Group/profit loss				351,288.93	351,288.93
Overall Group profit/loss for year			4,674,307.90	351,288.93	5,025,596.83
Values as of 31 December 2003	**200,000,000.00**	**-149,610,000.00**	**105,840,668.72**	**0.00**	**156,230,668.72**

The Group's equity is stated in conformance with regulation DRS 7. The self-generated Group equity is stated as that part of the Group's equity that was formed from the Group's net profit for the fiscal year under review and/or previous fiscal years. It comprises revenue reserves, profit carried forward and the net profit and is differentiated for the majorities and the minorities that directly or indirectly hold shares in the subsidiaries included in the consolidated financial statement.

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

The other changes of € 10,213,438.67 in the previous year include € 9,839,303.14 originating from the dissolution of hidden reserves in an affiliated company included in the consolidated financial statement, by which the revenue reserves were reduced without affecting income pursuant to art. 309 (1) HGB (German Commercial Code). The gains posted due to this action (disposal gains) are set off against corresponding costs for the transfer to reserves for life insurance premium rebates. The other changes in the fiscal year under review in the amount of € 516,221.15 are due to a restructuring of the disbursement of profits to the indirect external shareholders from the subsidiaries included in the consolidated financial statement, which is offset by a corresponding transfer to the reserve for premium rebates in the life insurance unit.

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

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

V. Additional Information

Information in compliance with art. 280, 285 (1) HGB Write-ups according to art. 280 (1) HGB (German Commercial Code) in the amount of € 14,504,998.23 (previous year € 1,630,987.77) were taken in the fiscal year under review.
Debts with a remaining term of more than five years exist in the amount of € 8,310,400.27 (previous year € 14,952,697.49). Debts to financial institutions in the amount of € 51,263,715.70 (previous year € 56,714,605.99) are secured by property liens.

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

Liability relationships Warranty obligations in the amount of € 1,022,583.77 exist due to the real estate purchase contract with obligation to build in Rostock dated 31 January 1996. The same contract also mandates obligations to build parking spaces in the amount of € 818,067.01. Securities with a book value of € 4,959,145.00 have been pledged as security for these obligations.
Liability exists for repayment of the principal of a bank loan granted to a closed-end real estate fund created by a subsidiary in the amount of € 1,755,000.00. Liability also exists for fulfillment of the obligation arising from a general lease concluded with this real estate fund. Securities of the Group with a market value of € 3,158,000.00 were pledged as security for these claims. Fixed-term deposits amounting to € 1,850,000.00 have been pledged on account of the collateralization of a guarantee credit in conjunction with real estate transactions.

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. In the real estate development sector, the financial obligations for completed building contracts of current business operations respecting buildings under construction as well as for real estate purchase contracts amount to € 7,400,000.00. Rental contracts and leases with varying terms for premises, vehicles, office equipment as well as hardware and software of a computer center which were not contracted within the context of insurance business give rise to total annual obligations within the normal scope for our industry.
The following outstanding contributions, which have not been called in, are attributable to the ARAG Group: High Tech Beteiligungen GmbH & Co. KG, € 2,475,000.00, VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, € 239,591.41.

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

Write-downs on capital investment Special tax write-offs on capital investments, particularly real estate, were not taken in the fiscal year under review (previous year € 765,348.84).

34 The gross cost of insurance business comprises

(in euros)	2004	2003
Sale of insurance policies	207,973,329.66	217,663,712.99
Administration of insurance policies	222,374,364.95	218,022,239.98
Total costs	**430,347,694.61**	**435,685,952.97**

35 Costs of premium rebates for own account

(in euros)	2004	2003
Costs of profit-dependent premium rebates	49,315,972.75	21,496,077.62
Costs of profit-independent premium rebates	3,562,715.12	1,451,926.14
Total costs	**52,878,687.87**	**22,948,003.76**

Commissions and other compensation for insurance representatives, employee costs

(in euros)	2004	2003
1. Commissions of all types for insurance representatives within the meaning of art. 92 HGB for self-contracted insurance business	176,667,132.02	171,730,546.21
2. Other compensation for insurance representatives within the meaning of art. 92 HGB	10,642,445.11	10,947,447.19
3. Wages and salaries	197,458,310.44	203,271,256.30
4. Social security and support expenses	36,118,101.85	37,235,410.85
5. Expenses for pension plans	15,952,112.06	15,157,315.48
6. Total costs	**436,838,101.48**	**438,341,976.03**

Average employment for year On average over the entire year, the companies completely included in the consolidated financial statement employed 4,394 (previous year 4,378) persons. As of 31 December 2004, the ARAG Group employed a total of 4,306 persons (31 December 2003: 4,468 persons).
The insurance companies employed 3,475 (previous year 3,580) persons on average. On average, 917 persons (previous year 798) were employed in the management and service companies. The German Group subsidiaries additionally employed 52 (previous year 79) vocational trainees.

