Gothaer

Gothaer Allgemeine Group

Annual Report 2007

Five-Year Summary (consolidated in accordance with IFRS)

Financial Year	2007 €million	2006 €million	2005 €million
Gross premiums written	1,433.6	1,404.3	1,415.6
Net premiums earned	1,171.5	1,119.3	1,059.4
Policyholder benefits (net)	781.0	672.5	697.8
Underwriting expenses (net)	396.2	362.0	316.3
Consolidated profit for the year	85.2	41.0	41.0
Investments	2,744.8	2,696.3	2,444.8
Investment income	182.4	112.8	113.7
Underwriting reserves (net)	1,569.5	1,496.2	1,487.3
Equity	857.0	836.1	819.3
Employees (average number)	3,423	3,423	3,831

Gothaer Allgemeine Versicherung AG

Group Annual Report for 2007
in Accordance with
International Financial Reporting Standards
(IFRS)

Registered Office of the Company
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Report of Management

General Situation

Current Situation

The world's capital markets were shaken by a crisis at the beginning of the second half of the year 2007 that had its origins in the US mortgage market. Since the outbreak of this crisis, the mood of the players in the financial markets has been oscillating back and forth between economic optimism and fear of a recession. Nevertheless, however, the overall economic situation in the euro zone and Germany remains robust. In Germany in particular, the economic upswing that continued into the year 2007 resulted in a considerable increase in employment. The inflation due to strong increases in the prices of energy and food throughout the world is the only factor that is dampening the currently positive mood in Germany.

Bonds suffered from a significant decline in yields due to turbulence in the financial markets. The yields on 10-year US treasury notes had fallen from approximately 5.2% to 4.0% by the end of the year. Yields on their European counterparts returned to 4.3% as of the end of the year after dropping from approximately 4.7% to 4.0% during the second half of the year. The stock markets recorded positive performance despite the 2007 crisis. The DAX showed an increase of 20% in value, the EuroStoxx50 posted a gain of approximately 5%, and the US American markets for shares ended the year with a slight plus.

Outlook for the Capital Markets in 2008

It is not yet possible to fully estimate the actual scope of the effect of the crisis in the financial markets on the economy as a whole. It can, however, be assumed that the rate of expansion of the US economy, which had already started to slacken in 2007, will contract further in the year 2008, and the possibility of a full-blown recession in the USA cannot currently be excluded. Europe will also not remain unscathed by the cooling off of the US economy. Since the economy of the euro zone is likely to have already reached its cyclical peak in late 2006, it can be expected that the slow-down that started in 2007 will continue in 2008.

In view of the crisis in the financial markets and the effects thereof on the overall economy, the US Federal Reserve cut the target rate for Fed Funds by a further 200 bp to the current 2.25% in early 2008 after initial reductions in interest rates in the course of the previous year. Depending on the severity of the expected cool down, the Fed can be expected to take further steps in the area of monetary policy. On the other hand, it is likely to be more difficult for the European Central Bank (ECB) to loosen up its monetary policy. The expected cooling off of the economy in euroland and the decrease in risks in terms of price stability should, however, give the ECB an incentive to reduce its key interest rate in the course of the year. In view of this situation, a further decrease in yields on government bonds can be expected. The yield on US treasury bonds with a residual term of 10 years is likely to settle in at between 3.2% and 4.3%. A range of 3.7% to 4.3% can be expected for 10-year European government bonds.

Despite significant fluctuation, it can be expected that the stock markets will on the whole also perform positively in 2008. For example, the currently high price of oil and dampened economic prospects due to the credit crisis are likely to have a significant inhibiting effect on the growth of corporate earnings. However, the attractive level of prices could have a stabilizing effect.

In view of the slowdown in the world economy and the persistent liquidity crisis in the financial markets, the lending environment for the months to come has become significantly cloudier. It is true that the financial situation of most companies is still solid. However, depending on the extent of the cool down, the situation will have an effect upon companies by reducing earnings. In addition, investors' appetite for risk and the willingness of banks to extend loans have waned noticeably since last summer, which will also make the Company's efforts to obtain refinancing more difficult in the year 2008. Loan spreads will continue to remain under pressure this year, but it can be expected that the effect on the various names and industries will vary considerably.

Situation in the Area of Property&Casualty Insurance

Overall, the deterioration in the earnings situation that set in last year in the area of property & casualty insurance did not let up. As a result of the decrease in premium income of 0.4% to €54.8 billion and the strong increase in losses incurred in the financial year (+ 7.0% to €42.7 billion), essentially due to the "Kyrill" windstorm, it is expected that the combined ratio will increase to 97.0% (PY: 91.4%) and that underwriting result will drop by approximately €3 billion to €1.6 billion.

As was expected, persistent price competition in the area of automotive insurance resulted in a further decrease in premium income of 1.8% (PY: – 3.6%) to €20.8 billion. On the other hand, losses incurred are likely to have increased by a further 2.8% to €19.3 billion as compared with the previous year. The loss ratio for the financial year will therefore increase from 88.4% to 93% so that it will likely be possible to achieve balanced underwriting profit (PY: €200 million).

In the property insurance lines, the earnings situation showed extreme deterioration due to persistent competition and the strong increase in operating expenses incurred due to the many natural catastrophic events. With premium income virtually unchanged at €14.2 billion (+ 0.3%) and a significant increase of 23% in losses incurred to €11.9 million, the combined ratio comes to 108% (PY: 92.2%). With 2.4 million in adjusted claims representing a total catastrophic loss of €2.4 billion, the unusual "Kyrill" windstorm was the single most expensive loss event in the history of the German insurance industry.

In the area of industrial property insurance, the decrease in premium income that started in 2005 continued in 2007, and premium income declined 2.9% to €3.9 billion. At the same time, losses incurred increased 3.9% to €3.2 billion (PY: + 9.8%) to yield underwriting profit in the amount of €80 million for a combined ratio of 98%.

An increase of 1% (PY: + 0.5%) to approximately €6.9 billion was recorded in the area of General Liability Insurance Losses incurred for the financial year are likely to increase 2% to €4.5 billion with a corresponding increase in the loss ratio to 66.2% (PY: 65.5%). At about 86%, the combined ratio will be slightly higher than the figure of 85.4% for the previous year.

An increase of 1% in premium income to €6.3 billion is expected in the area of General Accident Insurance accompanied by a slight decline in losses incurred for the financial year (– 1%). The combined ratio is expected to lie in the vicinity of 85%.

In the area of Marine Insurance, an increase of 2% in the loss ratio to 64% (PY: 62%) and a combined ratio of 91% (PY: 89.2%) are expected with a slight increase in premium income of 0.8% to €1.9 billion and losses incurred (+ 1.2%) over the previous year.

In the area of loan, surety and fiduciary insurance, underwriting results stabilized at the level of the previous year. Premium income and losses incurred remained virtually unchanged, and the combined ratio after adjustments came to 60%.

A further decrease of one percent is expected in premium income for 2008 due to high market saturation and more intense price competition. Given this situation, another increase is expected in the combined ratio in the area of automobile insurance and as a result negative underwriting result for the first time in years.

Report of Management on the Group

Business Developments and the Situation of the Group

The Gothaer Allgemeine Group can look back on a positive year 2007. Despite a difficult economic environment, earning power nevertheless improved. At €170.4 million (PY: €123.5 million), profit for the year before transfer of profit was up a significant 37.9%. Consolidated profit of the year after transfer of profit to Gothaer Finanzholding AG and after deduction of minority interests came to €85.2 million for the year. This represents over twice the comparable figure for the previous year.

Consistent implementation of our strategy of earnings-oriented growth resulted in an increase of 2.1% in premium income in the financial year. We continued to pursue our ambition of increasing retention in 2007. As a result, the percentage of premiums written ceded in the financial year decreased 10.7%.

As a result of the “Kyrill” windstorm and the expansion of business volume, gross losses incurred for the year 2007 increased 17.7% to €955.0 million. Due to the increase in retention, net expenses for claims rose commensurately from €666.1 million to €774.6 million. Gross underwriting expenses increased 3.7%.

Despite a difficult market environment, investment income rose to an outstanding €182.4 million (PY: €112.8 million) and contributed significantly to the overall performance of the Company.

Premiums

At €1,375.5 million, premiums written in direct business raised €23.3 million in comparison to the previous year. Premiums written assumed increased €6.0 million. In relative terms, reinsurance business assumed grew with 11.5% more than the direct business. Overall, gross premiums written for the financial year came to €1,433.6 million versus €1,404.3 million a year earlier.

Ceded reinsurance premiums are deducted from gross premiums written to determine net premiums earned. In addition, the change in net unearned premiums is taken into account. As a result of a further increase in retention in 2007, net premiums earned increased 4.7% to €1,171.5 million.

Breakdown of Gross Premiums Written According to Lines of Insurance

	2007 €million	2006 €million
Automotive	353.6	344.7
General Liability	317.1	308.1
General Accident	155.9	154.9
Other Lines of Property Insurance	153.1	147.9
Comprehensive Homeowners	109.9	109.7
Comprehensive Householders	92.4	96.0
Other Lines of Insurance	91.9	88.1
Fire	66.4	67.6
Marine	35.2	35.2
Primary insurance	**1,375.5**	**1,352.2**
Reinsurance assumed	58.1	52.1
Total	**1,433.6**	**1,404.3**

Breakdown of Gross Premiums Written According to Primary Segments

	2007 €million	2006 €million
Commercial lines of insurance	647.4	631.5
Personal lines of insurance	786.2	772.8
Total	**1,433.6**	**1,404,3**

Breakdown of Gross Premiums Written According to Secondary Segments*

	2007 €million	2006 €million
Domestic	1,363.9	1,340.8
Foreign	11.6	11.4
Total	**1,375.5**	**1,352.2**

* Primary insurance.

Our business has traditionally been concentrated in Germany. Over 99% of the premiums from direct insurance business are generated in Germany. The Group’s foreign business is limited exclusively to member countries of the European Union.

Investments

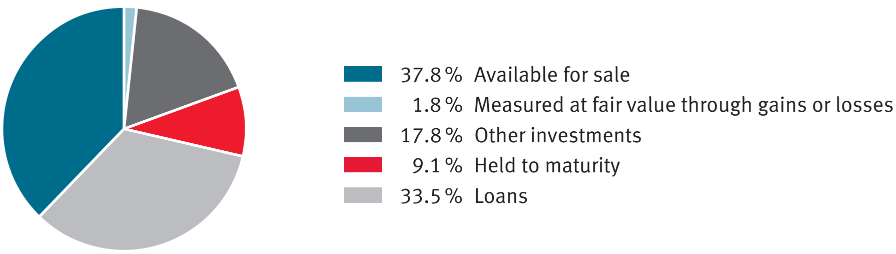
For den Gothaer Allgemeine Group, the year 2007 continued to reflect consistent implementation of the Gothaer investment strategy. In particular, a deliberate effort was made to stabilize and increase the flow of current income through expansion of involvement in high-return fixed-income instruments with investment grade ratings (classes AAA – BBB); wherever possible, a buy-and-hold investment strategy is pursued. At the same time, the investment strategy adopted is flanked by a various different measures intended to protect against negative developments in terms of market prices and credit risks.

The investment policy is geared to the more stringent capitalization requirements that will be implemented in the future under Solvency II. The various investment strategies in place are based on a qualified approach to asset-liability management in order to determine the risk bearing capacity of the individual Group companies.

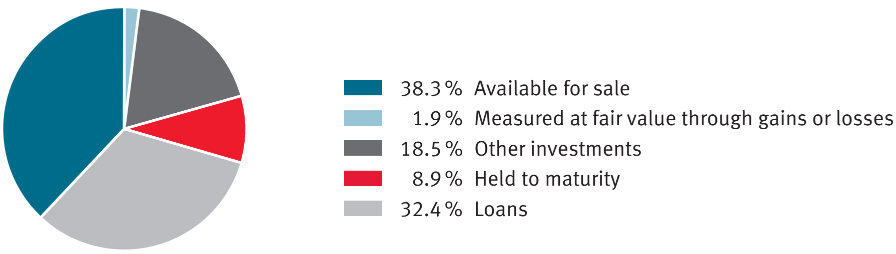
The investment portfolio increased only slightly from €2,696.3 million for the previous year to €2,744.8 million. As in the past, the investment portfolio is dominated by available for sale investments, which come to €1,038.7 million (PY: €1,033.4 million), followed by loans with€919.1 million (PY: €874.0 million). Investments carried at fair value through profit or loss, which are held to a very limited extent, also include hedging transactions. As a result of the existence and consistent implementation of a clearly defined investment strategy, the relative shares of the various investment categories did not changed by more than ± 1.1% in the course of the financial year.

Investment income increased 61.7% to €182.4 million in 2007. This increase also resulted in part from using opportunities presented by the market, which produced proceeds from disposals in the amount of €63.1 million, as well as from further improvement in current income. The yield on investments increased accordingly to 6.7% from 4.4% for the previous year.

Investments for the Financial Year 2007



Investments for the Financial Year 2006



Policyholder Benefits

Net policyholder benefits for the financial year in the amount of €781.0 million (PY: €672.5 million) include all expenses provided by the insurance companies of the Gothaer Allgemeine Group to its policyholders. These expenses are mainly apportionable to payments for claims as well as the change in the reserves for unpaid claims.

Gross claims expenses rose from €811.2 million in the previous year to €955.0 million for 2007. Net claims expenses added up to €774.6 million in the financial year as compared with €666.1 million for the previous year. As a result, the loss ratio came to 66.7% gross and 66.1% net. These loss ratios, which remain at a good level, confirm the validity of the measures taken in past years to stabilize underwriting results.

Underwriting Expenses

Gross underwriting expenses increased 3.7% to €467.9 million. This increase resulted from amortization of deferred acquisition costs in excess of new deferred acquisition costs for the period.

The share of reinsurer in the underwriting expenses i.e., in particular commissions and profit sharing paid by reinsurers from reinsurance business ceded, declined due to the increase in retention from €89.1 million to €71.7 for the financial year. Overall, net underwriting expenses increased 9.4% to €396.2 million.

Consolidated Profit for the Year

Profit from underwriting and investment activities produced operating results in the amount of €149.5 million (PY: €158.0 million).

Taking into account interest expense and taxes on income, profit for the year before transfer of profit came to €170.4 million as compared with €123.5 million for the previous year. Due to the tax reform and the concomitant adjustment in the rate for deferred taxes, tax gains in the amount of €40.1 million (PY: –€23.0 million) were recorded for 2007.

Consolidated profit for the year after transfer of profit and deduction of minority interests came to €85.2 million, which was more than twice the comparable figure of €41.0 million for the previous year. As a result, the equity ratio for 2007 – taken as the ratio of net income for the year before transfer of profit to average shareholders' equity exclusive of minority interests – rose to a very good 20.1% from 14.9% for the previous year.

Capital Management

For insurance groups, capitalization represents a key figure or index for assessment of risk bearing capacity and is therefore an important control parameter. Capital management by our parent Group, which is headed by Gothaer Versicherungsbank VVaG, ensures that adequate capital is always available to meet the operational needs of Group companies and achieve optimal allocation of funds within the Group. This allows us to comply with legal provisions as well as with the requirements of regulatory authorities, rating agencies, analysts and our policyholders, all of which have become significantly more stringent in recent years. Risk-oriented controls and asset-liability management represent important components of capital management within the Group.

Capitalization

The equity of the Gothaer Allgemeine Group came to €857.8 million (PY: €837.3 million) as of the end of the financial year. The equity shown in the consolidated financial statements includes subscribed capital and capital reserves of the Group parent, Gothaer Allgemeine Versicherung AG, as well as revenue reserves. In addition to revenue reserves of Gothaer Allgemeine Versicherung AG, revenue reserves also include earnings of our affiliated companies following the date of first-time consolidation. In addition, unrealized gains from available for sale financial investments increase the equity of the Gothaer Allgemeine Group. Changes in equity are shown on p. 35.

What are referred to as equity surrogates also fall under capital management along with the equity of the Group Equity surrogates consist of the participation certificates we have issued and subordinate liabilities. They are becoming increasingly important. Management of third-party financing in the form of bonds and loans also falls under capital management. As of 31 December 2007, equity surrogates and bonds and loans carried on the balance sheet of the Gothaer Allgemeine Group came to €345.8 million (PY: €345.8 million). The Gothaer Group has placed subordinate liabilities in the amount of €250.0 million on the capital market through Gothaer Allgemeine Versicherung AG. This will contribute to the financial strength of Gothaer Allgemeine Versicherung AG over the long term as well as to that of the parent group.

The debt ratio of the Group (defined as third-party borrowings, i.e., bonds and loans as well as non-accepted hybrid capital as a percentage of equity plus accepted hybrid capital) comes to 32.5% (PY: 33.4%). The amount taken into account for hybrid capital is very conservative and is equal to that allowed by section 53c of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz)* – Capital Resources Regulation). The debt ratio is therefore likely to represent a maximum estimate.

	2007 €million	2006 €million
Equity	857.8	837.2
Equity surrogates		
Participation certificates	30.7	30.7
Subordinate liabilities	250.0	250.0
Bonds and loans	65.1	65.1
Total	**1,203.6**	**1,191.0**

Solvency

Gothaer Allgemeine Versicherung AG is taken into of the adjusted solvency calculation of the group parent, Gothaer Versicherungsbank VVaG. The Gothaer Allgemeine Group is exempted from preparation of an adjusted Group solvency calculation. The coverage of the parent comes to 153.4%. As a German insurance company, Gothaer Allgemeine Versicherung AG must demonstrate to the Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)* that its solvency is adequate to cover the needs of the insurance activities of the Group (Solvency I). The annual financial statements according to German commercial law are to be used as the basis for calculation. Existing capital resources in the amount of €305.8 million exceed solvency requirements by €104.2 million. This represents coverage of 151.7%.

In addition to the current requirements of the supervisory authority, we are also dealing intensively with the future solvency requirements in accordance with Solvency II. Risk-weighting models are computed and analyzed for this purpose and appropriate capital measures taken if necessary in the context of risk controlling.

Ratings

Rating agencies use Insurer Financial Strength Ratings to rate the financial strength of insurance companies, i.e. the ability of insurance companies to meet their obligations in connection with policies. The goal of our capital management activities is to be considered a financially strong insurance company at all times. We have in the past always succeeded in achieving this goal. The internationally active rating agency Standard & Poor's gives the Gothaer Group an A-rating. The financial stability of the Company is rated "very good." Gothaer Allgemeine Versicherung AG also received an A rating from FitchRatings. FitchRatings rated the Company "strong" for financial strength.

Risk-Oriented Control

Gothaer takes a two-pronged approach to risk management. On the one hand, we make a point of keeping our risk capital requirements to a minimum through very advanced and thoroughly integrated risk management. On the other hand, we focus on continuous improvement in our capital base to increase risk bearing capacity. We strive for targeted, equity-driven growth.

We set risk-oriented objectives with the help of value-oriented performance metrics such as RORAC targets, which are a permanent part of our incentive and compensation systems.

Using risk-weighting models developed in-house, Gothaer models its individual risk position and manages the quantified risks. An early-warning system that is integrated into internal risk-weighting models is used to monitor various risk parameters and their proximity to threshold values.

Asset-liability management is another central, integral aspect of capital management. The key goal of strategic asset allocation for Gothaer is to maintain the relative share of net earnings accounted for by current income consistently high and take maximum advantage of the diversification potential of investments.

Asset-Liability Management

Strategic asset allocation is in this case supported by various ALM techniques (ALM analyses, Black-Litterman models, risk budgets) and adopted by the Investment Committee. In this context, asset allocation includes not only statements as regards quotas, sectors, currency and duration, but also aspects involving value protection concepts.

Our assessment of asset allocation takes into account not only market values, but also book values. This is of course always done in full compliance with all applicable investment restrictions (section 54 of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz)*, Investment Ordinance *(Anlageverordnung)*, Federal Financial Supervisory Authority circulars). The risk situation is regularly reviewed on a quarterly basis. This involves in-depth presentation of risk budgets on the basis of value-at-risk and shortfall probability with regards to secure achievement of net yield targets.

Segmental Performance

The organizational structure of the Gothaer Allgemeine Group includes the segments insurance and non-insurance. Within the insurance segment, a distinction is also made between personal lines and commercial and corporate lines.

Insurance Segment

In addition to the insurance activities of the group parent, Gothaer Allgemeine Versicherung AG, the insurance segment also includes the insurance activities of Janitos Versicherung AG. Gothaer Allgemeine Versicherung AG is responsible for all significant lines and coverages in the area of property&casualty insurance and serves both private and commercial customers. Customers are served by the captive agency organization of Gothaer Versicherungsbank VVaG, brokers and cooperation partners. Janitos Versicherung AG addresses the needs of the core target group consisting of sophisticated private clients in the area of property insurance.

Insurance Segment – Personal Lines

We have consistently pursued our strategy of earnings-oriented growth in the personal lines subsegment.

Gross premiums written increased by 1.7% to €786.2 million in the financial year despite strong competition in the area of property&casualty insurance and extreme price pressure, in particular in the area of automotive insurance. As in the previous year, Janitos Versicherung AG contributed significantly to the increase in premium income. The company recorded growth of over 60% in gross premiums written. This is indicative of the competitive strength of the Janitos brand. Net premiums earned increased to €661.1 million (PY: €636.0 million) in the financial year. The increase in net premiums earned therefore exceeded the increase in gross premiums written due to an increase in retention.

At €426.2 million, policyholder benefits (net) were significantly higher than the comparable figure of €361.6 million for the previous year. This reflects both the effects of a catastrophic event, i.e., “Kyrill,” and increases due to growth in business in force. This resulted in an increase in payments for claims, and allocation of reserves for unpaid claims was also higher.

Net underwriting expenses for the financial year rose to €221.8 million (PY: €201.9 million). There were two reasons for this. First of all, expenses from the amortization of deferred acquisition costs were higher, and, secondly, retention was higher.

The investment volume for the personal lines subsegment comes to €1,129.6 million (PY: €1,119.1 million). Investment income came to €69.7 million (PY: €44.9 million). On the one hand, this encouraging increase reflects the implementation of our investment strategy, the focus of which is to increase the flow of current income. On the other hand, it was possible to achieve gains on disposals by taking advantage of opportunities presented by the market.

Gross underwriting reserves come to €958.4 million, which represents only a slight change from the comparable figure of €949.0 million for the previous year. After deduction of the reduced share of underwriting reserves attributable to reinsurers, net underwriting reserves come to €705.5 million (PY: €691.9 million).

Net profit for the year for the personal insurance subsegment before transfer of profit once again exceeded the comparable figure for the previous year, going to €85.0 million from €75.3 million. This is indicative of successful implementation of our strategy of earnings-oriented growth.

Insurance Segment – Commercial and Corporate Lines

Gross premiums written in the subsegment consisting of lines of insurance for commercial and corporate clients again increased in the financial year 2007, going to €647.4 million (PY: €631.5 million). Premium growth was recorded in both the commercial area (+ 2.1%) as well as in the industrial area (+3.6%). Net premiums earned increased 5.6% to €510.4 million. The increase in net premiums earned exceeded the increase in gross premiums written due to higher retention.

At €354.8 million, policyholder benefits were higher than the comparable figure of €310.8 million for the previous year. At 69.5% (PY: 64.3%), the net loss ratio, i.e., the ratio of benefits made to policyholders to net premiums, remained at a good level.

Net underwriting expenses increased from €160.1 million in the previous year to €174.4 million for the financial year. There were also two main reasons for this increase in the subsegment consisting of commercial and corporate business. On the one hand, expense in connection with the amortization of deferred acquisition costs increased in the commercial area; on the other hand, commissions received from reinsurers decreased.

The investment portfolio for the subsegment consisting of commercial and corporate insurance increased to €1,689.2 million (PY: €1,639.0 million). At €628.5 million, available for sale investments accounted for the greater part of financial investments. Investment income for the financial year increased to an outstanding €105.1 million (PY: €65.5 million), which represents a net yield of 6.3%. As in the case of the subsegment consisting of personal lines of insurance, implementation of our investment strategy and good gains on disposals were the reasons for the increase in investment income in the segment consisting of commercial and corporate business.