Compensation for Supervisory Board and Board of Management of ARAG AG Compensation for the Supervisory Board amounted to € 462,132.32.
The compensation for Board members of Group subsidiaries amounted to € 854,498.23. There are no current pensions or vested pension rights for former Board members or their survivors.

Dusseldorf, 10 June 2005

Board of Management

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

Auditor's Certification for Consolidated Financial Statement

We have examined the consolidated financial statement and the Group management report prepared by ARAG Aktiengesellschaft, Dusseldorf, for the fiscal year from 1 January to 31 December 2004. The Board of Management of the Company is responsible for preparation of the consolidated financial statement and Group management report in compliance with German commercial regulations. Our task is to provide an assessment of the year-end consolidated financial statement and the Group management report on the basis of our audit.

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

Our audit has not resulted in any objections.

We believe that the year-end consolidated financial statement in accordance with the principles of proper accounting conveys an accurate impression of the assets, finances and revenue of the Group. Overall, the Group management report accurately depicts the situation of the Group and correctly presents the risks for the future.

Dusseldorf, 27 June 2005

PwC DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Koch	ppa. Paustian
Auditor	(duly authorized signatory)
	Auditor

Report of the Supervisory Board

Throughout the year under review, the Supervisory Board continually monitored the conduct of the parent company's Managing Directors and – as of its reincorporation as a joint-stock company – the Board of Management and performed its duties as set forth in applicable law and the Company Charter. The Board of Management regularly informed the Supervisory Board both verbally and in writing regarding the situation of the top-level parent company and all important occurrences throughout the Group. The Supervisory Board evaluated these reports in its meetings and discussed the development of the Company with the Board of Management. Deliberations also covered the developments in the Group.

The auditing firm PwC Deutsche Revison Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Dusseldorf, audited our consolidated financial statement as of 31 December 2004 along with the management report and has certified these without reservation.

The auditors' report was submitted to the Supervisory Board. The auditor attended the meeting of the Supervisory Board called to discuss the consolidated financial statement on 4 July 2005 and presented an oral report on the audit. The Supervisory Board has reviewed the audit of the consolidated financial statement and the Group management report.

In its final conclusion of its review of the consolidated financial statement, the Group management report and the auditors' report, the Supervisory Board raises no objections. The consolidated financial statement for the fiscal year 2004 and the Group management report prepared by the Board of Management is hereby approved.

Dusseldorf, 4 July 2005

Chair, Supervisory Board

Dr. Peter Feldhausen

Governing Bodies of the Company

Supervisory Board

Shareholders' members of Supervisory Board:

Dr. Peter Feldhausen	Attorney/Tax Consultant, Dusseldorf Chair
Dr. Tobias Bürgers	Attorney, Munich
Prof. Dr. Dr. h.c. Rolf Dubs	Professor, University of St. Gallen/Switzerland
Dr. Burkhard Hirsch	Attorney, Dusseldorf
Gerd Peskes	Auditor, Essen
Dipl.-Ing. Werner Seeger	Consultant, Dusseldorf

Employees' members of Supervisory Board:

Manfred Lambertz	Works Council Chair of ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Korschenbroich Vice-Chair
Peter Berg	Attorney, Dusseldorf
Hubert Düren	Graduate in business administration, Bedburg
Joachim Felix	Union Secretary, Cologne
Richard Wenhart	Business computer scientist, Buch am Erlbach
Klaus Zöller	Building installation engineer, Munich

Board of Management

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

Information

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

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

ARAG
Corporate Communications
ARAG Platz 1
40472 Dusseldorf

Telephone	**(+49) (0) 211.9 63 22 18**
Telefax	**(+49) (0) 211.9 63 20 25**
	(+49) (0) 211.9 63 22 20
E-Mail	**medien@ARAG.de**

Would you like an individual quotation? You can reach us any time by telephone, fax or email:

Telephone	**01803.41 18**
Telefax	**(+49) (0) 211.9 63 28 50**
E-Mail	**service@ARAG.de**

You can find the latest information about the Group and our products on our website:

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Parent company of the
ARAG Group

ARAG Aktiengesellschaft
ARAG Platz 1
40472 Dusseldorf
www.ARAG.de