Gross underwriting reserves increased 3.7% to €1,110.9 million. This was due in particular to an increase of 3.4% in gross reserves for unpaid claims to €995.0 million. After deduction of the reinsurers' share of underwriting reserves attributable to reinsurers, net underwriting reserves come to €863.9 million (PY: €804.3 million).

Net profit for the year for the subsegment consisting of commercial and corporate business before transfer of profit came to €93.3 million (PY: €48.3 million). The strong increase resulted in particular from capital gains.

Non-Insurance Segment

The non-insurance segment includes the IT service providers IDG Informationsverarbeitung und Dienstleistungen GmbH (IDG) and Munich Carlyle Productions GmbH & Co. KG (Munich Carlyle), which are involved in the development, production, coproduction, exploitation, marketing and licensing of theatrical and TV productions. As of the 2007 financial year, the non-insurance segment also includes the accounts of GG-Grundfonds Vermittlungs GmbH, which offers services in the area of real estate.

The increase of 3.5% to €162.2 million in Other income in the non-insurance segment was due to the increase in demand for services of IDG in the project area by companies of the ultimate parent group.

Major projects in the financial year 2007 included takeover of the information technology and telecommunication services of Asstel ProKunde Versicherungskonzepte GmbH, the introduction of Business Service Management, SAP-HCM and SAP FS-RI and SAP Customer Care Center certification.

As a result of IDG's extensive project business, Other expenses in the non-insurance segment also increased to €159.3 million (PY: €155.9 million). Operating results increased from €0.8 million in the previous year to €2.9 million for 2007.

Taking into account the expense of financing the film activities of Munich Carlyle and taxes on income, the net loss for the year increased to €16.2 million from €2.7 million a year earlier. Tax expense for the financial year was unusually high since tax losser carryforward were reversed due to a lack of agreement with the tax authorities as regards the tax situation.

Risk Report

Risks of Future Developments

The core activities of the Gothaer Allgemeine Group involve the assumption and management of risks. As a result, our role is to selectively assume risks as a function of existing risk bearing capacity to the extent that concomitant opportunities justify anticipation of adequate added value. In combination with our commitment to offer our policyholders solutions for the management of their risks that meet their needs and are at the same time affordable, this provides the foundation for our own risk management requirements. The nature and structure of risk management activities reflect Group-wide principles and guidelines. Through implementation of these principles and guidelines in everyday corporate practice, we can ensure that risks are completely identified, quantified, monitored and managed within prescribed risk bearing capacity limits. This enables us to put in place the prerequisites for optimal exploitation of opportunities while at the same time maintaining the required level of security.

Risk Management Organization and Instruments
We have adopted an approach to risk management that is for the most part decentralized; responsibility for risk identification and assessment as well as for implementation of measures to control and monitor risks is assigned primarily to our operational units. In addition, central risk controlling is responsible for Company-wide aggregation of risks and generation of internal reports. The Risk Committee is in charge of the development of uniform cross-company standards and procedures.

We have developed an inventory of risk within the parent group led by Gothaer Allgemeine Versicherung AG that is in compliance with the German Act on Control and Transparency in Business *(Gesetz zur Kontrolle und Transparenz im Unternehmensbereich)* and enables the individual Group companies to recognize threatening developments and take appropriate countermeasures on a timely basis.

As a function of the risks assigned to the individual risk categories, we apply specific risk management approaches in the form of organizational rules (structural and procedural organization, guidelines, limit systems) as well as an internal system of controls and procedures.

Major individual risks are also subject to proactive controls and monitoring in the form of forecasting and scenario calculations, stress tests and sensitivity analyses. Significant findings are systematically recorded in a central Group-wide early-warning system put in place to track indicators. The Risk Committee monitors the central early-warning system and reports changes in indicators and threshold parameters to Group Management. This permits early recognition of mission-critical situations and timely deployment of risk-containment measures.

The functionality and efficacy of the risk management system are reviewed annually by the internal audit department and external organizations.

We are actively preparing for implementation of the new European regulatory requirements (Solvency II). In addition to participation in the Quantitative Impact Studies (QIS) initiated by CEIOPS, these activities also include involvement in Solvency II work groups and work on the improvement of an internal risk model. Gothaer has established a work group to implement the provisions of the 9th revision of the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz)* and the minimum risk management requirements (MaRisk) of the German regulatory authorities intended to prepare for the second phase of Solvency II.

The risk situation is described in detail below:

Underwriting Risks

As a general rule, we manage underwriting risks by applying stringent underwriting guidelines. Compliance is systematically monitored through the use of controlling instruments and early-warning systems that identify trends and negative developments on a timely basis. In addition, appropriate reinsurance treaties are also in place to limit the risks arising from catastrophic events and cumulative losses. We are active in the personal, commercial, corporate and industrial segments of the market.

Personal Lines of Insurance
Personal lines of insurance are subject to increasing price sensitivity and a pronounced willingness to change providers on the part of policyholders. It is also possible to ascertain extreme price pressure and a high level of market saturation. In order to cope with this trend in the insurance marketplace, the Gothaer Allgemeine Group offers insurance solutions that are not only market-driven and economical, but are at the same time also calculated to provide adequate margins.

In the area of private automotive insurance, overall conditions can be expected to remain unchanged in 2008. A persistently high level of price sensitivity and the readiness of customers to go elsewhere are responsible for intense price competition, and the level of tariffs continues to slacken. At the same time, this has resulted in increased cost pressure.

We will continue to refrain from full-fledged entry into the severe and in some cases ruinous ongoing price war; we will instead offer only acceptable rates and with a view to earnings performance accept a loss of market share. We will also continue to take appropriate measures to improve the quality of our in-force business.

Predatory competition is spreading in the property, liability, accident and multiple-risk lines of insurance. Due to price pressure and saturation of the market, prospects for growth can only be expected to remain low. In order to deal with this situation, we continue to pursue a dual product and price strategy in the area of personal lines of insurance: i.e., in each line a basic product is offered that is rated “good” to “very good” on the basis of price in popular rankings and test reports; on the other hand, we also offer premium products that give our customers high-performance solutions.

The catastrophic events resulting from climate change in the past years will in the future have a significant negative impact on underwriting results. Management of in-force business, which is intended to systematically acquire and retain good risks and at the same time make risks that do not generate adequate premium available to other players in the marketplace, will therefore become increasing important and will be pursued. The use of ZÜRS, a zoning classification system for determining exposure to flooding risks, makes it possible to implement the underwriting policy required for risk management purposes.

Commercial and Corporate Lines of Insurance
The market environment for the coverage of commercial liability risks continued to stabilize in the course of the financial year. We pursued the measures adopted in recent years to improve earnings performance in this area. Premium income benefited from the positive performance of the German economy. We reacted to the enactment of the German Environmental Damage Act *(Umweltschadengesetz),* which itself represents a new risk, with an environmental damage insurance product. All of our customers have been informed accordingly. Plans call for the first policies to be written in the year 2008.

Premiums in the commercial automotive insurance line were under even greater pressure in the financial year. Competitors continue to exhibit a willingness to write unprofitable policies that entail high losses for less than adequate premium. We have implemented a selective underwriting policy that has resulted in a reduction in the size of our in-force business, lower premiums and consequently declining premium income. The number of policies in force remained encouragingly stable, in particular due to further improvement in offering procedures and a package of measures aimed at existing policyholders.

In the area of property insurance, our efforts to counter the increased pressure on premiums due to competition were successful. A solution-driven approach made it possible to acquire more new business; fire protection and security technology were the main issues here.

In Marine and Technical insurance lines, measures adopted to improve income through management of the policy portfolio were consistently implemented. Overall, we reinforced our position in the marketplace, and business in the area of renewable energy (in Germany and abroad) and freight insurance was expanded. In addition to systematic solicitation by agents, the positive economic environment contributed to this improvement.

A growing interest in specialty and multiple-risk products can be ascertained on the part of customers and agents. Our SME campaign has produced positive results in the area of multiple-risk products, and growth was achieved in commercial policies through master agreements.

Industrial Lines of Insurance

In the General Liability Insurance segment, we continue to adhere to our strict policy of consistently refraining from underwriting policies for acute care hospitals, combined subway construction, manufacturers of tobacco products and weapons that export directly to the US and Canada, producers of animal feed and cable manufacturers. In addition to earnings-driven measures, value-based business activities also made it possible to write new policies in relevant areas.

Premiums in the industrial automotive line were subject to greater pressure. It was possible to write new policies, but most capacity was, however, devoted to business in force. On the whole, it was possible to achieve positive net production. The combination of risk management through GRM (Gothaer Risk Management GmbH) and risk-oriented policy design has enabled us to set priorities in the area of new business activities.

In the industrial property insurance line, the number of major loss events increased over the previous year. This had a negative impact on underwriting result in this segment. The pressure on premiums again increased as compared with the previous year, which resulted in further shrinkage of in-force business. We have not, however, abandoned our consistent earnings-oriented growth strategy. New policies were written on the basis of risk management criteria and assessment of risks on an individual basis.

Our income-driven underwriting policy remained in place in the area of marine and technical insurance. Consistent efforts to enhance policy quality in the past once again made it possible to achieve positive underwriting results.

In the area of Renewable Energy, we continued to acquire and build on our expertise and have been working intensively on insurance concepts. The foundation for a sustainable positive growth is now in place.

Reinsurance
The efficacy of the reinsurance structure in place as of 1 January 2007 was reviewed in the context of in-depth stochastic optimization analysis. The only significant change for 2008 involved expansion of the reinsurance program for natural catastrophe risks due to flooding exposure. It was possible to place all contracts as of 1 January 2008, and we were able to keep the default risk within narrow limits through broad diversification, taking into account security requirements.

It is necessary to distinguish between various scenarios in dealing with the concentration of insurance risks:

- **Infrequent Loss Events that Involve Major Claims**
  This category includes major claims in the area of automotive liability insurance since a certain percentage of the policies in force was written on the basis of unlimited coverage or, as the case may be, with very high limited coverage in the amount of €100 million for policies written after April 2005. This potential liability is taken into account in our reinsurance contracts.
  Major loss events could also conceivably result from terrorist attacks. Policies involving high coverage (insurance coverage › €25 million) contain a terrorism exclusion or calculations are based on extreme scenarios if a customer desires terrorism coverage. In the case of risks involving coverage that lies below the critical limit, our reinsurance agreements give us limited, but adequate reinsurance protection.
  In the case of property insurance policies that cover the risk of fire (conflagration), cumulative losses are improbable and potential exposure is difficult to estimate. This exposure has also been taken into account through appropriately structured reinsurance protection and the purchase of adequate reinsurance.

- **Loss Events that Involve Several Segments**
  This involves primarily natural catastrophes that would cut across various segments of Gothaer Allgemeine Versicherung AG. In order of decreasing importance, these would include the risks of flood, storm, earthquake and then, of significantly less importance, hail (usually automotive comprehensive). Decisions as regards the purchase of reinsurance protection for such catastrophic events are made on the basis of extensive analyses of our entire portfolio of policies in force. Such analyses are carried out by leading international reinsurance brokers and companies. These analyses involve the use of acknowledged methods for modeling exposure to natural disasters. They include, among other things, estimates of probable occurrence and determination of recurrence intervals. Multiple use of RMS, EQECAT and AIR tools and the internal models of reinsurers gives us a secure probability space. In 2007, the annual review of exposure resulted in a decision to align reinsurance purchased as a function of a recurrence interval of at least 200 years. In the area of storm and earthquake protection, we have even managed to achieve recurrence intervals of up to 500 years through combined purchases. As a result of recent knowledge acquired through the use of current modeling tools in the area of storm/floods, a decision was made in 2007 to waive limited proportional reinsurance for flooding and react instead with a very significant increase in non-proportional reinsurance.

- **Risks Arising from Concentration in Geographic Segments or Lines**
  Good geographic diversification of Gothaer' policy portfolio eliminates the risk of geographic concentration. As far as lines and coverages are concerned, concentration can be ascertained only in the area of technical insurance for wind power projects. Here too, a combination of proportional and non-proportional reinsurance protection has been purchased to protect against cumulative claims as well as major loss events.

- **Risk Dependency**
  Major loss events, in particular those that have a massive financial impact on the reinsurance market, can lead to insolvencies on the part of reinsurers and therefore result in default of payments. We make every effort to keep the potential ramifications on the net performance of Gothaer to a minimum through careful selection of our reinsurers (see under Collection risk) and broad placement.
  In addition, it can be ascertained that high losses can be incurred relatively quickly and therefore result in an outflow of funds, in particular in the case of natural catastrophes. We have made sure that Gothaer will not be affected by liquidity shortfalls or a lack of reinsurance coverage in any such event through relatively low quota shares in the case of our proportional treaties and agreements that call for reinstatement of adequate coverage in the case of our non-proportional cessions.

Claims development
The table below presents the development of loss ratios and run-off results according to IFRSs at Gothaer Allgemeine Versicherung AG covering all business segments net of reinsurance. This summary covers the years in which financial statements were prepared pursuant to the IFRS.

	Loss ratio (%) after run-off	Run-off result in % of initial claims reserve
2000	74.3	5.0
2001	68.3	8.9
2002	76.9	1.3
2003	63.8	2.5
2004	59.3	5.4
2005	64.3	– 2.3
2006	59.8	4.5
2007	66.9	0.9

A detailed presentation of the development of the run-off of gross business net of reinsurance without taking into account annuity reserves is provided in the Notes to the Consolidated Financial Statements according to years of occurrence.

Risk Management Methods

Forecast and Change Risk in the Estimation of Reserves

The use of any model naturally involves an inherent risk that actual results will deviate from projections. However, underestimation should be avoided in the case of reserves. As a result, a safety margin is added. Stochastic methods (bootstrapping) are employed for purposes of determination of the variability of estimates in order to assess the appropriateness of safety margins. This provides a basis for quantification of the probability that the IFRS reserve will suffice to cover possible losses, expenses and annuity payments.

In addition, the following measures make it possible to take into account individual effects that cannot be adequately assessed by the models used for purposes of calculation of reserves:

- Individual assessment of major loss events: whenever necessary, individual reserves for major loss events are included in the results of calculation of reserves;
- In-depth analysis of cumulative losses to take into account the time of occurrence and previous run-off and comparison with such events in the past;
- In-depth analysis of sublines in those areas in which there has been a shift in the portfolio.

Risk of Natural Disasters, Cumulative Losses and Major Loss Events

The effects of natural disasters, cumulative losses and major loss events on the net side are for the most part mitigated by the reinsurance structure of Gothaer. Information obtained through the use of the ZÜRS zoning classification system and other models is taken into account in the determination of premiums and underwriting policy in order to keep the impact on the gross side as low as possible.

Reinsurance Risk

A balanced reinsurance structure intended to mitigate the effects of extreme loss events involves risk exposure, i.e., possible default of reinsurers. This risk is taken into account in the selection of reinsurers (A rating) and is quantified through the use of DFA modeling, which means it is part of the Gothaer risk management.

Risk of Discounting Reserves

If reserves are discounted, the choice of the discount rate and the underlying anticipated payment schedule represent critical parameters. Since reserves for unpaid claims are currently not discounted, this risk does not apply to Gothaer.

Collection Risks

Gothaer Allgemeine Versicherung AG’s receivables from direct insurance business due from policyholders and insurance agents came to €112.1 million as of the reporting date. This amount includes write-downs in the amount of €12.1 million that adequately take into account possible collection losses.

The age structure of outstanding receivables managed by our central collection system is presented in the table below.

Receivables outstanding older than	€million
90 days	82.6
180 days	58.9
360 days	27.6

The average collection loss (unsuccessful enforcement) in the last three years came to €6.4 million, which represented an average of 4.7‰ of gross premiums written.

We cede reinsurance only to first-class reinsurers. As in the previous year, we placed 81% of our business (reinsurance premiums ceded) with reinsurers with a rating of AA – or better. Receivables from reinsurance business came to €61.2 million as of the reporting date. Receivables in connection with reinsurance ceded came to €50.7 million. The following overview shows the structure of receivables due from our reinsurers according to rating classes.

Rating class	€million
AAA	5.8
AA	26.7
A	15.0
BBB	0.0

Companies with no rating account for €3.2 million of the settlement amounts due from reinsurers. As a result of our security policy, defaults in past years were of no significance.

Investment Risks

The investment portfolio serves to meet all of the current and future payment obligations of the Gothaer Allgemeine Group. We limit related risks through consistent compliance with regulatory requirements and the use of modern systems of controls. In the context of diversification to improve the risk-earnings ratio, the Gothaer Allgemeine Group attaches considerable importance to the decorrelation of investments. Asset-Liability Management (ALM) is the Company's central investment management instrument. The three risk areas described below are observed and managed in detail.

Market Change Risks
Investments are exposed to the danger of possible losses in value due to changes in interest, share prices and exchange rates in the international financial markets. Management of market risks is supported by regular computations based on the use of stochastic and deterministic models. The investment portfolio is subjected to stress scenarios at regular intervals in order to measure risk potential.

When interest rates drop, there is a risk that it will only be possible to reinvest funds at a lower level of interest. Gothaer manages this risk through the use of ALM analyses, which ensures that the reinvestment risk is limited at all times. In addition, we attempt to align investment policy to achieve a higher yield in a low-interest environment by selectively choosing interest structures (e.g., floating rate notes). An increase in interest rates can also represent a risk. Apart from accounting control mechanisms, Gothaer counters this risk through active portfolio management. In addition to the choice of the maturity structure of the investment portfolio, which permits deployment of an active investment policy to achieve a higher (reinvestment) yield, selective diversification with the use of derivatives, interest structure and quantitative approaches (e.g., trend-following models) makes it possible to protect the investment portfolio.

The market risk of shares is managed on the basis of intensive, ongoing observation of the developments of individual shares, industries, regions or even preferences as well as on the basis of the specific risk bearing capacity of the individual Group companies, their respective mid-term market prognoses and their relative positions in the marketplace. Investments in individual stocks are therefore monitored and controlled at the level of the respective risk bearers as an overall portfolio, taking into account various mathematical parameters pertaining to financial risk.

In addition to actual management of the portfolio of shares through the use of active exposure controls, company-specific control mechanisms are deployed to handle unexpected developments and thereby ensure adequate reaction to the risk of short-term fluctuations and limitation of losses in extreme cases. These protection mechanisms are constantly monitored in accordance with developments in the market and modified whenever necessary.

Dependencies upon accounting necessities, elements involving earnings policy and ALM-based aspects of investment strategy are taken into account when protection mechanisms are chosen.

All Gothaer Allgemeine Group companies meet all four variants of the stress test prescribed by the Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)*. These stress tests involve simulation – on the basis of data from financial statements – of very negative changes in the capital market, to some extent for both shares and fixed-income securities or, as the case may be, real estate, and evaluation of the effect on the financial statements of the insurance company. The next closing date is the target horizon. Significant surplus cover – and that also applies in the case of this exaggerated stress scenario – is indicative of the risk bearing capacity and stability of the Gothaer Allgemeine Group.

The economic impact of existing exchange rate risks is virtually completely eliminated at the level of the companies.

Sensitivity analysis pursuant to German Accounting Standard DRS 5-20 resulted in the following values for the Gothaer Allgemeine Group: An increase in the interest curve of 1% with a modified duration of 4.29% results in a reduction in the market value of fixed-income securities in the amount of €75.0 million as compared with the year-end portfolio. Taking into account hedging measures a decrease of 20% in trading prices of shares results in a decrease in market value of €106.5 million. A decrease of 10% in the market value of the real estate investments of the Gothaer Allgemeine Group represents €22.3 million.

Effect of Stress Scenarios on Equity

	Decrease in market value		Change in equity not recognized in income statement		Change in equity recognized in income statement	
	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million
Fixed-income Securities	75.0	96.9	21.6	21.6	0.0	0.0
Shares	106.5	77.9	0.0	0.0	106.5	77.9
Real estate	22.3	26.0	12.1	9.9	0.0	0.0
Total	**203.9**	**200.8**	**33.7**	**31.5**	**106.5**	**77.9**

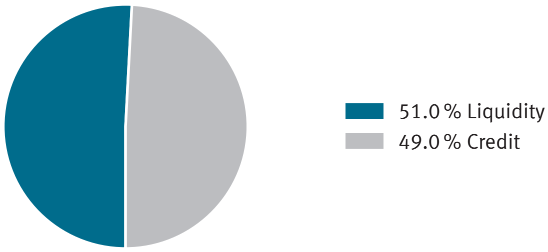
Default and Credit Risks
Credit risks are taken to mean the danger of insolvency or late payment as well as a negative change in the creditworthiness of a debtor or, as the case may be, issuer. For purposes of risk management, the acquisition of any investment vehicle is permissible only if a qualified assessment of creditworthiness is made with the help of external agencies such as Standard & Poor's or Moody's or a qualified internal rating is available. Credit risks are broadly diversified to avoid the risks of concentration. In this context, all investments are constantly monitored. Prices are regularly controlled, for the most part by independent valuation service providers, with the help of mathematical models used for financial assessment and up-to-date credit spreads.

Fixed-Income Financial Instruments According to Rating Classes

	2007 Share	2006 Share
AAA	39.0 %	38.0 %
AA +	6.8 %	5.4 %
AA	0.6 %	3.0 %
AA –	11.1 %	10.3 %
A +	6.6 %	5.2 %
A	6.5 %	9.3 %
A –	16.0 %	15.7 %
BBB +	5.0 %	4.5 %
BBB	1.5 %	3.9 %
BBB –	0.4 %	1.2 %
Speculative grade (BB + – D)	4.2 %	2.2 %
Non-rated	2.3 %	1.3 %

Fixed-income financial instruments of the risk bearers are assigned to the categories "liquidity" and "credit" for purposes of risk management. A distinction is also made in this context as to whether the creditworthiness of an issuer also represents a risk in addition to the interest risk. Financial instruments that in our opinion entail no significant default risk are assigned to the "liquidity" category. This is, for example, the case with government bonds. The overview below shows fair value according to the categories "liquidity" and "credit" as the equivalent of the maximum default risk of the Gothaer Allgemeine Group.

Breakdown of Fixed-Income Financial Instruments According to Liquidity and Credit 2007



Breakdown of Fixed-Income Financial Instruments According to Liquidity and Credit 2006

Liquidity Risks
The danger that a company will not be able to fulfill its financial obligations because of a lack of available funds is defined as the liquidity risk. Comprehensive Group-wide liquidity management ensures that the necessary liquidity is always available even in the case of peak liquidity needs and that adjustments can be made on a timely basis in the course of the year through the disposal of marketable securities. The table provided under [21] in the explanatory notes to the consolidated financial statements shows the maturities and residual terms of liabilities.

Risk Concentration
The overviews provided below show the concentration of financial risk in the form used for controlling and monitoring purposes within the Gothaer Allgemeine Group. We make a distinction here between concentration in individual credit rating classes (see table under Default and Credit Risks), industries and countries.

Overview of Shares According to Industries

	2007 Share	2006 Share
Banks	16.5 %	39.8 %
Insurance	15.5 %	10.9 %
Automobiles & parts	9.3 %	2.6 %
Financial services	9.1 %	24.6 %
Technology	8.5 %	5.6 %
Oil and gas	5.5 %	0.0 %
Telecommunications	5.0 %	0.0 %
Industrial goods & services	4.5 %	3.6 %
Healthcare	4.3 %	0.0 %
Other	18.8 %	8.8 %
No industry affiliation	3.0 %	4.1 %

Overview of Shares According to Countries

	2007 Share	2006 Share
USA	27.2 %	23.5 %
France	24.3 %	16.5 %
Germany	18.8 %	30.7 %
Spain	7.7 %	0.0 %
Italy	6.5 %	0.0 %
Netherlands	4.6 %	0.0 %
Great Britain	4.0 %	3.8 %
Finland	2.6 %	0.0 %
Bermuda	2.1 %	0.0 %
Other	2.2 %	25.5 %

Operational and Other Risks

The use of information and communication technology (IT) is indispensable for an insurance company and represents a central aspect of risk management in the case of the Gothaer Allgemeine Group due to the increasing importance of process support and automation. As a result of this dependency upon IT, security mechanisms have been systematically improved and stabilized in recent years. We ensure compliance with the provisions of the German Federal Data Protection Act *(Bundesdatenschutzgesetz)* and protect business-critical applications through the use of a business-continuity management process that not only ensures technical integrity, but also safeguards critical business processes.

Foreseeable demographic changes in the population will produce significant risks that Gothaer human resources management will have to identify, assess and avoid. In particular, mention may be made of the “war for talent”, which will become more pronounced in the future, and the resultant risks in terms of scarcity, departure, motivation, adaptation and loyalty of employees. Ongoing improvement of appropriate personnel management instruments ensures that the potential for quantitative and qualitative detriments is systematically audited and solutions are found to address challenges as they present themselves.

We use targeted personnel marketing and development measures to recruit and promote well-trained, motivated junior managerial personnel within our Company. Prospects for personal development in combination with competitive performance-based incentive instruments help us to ensure that employees remain motivated even in times of constant change and retain top performers and individuals with exceptional potential.

Our managerial principles are based on delegation of responsibility and authority. An effective system of internal control procedures is in place to control and monitor all business activities. This also involves the use of multiple organizational checks and balances as well as cross-process monitoring by internal auditors. For example, mention may also be made in this context of appropriate segregation of duties and the use of the 'second set of eyes' principle, regular plausibility tests and dedicated fraud-detection software.

By keeping abreast of legislative activities and current case law, we are able to react to change in a timely manner as a function of Company-specific needs and circumstances. The planned reform of the German Insurance Contract Act *(Versicherungsvertragsgesetz)* was essentially concluded with the enactment of the law with effect as of 1 January 2008. It is not yet possible to quantify the effects of the reform on premium income, calculation of premiums, underwriting expenses (commission systems) and claim payments (e.g., due to elimination of the all-or-nothing principle).

Internal checks and guidelines have been adopted to prevent accident insurance with premium refunds from being used to launder money or finance terrorism.

Summary Assessment of Risk Exposure

Gothaer Allgemeine Versicherung AG's capital resources in the amount of €305.8 million exceed the amount required for compliance with regulatory solvency requirements by €104.2 million. Assuming constant capital market conditions and interest levels, we will meet current and future obligations arising from existing agreements.

In 2007, the Standard & Poor's (S&P) and Fitch rating agencies again gave Gothaer Allgemeine Versicherung AG a "Very Good" rating for financial stability (A - and A rating respectively).

The control mechanisms, instruments and analytical processes described above ensure effective risk management. At the present time, we see no developments that could have a significant permanent unfavorable impact on the Company's net assets, financial position and results of operations.

Outlook

Opportunities of Future Developments

Economic Environment in Germany
The very good economic situation in 2007 is most likely to persist in the year 2008, albeit with less momentum. The reasons for this are to be found in the slackening economic upswing and a decelerated decline of unemployment. Domestic consumer demand is being reinforced by increasing household income in real terms. On the whole, growth in the Gross Domestic Product is expected to be fewer than 2%.

General Situation
Price competition remains intense in the lines of property&casualty insurance. Necessary premium increases are not possible or possible only to a limited extent without a reduction in the amount of business in force. In view of the preceding recovery in the overall economy, a positive impetus can still be expected to follow in 2008. However, the degree of market saturation that has already been reached restricts room for further growth.

As a result, the German Insurance Association *(Gesamtverband der Deutschen Versicherungswirtschaft)* expects premium income from property&casualty insurance in 2008 to remain virtually unchanged from the previous year. In view of the enormous price competition and the migration of policyholders into less expensive risk classes and rate categories, premium volume in the most important segment of property&casualty insurance, i.e., automobile insurance, is expected to decrease by a further 2%.

Forecast
We expect the Gothaer Allgemeine Group to record an increase in premium volume in the financial year 2008 although premiums from non-commercial automotive insurance will retreat due to the competitive situation. Premiums are likely to increase in the other property&casualty insurance lines.

Premiums generated by the personal lines will also continue to improve in the financial years thereafter. We remain committed to our earnings-oriented underwriting policy in the face of continued strong pressure from our competitors in the area of non-commercial automotive insurance. In addition, the current market situation does not allow greater growth.

Prospects for growth in the commercial lines, and especially in the area of industrial property insurance, are severely limited by persistently strong pressure from the competition. The Gothaer Allgemeine Group will confront this challenge with an unchanged business policy. Penetration of international markets, which we continue to pursue through appropriate alignment of our operating policies, offers positive prospects.

The consistent focus of the captive agency organization on small and medium-sized companies in the commercial area will also continue to produce growth over the medium term. The Gothaer Multi-Risk Policy product in particular is expected to drive revitalization in the area of property insurance through its focus on small and medium-sized companies. In the area of Technical Insurance, the expected increase in premiums will be driven to a significant extent by the growth of the market for renewable energy and in particular by the wind power segment. In the area of commercial liability insurance, we are assuming that the introduction of new products such as environmental damage insurance or insurance against claims in connection with the German Equal Treatment Act *(Allgemeines Gleichbehandlungsgesetz)* will result in an increase in premiums. Premiums are likely to remain stable in the area of commercial automotive insurance. We expect a positive effect from measures that directly impact the market. Overall, we also anticipate further improvement in the level of premiums over the medium term in the individual lines of insurance on the basis of these developments and measures.

Earnings Targets
One of the priorities of our corporate orientation for the next years will be to continue to generate positive underwriting results. On the basis of our performance in recent years, we anticipate no increase in losses incurred in the years to come. In addition, we will continue to strive for improvement in the area of underwriting expenses and thereby achieve a combined ratio of below 100%.

Merger of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG
Gothaer Finanzholding AG is the sole shareholder of Gothaer Allgemeine Versicherung AG as well as the sole shareholder of Gothaer Credit Versicherung AG. A merger of the two companies is planned for 2008. Plans call for Gothaer Allgemeine Versicherung AG to be completely merged through assignment of its assets with Gothaer Credit Versicherung AG, which will then assume the name of the defunct Gothaer Allgemeine Versicherung AG and become the new group parent within the Gothaer Allgemeine Group. The chronology and direction of the merger, which were determined on the basis of tax considerations, will also increase the competitive strength of the Gothaer Allgemeine Group. Simultaneously with the assignment of assets the insurance activities of Gothaer Allgemeine Versicherung AG will be transferred to Gothaer Credit Versicherung AG and will be continued by the latter.

General

No transactions or events of special significance occurred after the reporting date.

Projections and estimates pertaining to future business developments contained in this Annual Report are provided on the basis of current knowledge. The development of the underlying parameters used herein may differ from our projections due to economic developments, aberrations in the financial markets, changes in the overall legal and tax situation or changes in the competitive environment.

Consolidated Financial Statements

Consolidated Balance Sheet

Assets

	Notes	2007 €million	2006* €million
A. Intangible assets			
I. Goodwill	›1	14.5	14.5
II. Other intangible assets	›2	65.6	60.5
Total A.		**80.1**	**75.0**
B. Tangible assets	›3	**29.7**	**22.7**
C. Investments			
I. Investment property	›4	0.3	0.0
Of which: in disposal groups		*0.3*	*0.0*
II. Shares in affiliated and associated companies	›5		
1. Shares in affiliated and associated companies – non-consolidated		298.9	256.4
2. Shares in associated companies – carried at equity		106.1	105.6
Total II.		**405.0**	**362.0**
III. Investments held to maturity	›6	250.7	239.9
IV. Loans	›7	919.1	874.0
V. Investments available for sale	›8	1,038.7	1,033.4
VI. Investments measured at fair value through profit or loss	›9	50.0	50.0
VII. Other investments	›10	81.0	137.1
Total C.		**2.744.8**	**2,696.3**
D. Receivables			
I. Receivables from direct insurance business			
1. from policyholders		54.1	46.7
2. from mediators		60.5	128.5
Total I.		**114.6**	**175.2**
II. Other receivables		237.8	239.2
Total D.	›11	**352.4**	**414.4**
E. Cash and cash equivalents		**52.4**	**65.9**
F. Reinsurers' share of underwriting reserves			
I. Unearned premiums		34.2	39.8
II. Policy reserves		0.0	0.0
III. Reserves for unpaid claims		459.7	487.4
IV. Other underwriting reserves		5.9	– 2.8
Total F.		**499.8**	**524.4**
G. Deferred acquisition costs			
I. Gross		45.5	74.4
II. Reinsurers' share		0.6	1.2
Total G.	›12	**44.9**	**73.2**
H. Tax assets			
I. from current taxation		36.4	2.4
II. from deferred taxes		115.2	136.8
Total H.	›13	**151.6**	**139.2**
I. Other assets	›14	20.8	19.5
Total assets		**3,976.5**	**4,030.6**

* Comparatives after restatement.

Equity and liabilities

	Notes	2007 €million	2006* €million
A. Equity			
I. Subscribed capital and capital reserves		290.6	290.6
II. Revenue reserves		415.3	376.0
III. Other reserves	›15	65.9	128.5
IV. Consolidated profit for the year attributable to shareholders of the parent company		85.2	41.0
Total I.–IV. (Consolidated equity)		**857.0**	**836.1**
V. Minority interests	›16	0.8	1.2
Total A.		**857.8**	**837.3**
B. Gross underwriting reserves			
I. Unearned premiums		254.5	252.0
II. Policy reserves		50.5	49.6
III. Reserves for unpaid claims		1,742.6	1,702.7
IV. Other underwriting reserves		21.7	16.3
Total B.	›17	**2,069.3**	**2,020.6**
C. Other accruals			
I. Provisions for pension benefits and similar obligations	›18	57.1	51.5
II. Accruals for taxes	›19	1.6	9.9
III. Other accruals	›20	72.2	64.2
Total C.		**130.9**	**125.6**
D. Liabilities			
I. Long-term borrowings		–0.2	0.4
II. Participation certificates		30.7	30.7
III. Subordinate liabilities		250.0	250.0
IV. Bonds and loans		65.1	65.1
V. Investments held for trading		3.7	6.7
VI. Liabilities from direct insurance business			
1. towards policyholders		66.2	65.3
2. towards mediators		17.4	89.7
Total VI.		**83.6**	**155.0**
VII. Other liabilities		160.0	148.0
Total D.	›21	**592.8**	**655.9**
E. Tax liabilities			
I. for current taxation		18.3	17.4
II. for deferred taxes		307.4	373.8
Total E.	›22	**325.7**	**391.2**
Total equity and liabilities		**3,976.5**	**4,030.6**

* Comparatives after restatement.

Consolidated Income Statement

	Notes	2007 €million	2006* €million
1. Premiums written			
a) Gross		1,433.6	1,404.3
b) Reinsurers' share		254.0	284.4
	›23	**1,179.6**	**1,119.9**
2. Change in unearned premiums			
a) Gross		−2.5	−3.6
b) Reinsurers' share		5.6	−3.0
	›23	**−8.1**	**−0.6**
3. Net premiums earned	›23	**1,171.5**	**1,119.3**
4. Investment income	›24	**182.4**	**112.8**
Of which: Income from associated companies		*11.8*	*6.1*
5. Other income	›25	**191.9**	**181.7**
Total income		**1,545.8**	**1,413.8**
6. Policyholder benefits			
a) Gross		973.3	822.9
b) Reinsurers' share		192.3	150.4
	›26	**781.0**	**672.5**
7. Underwriting expenses			
a) Gross		467.9	451.1
b) Reinsurers' share		71.7	89.1
	›27	**396.2**	**362.0**
8. Other expenses	›28	**219.1**	**221.3**
Total expenses		**1,396.3**	**1,255.8**
9. Operating results		**149.5**	**158.0**
10. Financing expenses		**19.7**	**11.7**
11. Expense arising from interest on long-term borrowings		**−0.5**	**−0.2**
12. Taxes	›29	**−40.1**	**23.0**
13. Net profit for the year before transfer of profit		**170.4**	**123.5**
14. Expense from transfer of profit		**85.0**	**82.5**
15. Net profit for the year after transfer of profit		**85.4**	**41.0**
16. Minority interests		**0.2**	**0.0**
17. Consolidated profit for the year attributable to shareholders of the parent company		**85.2**	**41.0**

* Comparatives after restatement.

Statement of Changes in Equity

	Consolidated equity				Minority interest	Total
	Subscribed capital and capital reserves €million	Revenue reserves €million	Other reserves €million	Consolidated profit of the year €million	€million	€million
Balance as of 1 January 2006	**290.6**	**361.7**	**126.1**	**41.0**	**1.7**	**821.0**
Change in scope of consolidation	0.0	−0.1	0.0	0.0	0.0	−0.1
Unrealized gains and losses on investments	0.0	−9.1	−7.0	0.0	0.0	−16.1
Net profit for the year, previous year	0.0	41.0	0.0	−41.0	0.0	0.0
Net profit for the year, financial year	0.0	0.0	0.0	41.0	0.0	41.0
Distribution	0.0	0.0	0.0	0.0	−0.5	−0.5
Balance as of 31 December 2006	**290.6**	**383.9**	**128.5**	**41.0**	**1.2**	**845.2**
Adjustment of previous year	0.0	−7.9	−0.1	0.0	0.0	−8.0
Balance as of 1 January 2007	**290.6**	**376.0**	**128.5**	**41.0**	**1.2**	**837.3**
Change in scope of consolidation	0.0	−1.7	0.0	0.0	0.0	−1.7
Unrealized gains and losses on investments	0.0	0.0	−62.6	0.0	0.0	−62.6
Net profit for the year, previous year	0.0	41.0	0.0	−41.0	0.0	0.0
Net profit for the year, financial year	0.0	0.0	0.0	85.2	0.2	85.3
Distribution	0.0	0.0	0.0	0.0	−0.5	−0.5
Balance as of 31 December 2007	**290.6**	**415.3**	**65.9**	**85.2**	**0.8**	**857.8**

The subscribed capital and capital reserves of the Group parent, Gothaer Allgemeine Versicherung AG, come to a total of €290.6 million. The subscribed capital in the amount of DM 300 million (€153.4 million) consists of 8,000 registered shares of DM 100 each, 16,000 registered shares of DM 200 each and 296,000 registered shares of DM 1,000. A total of 11,500 shares with a nominal value of a total €3.3 million are not paid in. The capital reserves in the amount of €138.9 million consist exclusively of share premiums.

Due to the reform of the German Insurance Contract Act *(Versicherungsvertragsgesetz)*, the deferred acquisition costs of property insurance companies must now be amortized over a shorter period of time. The period of amortization was shortened in compliance with IAS 8, which resulted in a reduction in revenue reserves for the previous year.

Investments previously classified as available for sale were reclassified as investments held to maturity or loans upon first-time adoption of revised IAS 39 in 2005. Unrealized gains and losses on these reclassified investments are carried as a separate item. This reserve is shown under Other reserves. This reserve came to €1.3 million as of 1 January 2007 and was reduced to €1.2 million as a result of the disposal of financial investments and amortization of reserves.

Profit for the year came to €85.2 million (PY: €41.0 million) in 2007. Earnings per share are determined by dividing consolidated earnings by the average number of common shares outstanding during the period. Earnings per share came to €266.1 (PY: €128.2).

Cash Flow Statement

	2007 €million	2006* €million
Net profit for the year**	85.3	41.0
Of which: taxes on income paid (net)	*– 5.0*	*8.0*
Of which: net interest	*5.2*	*3.8*
Change in unearned premiums	8.1	0.6
Change in policy reserves	0.9	1.8
Change in reserves for unpaid claims	67.6	8.4
Change in other underwriting reserves	– 3.4	– 1.8
Change in deferred acquisition costs	28.4	19.5
Change in deposits with ceding undertakings/received from reinsurers and settlements of receivables and liabilities	– 14.0	15.3
Change in investments measured at fair value through profit or loss	14.5	0.1
Change in other receivables and other liabilities	– 23.7	47.5
Realized gains and losses on investments	15.5	– 12.8
Correction for investment income and expenses with no effect on the movement of funds	15.7	21.7
Other	– 35.3	36.2
Cash flow from operating activities	**159.6**	**177.5**
Cash outflow for the acquisition of other investments	– 784.2	– 909.6
Cash inflow from the divestiture of other investments	721.6	658.5
Dividends / Transfer of profit	– 27.4	– 21.2
Cash flow for investing activities	**– 89.9**	**– 272.4**
Changes in participation certificates and subordinate liabilities	0.0	198.9
Other	– 83.1	– 77.0
Cash flow for/from financing activities	**– 83.1**	**121.8**
Total cash flow	**– 13.5**	**27.0**
Cash and cash equivalents at the beginning of financial year	65.9	38.9
Cash and cash equivalents at the end of financial year	52.4	65.9
Change in cash and cash equivalents	**– 13.5**	**27.0**

* Comparatives after restatement.

** Including minority interests.

No shares in subsidiaries or other business units were acquired or disposed of in the past financial year.

Segmental Report

Consolidated Balance Sheet – Assets

	Insurance – Personal		Insurance – Commercial & Corporate	
	2007 €million	2006* €million	2007 €million	2006* €million
A. Intangible assets				
I. Goodwill	0.0	0.0	0.0	0.0
II. Other intangible assets	33.8	28.3	16.3	13.8
Total A.	**33.8**	**28.3**	**16.3**	**13.8**
B. Tangible assets	**4.9**	**4.0**	**5.2**	**3.9**
C. Investments				
I. Investment property	0.0	0.0	0.0	0.0
Of which: in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
II. Shares in affiliated and associated companies				
1. Shares in affiliated and associated companies – non-consolidated	117.2	102.5	181.7	153.9
2. Shares in associated companies – carried at equity	70.7	66.9	109.6	100.4
Total II.	187.9	169.5	291.3	254.3
III. Investments held to maturity	98.3	96.0	152.4	144.0
IV. Loans	377.3	356.7	541.8	517.2
V. Investments available for sale	410.2	421.2	628.5	612.1
VI. Investments measured at fair value through profit or loss	19.6	20.0	30.4	30.0
VII. Other investments	36.3	55.7	44.8	81.4
Total C.	**1,129.6**	**1,119.1**	**1,689.2**	**1,639.0**
D. Reinsurers' share of underwriting reserves	**252.8**	**257.1**	**247.0**	**267.3**
E. Deferred acquisition costs	**32.0**	**52.4**	**12.9**	**20.8**
F. Other segment assets	**260.4**	**293.5**	**210.4**	**235.2**
Total assets	**1,713.5**	**1,754.4**	**2,181.0**	**2,180.0**

* Comparatives after restatement.

Non-Insurance		Consolidation		Total	
2007 €million	2006* €million	2007 €million	2006* €million	2007 €million	2006* €million
0.0	0.0	14.5	14.5	14.5	14.5
15.5	18.3	0.0	0.1	65.6	60.5
15.5	**18.3**	**14.5**	**14.6**	**80.1**	**75.0**
19.5	**14.7**	**0.1**	**0.1**	**29.7**	**22.7**
0.3	0.0	0.0	0.0	0.3	0.0
0.3	*0.0*	*0.0*	*0.0*	*0.3*	*0.0*
0.0	0.0	0.0	0.0	298.9	256.4
0.0	0.0	–74.2	–61.7	106.1	105.6
0.0	0.0	–74.2	–61.8	405.0	362.0
0.0	0.0	0.0	–0.1	250.7	239.9
0.0	0.0	0.0	0.1	919.1	874.0
0.0	0.0	0.0	0.1	1,038.7	1,033.4
0.0	0.0	0.0	0.0	50.0	50.0
0.0	0.0	–0.1	0.0	81.0	137.1
0.3	**0.0**	**–74.3**	**–61.8**	**2,744.8**	**2,696.3**
0.0	**0.0**	**0.0**	**0.0**	**499.8**	**524.4**
0.0	**0.0**	**0.0**	**0.0**	**44.9**	**73.2**
110.1	**117.3**	**–3.7**	**–7.0**	**577.2**	**639.0**
145.4	**150.3**	**–63.4**	**–54.1**	**3,976.5**	**4,030.6**

Consolidated Balance Sheet – Liabilities

	Insurance – Personal		Insurance – Commercial & Corporate	
	2007 €million	2006* €million	2007 €million	2006* €million
A. Gross underwriting reserves				
I. Unearned premiums	143.2	145.7	111.3	106.3
II. Policy reserves	50.5	49.6	0.0	0.0
III. Reserves for unpaid claims	747.6	740.7	995.0	962.0
IV. Other underwriting reserves	17.1	13.0	4.6	3.3
Total A.	**958.4**	**949.0**	**1,110.9**	**1,071.6**
B. Other reserves	**50.3**	**50.6**	**42.5**	**42.3**
C. Other segment liabilities	**443.1**	**515.5**	**360.9**	**430.4**
Total segment liabilities	**1,451.8**	**1,515.1**	**1,514.3**	**1,544.3**
Equity (including Minority interests)**				
Total assets				

* Comparatives after restatement.

** Equity is shown only for the Group as a whole. Segmentation would result in an inaccurate presentation of capitalization due to interlocking intersegmental arrangements.

Non-Insurance		Consolidation		Total	
2007 €million	2006* €million	2007 €million	2006* €million	2007 €million	2006* €million
0.0	0.0	0.0	0.0	254.5	252.0
0.0	0.0	0.0	0.0	50.5	49.6
0.0	0.0	0.0	0.0	1,742.6	1,702.7
0.0	0.0	0.0	0.0	21.7	16.3
0.0	**0.0**	**0.0**	**0.0**	**2,069.3**	**2,020.6**
38.1	**32.8**	**0.0**	**– 0.1**	**130.9**	**125.6**
123.6	**106.3**	**– 9.1**	**– 5.0**	**918.5**	**1,047.1**
161.7	**139.1**	**– 9.1**	**– 5.1**	**3,118.7**	**3,193.3**
				857.8	**837.3**
				3,976.5	**4,030.6**

Consolidated Income Statement

	Insurance – Personal		Insurance – Commercial & Corporate	
	2007 €million	2006* €million	2007 €million	2006* €million
1. Gross premiums written from insurance business with non-related third parties	786.2	772.8	647.4	631.5
2. Net premiums earned	661.1	636.0	510.4	483.4
3. Investment income	69.7	44.9	105.1	65.5
Of which: from associated Companies	*0.7*	*0.2*	*1.1*	*0.3*
4. Other income	49.7	45.6	39.9	36.8
Total income	780.5	726.5	655.4	585.7
5. Policyholder benefits (net)	426.2	361.6	354.8	310.8
6. Underwriting expenses (net)	221.8	201.9	174.4	160.1
7. Other expenses	67.4	69.7	52.4	53.0
Total expenses	715.4	633.2	581.6	523.9
8. Operating results	65.1	93.3	73.8	61.8
9. Net interest	8.5	4.2	7.3	3.6
10. Expense arising from interest on long-term borrowings	0.0	0.0	0.0	0.0
11. Taxation	28.4	13.6	–26.9	9.9
12. Profit for the year prior to transfer of profit	85.0	75.5	93.4	48.3
13. Expense from transfer of profit				
14. Profit for the year after transfer of profit				
15. Minority Interests				
16. Net profit for the year available for distribution to shareholders of the parent company**				

* Comparatives after restatement.

** Net profit for the year is shown only for the Group as a whole. Segmentation would result in an inaccurate presentation due to interlocking intersegmental arrangements.

Non-Insurance		Consolidation		Total	
2007 €million	2006* €million	2007 €million	2006* €million	2007 €million	2006* €million
0.0	0.0	0.0	0.0	1.433.6	1.404.3
0.0	0.0	0.0	–0.1	1.171.5	1.119.3
0.0	0.0	7.6	2.4	182.4	112.8
0.0	*0.0*	*10.0*	*5.6*	*11.8*	*6.1*
162.2	156.7	–59.9	–57.4	191.9	181.7
162.2	156.7	–52.3	–55.1	1.545.8	1.413.8
0.0	0.0	0.0	0.1	781.0	672.5
0.0	0.0	0.0	0.0	396.2	362.0
159.3	155.9	–60.0	–57.3	219.1	221.3
159.3	155.9	–60.0	–57.2	1.396.3	1.255.8
2.9	0.8	7.7	2.1	149.5	158.0
3.9	3.9	0.0	0.0	19.7	11.7
0.0	0.0	–0.5	–0.2	–0.5	–0.2
15.2	–0.4	0.0	–0.1	–40.1	23.0
–16.2	–2.7	8.2	2.4	170.4	123.5
				85.0	82.5
				85.4	41.0
				0.2	0.0
				85.2	41.0

Notes to the Consolidated Financial Statements
Group Accounting Policies

Gothaer Allgemeine Versicherung AG is the ultimate parent of the Gothaer Allgemeine Group. Gothaer Allgemeine Versicherung AG issued a hybrid bond on the Luxembourg stock exchange in the financial year 2006. As a capital market-oriented company within the meaning of section 2 of the Securities Trading Act *(Wertpapierhandelsgesetz),* Gothaer Allgemeine Versicherung AG must prepare consolidated financial statements and a Group management report pursuant to sections 341i, 341j and 290 et seq. of the German Commercial Code *(Handelsgesetzbuch)*. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as allowed by section 315(1) of the German Commercial Code. The informational value of these IFRS consolidated financial statements is equivalent to that of consolidated financial statements prepared in accordance with the German Commercial Code.

The consolidated financial statements were prepared on the basis of the standards applied in the course of the financial year. However, the International Accounting Standards Board (IASB) has been gradually replacing its International Accounting Standards (IASs) by the International Financial Reporting Standards (IFRSs) since 2003. In addition, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), were also observed. The IASB had not completed its regulations governing the recognition and measurement of insurance transactions in 2007. Consistent with the framework of IFRS and IAS 1/IFRS 4, the US Generally Accepted Accounting Principles (US GAAP) were therefore applied, in particular Financial Accounting Standards (FAS) 60.

The consolidated financial statements are denominated in euros and amounts are shown in millions of euros. The consolidated financial statements consist of the consolidated balance sheet and income statement, statement of changes in equity, cash flow statement, segmental report and notes to the consolidated financial statements. The consolidated financial statements are supplemented by a Group management report. In addition to a review of business developments in the various segments, the latter contains statements on capital management as well as a risk report and forecast.

In keeping with the internal organizational structure of the Gothaer Allgemeine Group, a distinction is made between the personal and commercial and corporate insurance segments and non-insurance activities (primary segment). Geographic segmentation (secondary segment) is omitted since our business is concentrated in Germany and the conditions for reportable geographic segments pursuant to IAS 14.35 do not exist. Intersegmental consolidation is shown under “Consolidation.”

The cash flow statement shows the change in cash and cash equivalents for the financial year. A distinction is made here between cash flows from current operating activities, investing activities and financing activities. The indirect method is used to report cash flows from current operating activities. In this case, net profit for the year is adjusted to eliminate the effects of transactions of a non-cash nature (in particular write-ups/write-downs, changes in reserves, changes in current assets, receivables and liabilities). Net profit or loss for the period is also adjusted for items of income or expense associated with investing or financing cash flows. The direct method is used to report cash flows from investing activities. Inflows and outflows of funds from the accounts of the various companies are provided. Essentially, inflows and outflows of funds in connection with acquisitions/disposals are shown here. Cash flows are adjusted to eliminate the effects of changes in the scope of consolidation. The direct method is used to report cash flows from financing activities. Cash and cash equivalents include current credit balances with financial institutions, checks and cash on hand.

Principles of Consolidation

The financial statements for the year ended 31 December 2007 of all companies whose accounts are included in the consolidated financial statements consistently reflect application of Group accounting and valuation methods. Interim financial statements were prepared for special funds with a 31 January 2007 closing date.

Subsidiaries and special funds are consolidated if they are controlled directly or indirectly by the Gothaer Allgemeine Group. The day on which the Gothaer Allgemeine Group assumes control of a company is taken as the date of first-time consolidation. The acquisition method of accounting is used for purposes of consolidation. This involves recognition of the proportionate share of the assets, liabilities and contingent liabilities of the acquired undertaking corresponding to the parent company's share of the equity of the subsidiary at fair value (complete revaluation). A positive difference is allocated to the proportionate share of hidden reserves and charges contained in the assets and liabilities and goodwill. Goodwill is recognized as an asset and tested for impairment at least once a year. Negative differences are recorded under the same headings as positive differences and charged to the income statement in the year in which they originate.

Income generated by subsidiaries after first-time consolidation is included in the revenue reserves of the Group after deduction of any minority interests Minority interests are shown on the face of the balance sheet under equity.

Intragroup operating receivables and payables, expenses and income and profits are eliminated unless they are of insignificant importance for presentation of the net assets, financial position and results of operation of the Group.

Scope of Consolidation

The consolidated financial statements include the accounts of four subsidiaries (PY: three) pursuant to IAS 27. These include one insurance company and three other companies. Interests in four companies (PY: eight) were recognized in the consolidated financial statements under the equity method of accounting according to IAS 28. Two of these companies were recognized at equity despite an interest in excess of 50% although the Company controls only 50% of the voting rights. As allowed by IAS 31, proportionate consolidation was not used for these entities. In addition, five special funds were consolidated pursuant to SIC 12, as was the case a year earlier.

As a result of the restructuring of the holdings of the parent group with Gothaer Versicherungsbank VVaG at its head, shares of Gothaer Allgemeine Versicherung AG in Gothaer Invest- und FinanzService GmbH, Hamburg-Kölner-Vermögensverwaltungsgesellschaft mbH and Allgemeine Versicherungs-Software GmbH were transferred to other companies. In 2007, it was necessary to deconsolidate these interests from the consolidated financial statements of Gothaer Allgemeine. Due to an increase in the interest held, the interest in GG-Grundfonds Vermittlungs GmbH, which was recognized at equity in the previous year, was fully consolidated in the financial year.

All consolidated companies belonging to the Gothaer Group in the year 2007 (with the exception of the special funds) are listed below. The option allowed by the third sentence of no. 4 of section 313(2) of the German Commercial Code of not disclosing a complementary list of subsidiary undertakings pursuant to section 313(4) of the Commercial Code was exercised.

Subsidiaries (fully consolidated pursuant to IAS 27)

	Interest %	Equity* €thousands	Profit* €thousands
GG-Grundfonds Vermittlungs GmbH, Cologne	100.00	–14,516.8	68.4
IDG Informationsverarbeitung und Dienstleistungen GmbH, Cologne	74.90	5,783.3	2,109.0
Janitos Versicherung AG, Heidelberg	100.00	21,539.9	2,086.6
Munich CARLYLE Productions GmbH & Co. KG, Grünwald	93.93	–64,202.7	609.6

* Based on financial statements according to German Commercial Code.

Associated Companies (consolidated at equity pursuant to IAS 28)

	Interest %
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH, Cologne	20.00
Gothaer Zweite Beteiligungsgesellschaft Niederlande mbH, Göttingen	28.60
KILOS Beteiligungs GmbH & Co. Vermietungs-KG, Pöcking	93.06
TRIFORUM Verwaltung GmbH & Co. Objekt IKS Köln KG, Pöcking	88.10

Accounting Policies

Description of Methods of Accounting and Measurement in Use

Introduction

Financial statements are prepared on a going concern basis. Income and expenses are recognized when they occur, i.e., they are reported in the periods to which they relate. Settlement date accounting within the meaning of IAS 39 is used for purposes of recognition of financial assets. The respective companies are taken as cash-generating units within the meaning of IAS 36 for purposes of recognition and measurement of impairment losses.

New International Financial Reporting Standards

The following standards were applied in the financial year for the first time.

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 is not an accounting standard, but rather specifies the information that is to be disclosed on the effects of financial instruments on the net assets, financial position and results of operations. Most of the required information is presented in the risk report. In addition, the information presented under accounting policies and in the notes has been expanded.

IAS 1.124 – Information on Capital
Additional information on the capitalization and capital requirements of the Gothaer Allgemeine Group is disclosed in a separate report on capital management.

The following standards, which are not mandatory for the financial year, were not applied earlier.

IFRS 8 – Operating Segments
IFRS 8 adopts the management approach for identification of reportable segments for purposes of segmental reporting instead of the so-called risk and rewards approach of IAS 14. Under the management approach, the information that is regularly made available to chief operating decision-makers for decision-making purposes is now of decisive importance.
At the same time, the management approach is also adopted for purposes of measurement in the case of segments instead of the financial accounting approach under IAS 14. IFRS 8 is mandatory for annual periods beginning on or after 1 January 2009. Earlier application is permissible. First-time application of IFRS 8 will change the segmental reporting of the Gothaer Allgemeine Group in that items that do not fall under the control of individual segments. These items will no longer be assigned to the personal and commercial and corporate insurance segments.

IAS 1 (revised 2007) – Presentation of Financial Statements
As a result of the revision of IAS 1, a statement of financial position as of the beginning of the earliest comparative period is required in the case of retrospective restatement, correction of errors or reclassification of items in the financial statements. The presentation of the income statement and the statement of changes in equity has also been changed. Changes in unrealized gains or losses, which constitute other comprehensive income, are no longer to be shown in the statement of changes in equity, but instead in an expanded income statement.

The income statement now shows all items of recognized profit and loss, and not as in the past only items of profit and loss. IAS 1 (amended 2007) is mandatory for annual periods beginning on or after 1 January 2009. Earlier application is permissible. The changes do not concern valuation, but only presentation issues.

IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 addresses the measurement of pension plan surpluses that may be recognized as assets. IFRIC 14 concerns in particular minimum funding requirements. IFRS 14 is mandatory for annual periods beginning on or after 1 January 2008. It is currently not expected that application of IFRIC 14 will result in adjustments within the Gothaer Allgemeine Group.

Tangible Assets

Tangible fixed assets include operating and office equipment as well as technical equipment and machinery. These assets are carried at cost less accumulated depreciation. Tangible assets are regularly tested for impairment within the meaning of IAS 36. In the event of impairment, the carrying amount of impaired tangible assets is reduced to the recoverable amount. In the event the reasons leading to an impairment loss in the past no longer exist, the carrying amount of the asset is increased to a maximum of cost less accumulated depreciation.
Both impairment losses and reversals are shown in the income statement.

Intangible Assets

In the case of intangible assets, a distinction is made between goodwill and other intangible assets.

Goodwill is recognized under intangible assets in the consolidated financial statements upon first-time consolidation if the cost of an acquisition exceeds the proportionate share of the equity acquired after the release of hidden reserves. Goodwill is regularly tested for impairment within the meaning of IAS 36 (impairment only approach). In the event goodwill is found to be impaired, an impairment loss is recognized. The loss is recorded under Other expenses. Negative goodwill is shown in the same item as positive goodwill. The latter are carried directly to the income statement in the year of their occurrence. Reversals are shown under Other income.

Other intangible assets include internally generated and purchased software. All internally generated intangible assets meet the requirements of IAS 38. They are recognized at cost less any impairment losses and amortized over their useful lives (3 to 10 years).

Investments

Investment Property

Investment property includes exclusively a long-term asset held for sale, i.e., a piece of land. This asset is recognized at the lower of the carrying amount and fair value less costs to sell according to IFRS 5. An impairment test revealed no need for an impairment charge since the carrying amount did not exceed the recoverable amount of the asset to be disposed of.

Shares in Affiliated and Associated Companies

Shares in non-consolidated subsidiaries are recognized under investments in affiliated companies. They are carried at fair value in the “available for sale” category. In the case of listed shares, market prices as of the reporting date are used; in other cases, third-party valuations are used or carrying amounts determined using the income approach. Changes in fair value are transferred to equity under Other reserves. In the event of permanent impairment, on the other hand, the carrying amount is reduced to fair value and the loss shown in the income statement.

Interests in associated companies are recognized in the consolidated financial statements at equity, i.e., at the proportionate share of assets and liabilities. Income resulting from reversals or expense resulting from decreases in the amount recognized using the equity method is then shown under investment income.

Associated companies that are not accounted for at equity are carried at fair value as available for sale investments. The same accounting and valuation rules are used as for non-consolidated interests in affiliated companies.

The net yield on shares in affiliated and associated companies includes current income, any gains or losses on disposals and, where applicable, impairment losses. Current income includes dividend payments from affiliated and associated companies on the one hand as well as income realized upon consolidation of associated companies on the other hand.

Held to Maturity Investments

Held to maturity investments include bearer bonds and other loans that the Company intends to hold to maturity. These investments are carried at amortized cost. Any premiums or discounts are spread over the entire term using the effective interest method. Impairment tests are also carried out as of each reporting date. In the event it is determined that permanent impairment is likely, the carrying amount is reduced to the present value of expected future cash flows. In the event impairment from the past is reduced, the carrying amount is increased up to a maximum of initial cost less accumulated amortization. Both impairment losses and reversals are shown in the income statement under investment income.

The net yield on held to maturity investments includes current income, any gains or losses on disposal and, where applicable, impairment losses or reversals. Current income also includes amortization income or expense as well as interest income. Write-ups and write-downs also include translation differences in the case of securities denominated in foreign currencies as well as impairment losses and reversals.

Loans
Loans include fixed-income securities that are not listed on an active market as well as mortgage loans, policy loans and other loans. As in the case of held to maturity investments, loans are accounted for using the effective interest method. Impairment tests are also carried out as of each reporting date. The treatment of impairment losses and reversals is the same as that used for held to maturity investments. The components of the net yield on loans correspond to those of the net yield on held to maturity investments.

Available for Sale Investments
Available for sale investments include stocks, investment fund certificates, other non-fixed-income securities and other shares. In addition, this heading includes bearer bonds, other fixed-income securities, registered bonds and receivables due in connection with promissory notes and loans that are not carried as loans or held to maturity investments. These items are recognized at fair value.

In the case of publicly traded financial instruments, trading prices are taken at fair value; in the case of financial instruments that are not publicly traded, fair value is determined with the help of yield curves, discounted cash flow methods or prices obtained from outside valuation services. Temporary changes in fair value are transferred to equity under other reserves if appropriate after deduction of deferred taxes. In the case of likely permanent impairment, on the other hand, the carrying amount is reduced to fair value and the loss shown in the income statement. The Gothaer Allgemeine Group considers shares and interests in associated companies to be impaired if the fair value falls significantly below cost or has continuously remained below cost in the course of the nine months preceding the reporting date. In the case of fixed-income securities, permanent impairment is assumed in the event of a significant change in creditworthiness or if fair value lies significantly below cost. If the reasons for an impairment loss taken in the past no longer exist, the value of equity instruments is increased with no effect on the income statement.

In the case of fixed-income securities, impairment losses are reversed in an amount of up to a maximum of cost less accumulated amortization. Gains and losses on disposals are determined on the basis of the difference between the proceeds from the disposal and cost or, as the case may be, cost less accumulated amortization and any impairment losses.

The net yield on available for sale investments includes current income, gains or losses on disposal and any impairment losses or reversals. Current income includes dividend payments from non-fixed-income investments and interest from fixed-income securities, including amortization income or expense. Write-ups and write-downs also include translation differences in the case of fixed-income securities denominated in foreign currencies as well as impairment losses and reversals.

Investments Measured at Fair Value through Profit or Loss
This item includes exclusively derivative financial instruments. These investments are recognized at fair value, which is obtained on the basis of stock exchange prices or other valuation (use of external prices or option price models) as of the reporting date. Changes in fair value are credited to or charged against investment income after deduction of deferred taxes. Gains and losses on disposals are determined on the basis of the difference between the proceeds from the disposal and fair value as of the previous closing date.

The net yield on investments measured at fair value through profit or loss includes current income, gains or losses on disposals and any impairment losses or reversals. Current income includes essentially interest on fixed-income securities. Changes in fair value are reflected in impairment losses or reversals.

Other Investments
Other investments include deposits with financial institutions and deposits with ceding undertakings. They are recognized as loans at (amortized) cost or at nominal value pursuant to IAS 39. The fair value of Other investments normally corresponds to the carrying amount.

The net yield on Other Investments includes current income, any gains or losses on disposal and, where applicable, any impairment losses or reversals.

Receivables

Receivables are recognized pursuant to IAS 39 as loans at nominal value less any necessary write-offs. The fair value of loans and receivables normally correspond to the carrying amounts.

Deferred Acquisition Costs

FAS 60 defines acquisition costs as all variable costs that are directly incurred in connection with the acquisition or prolongation of insurance contracts. Such costs also include commissions for mediators. Acquisition costs are amortized on a straight-line basis over the legal term of the underlying contracts of up to three years. Acquisition costs capitalized in previous years will be completely amortized by no later than the year 2009. Deferred acquisition costs are assessed for impairment as of each reporting date by testing for recoverability.

Deferred Taxation

Temporary differences between carrying amounts in the IFRS balance sheet and the tax base are accounted for by recognition of deferred tax assets or liabilities. Deferred taxes may also result from the carryforward of unused tax losses or business combinations. Deferred tax assets are recognized only if it is probable that it will be possible to utilize the temporary difference against taxable profit. IAS 12.56 requires that the carrying amounts of deferred tax assets be reviewed as of each reporting date. The tax rate is determined on the basis of the respective tax situation of individual items or that of the Group companies. Changes in tax rates are taken into account as soon as they are enacted. Deferred taxes are consistently recognized in connection with the business transactions from which they result. As a result, transactions that affect only the balance sheet result in deferred taxes that are shown directly in equity and transactions that affect only the income statement result in deferred taxes that are shown in the income statement.

Other Assets

All other assets are shown at cost less accumulated depreciation or at nominal value less any necessary impairment losses.

Equity

Equity consists of subscribed capital and capital reserves, revenue reserves, other reserves, consolidated profit for the year and minority interests. Other reserves essentially include unrealized gains and losses on available for sale financial instruments, if applicable, adjustment for deferred taxes.

Underwriting Reserves

Gross underwriting reserves are shown under liabilities. The shares of reinsurers are shown on the assets side and are determined on the basis of the individual reinsurance contracts.

Unearned Premiums
Unearned premiums are updated daily on an individual basis. No expenses are deducted (reduction in unearned premiums as a function of a specific uniform expense ratio for commissions and administrative expense) since recognition of unearned premiums as liabilities entails recognition of deferred acquisition costs. Unearned premiums in connection with reinsurance assumed are consistently recognized on the basis of information from the cedents.

Policy Reserves
Policy reserves are underwriting reserves for guaranteed claims of policyholders. They concern essentially refund-of-premium accident insurance and annuity reserves. Policy reserves are estimated on an individual basis using the prospective method for life insurance contracts carried pursuant to FAS 60.

Accounting assumptions are made on the basis of expected investment yields, mortality and cancellation frequency as well as loss adjustment expenses as of the time the polices are written, taking into account adequate safety margins. In the event a loss recognition test shows a premium deficit, assumptions are revised and used as the basis for future adjustment of the policy reserves. Policy reserves include surpluses already allocated to policyholders.

Reserves for Unpaid Claims
Reserves for unpaid claims include liabilities in connection with insurance policies of uncertain amount or timing. In the area of property&casualty insurance, the ultimate cost of settlement per year of occurrence is estimated pursuant to FAS 60 on the basis of past experience using recognized statistical methods and taking into account current or anticipated trends and calculated along with the cost of loss adjustment. This provides the basis for determination of the required loss reserves. For reasons of materiality, individual reserves for unpaid claims are established for individual lines of insurance on the basis of past experience when they are of importance for losses incurred but not reported.

With the exception of reserves for annuities, reserves for unpaid claims are not discounted. For technical reasons, estimated liabilities may differ from actual expenses.

Other Underwriting Reserves
Other underwriting reserves essentially include reserves for premium refunds.

Reserves for profit-related premium refunds involve primarily refund-of-premium accident insurance and take into account all amounts to be used for payment of bonuses to policyholders on the basis of policy conditions. Reserves for premium refunds comply with the definition of discretionary participation features pursuant to IFRS 4. Reserves for non-profit-related premium refunds in the Marine area are based on policy conditions.

Application of IFRS 4 requires regular assessment of the adequacy of insurance liabilities (liability adequacy test). Premium deficiency reserves are established for various insurance portfolios when future premiums and the corresponding investment income of these portfolios are not expected to cover anticipated claims and expenses. However, only that portion in excess of deferred acquisition costs calculated at the level of the line of insurance is included in premium deficiency reserves.

Equalization reserves established pursuant to the provisions of the German Commercial Code are not considered liabilities and are therefore not recognized under IAS 37.

Provisions for Pension Benefits and Similar Obligations

Group companies for the most part use defined-benefit plans to provide pension benefits. Defined-benefit pension plans are accounted for using the projected unit credit method pursuant to IAS 19, taking into account actuarial assumptions. Recognition is based on the use of current mortality tables, disability and fluctuation probability, assumptions on increases in income and benefits and a realistic discount rate. Actuarial gains and losses result from differences between actual obligations and benefits paid and obligations and benefits anticipated on the basis of actuarial assumptions as well as from changes in actuarial assumptions. Actuarial gains and losses are accounted for using the corridor method pursuant to IAS 19.92.

Tax Accruals and Other Accruals

Tax accruals are established in accordance with the provisions of national tax law. Other accruals and provisions are established in amounts based on best estimates of the outflow of funds required to settle the corresponding obligations as of the reporting date. Long-term accruals and provisions are discounted if the interest effect is significant.

Liabilities

In addition to long-term borrowings, this item includes participation certificates, subordinate liabilities, bonds and loans, deposits received from reinsurers and other liabilities. These liabilities are all recognized at repayable amounts. This item also includes investments held for trading with a negative fair value.

Premiums

Premiums earned do not include those components of premiums that may be recognized as revenue only after the reporting date.

Currency Translation

The consolidated financial statements of the Gothaer Allgemeine Group are denominated in euros. All companies whose accounts are included in the consolidated financial statements denominate their financial statements in euros. Since the Group's business activities are concentrated in Germany, currency translation is of insignificant importance.

Cash and cash equivalents denominated in foreign currencies are translated at the exchange rates prevailing as of the reporting date. Other items denominated in foreign currencies that are carried at historical cost are translated at the exchange rates prevailing at the time of acquisition. Non-monetary items denominated in foreign currencies that are carried at fair value are translated at the exchange rates prevailing at the time of valuation. Underwriting liabilities involving payment in foreign currencies must be covered by funds in the same currency (congruent coverage) to the extent possible due to the difficulty of estimating such contingent liabilities.

Differences in connection with monetary financial instruments that result from translation of items denominated in foreign currencies as of the reporting date at an exchange rate that differs from that used for first-time recognition are shown in the income statement.

Leasing Agreements

Operating leases are used essentially for tangible fixed assets. In the case of such leases, assets are not recognized by the lessee since the lessor retains the related benefits and risks of ownership. Lease payments are recognized as expense in the financial year in which they occur.

Finance leases exist in the area of EDP hardware. Assets used under finance leases are recognized as assets by the lessee. In addition, lease payments due at future dates are recognized as liabilities.

Other Information

Due to the presentation of amounts in millions of euros, rounding differences may occur in tables.

Comments on the information on insurance policies required under IFRS 4 are provided in the risk report as well as under accounting policies.

Notes to the Consolidated Balance Sheet – Assets

[1] Goodwill

Goodwill in connection with companies carried at equity is recognized under shares in associated companies.

As in the previous year, no losses were taken on the basis of impairment tests pursuant to IAS 36 in the financial year.

[2] Other Intangible Assets

Change in the Financial Year	Self-developed		Purchased		Total	
	2007 €million	2006 €million	2007 €million	2006* €million	2007 €million	2006* €million
Gross as of 31.12. of previous year	100.3	93.6	112.5	102.9	212.8	196.4
Accumulated amortization as of 31.12. of previous year	75.9	72.4	76.4	70.0	152.3	142.5
Balance as of 31.12. of previous year	24.4	21.1	36.1	32.8	60.5	54.0
Additions	6.4	9.4	14.0	12.0	20.3	21.4
Disposals	0.0	0.1	0.9	0.0	0.9	0.1
Amortization	5.6	6.0	8.7	8.8	14.3	14.8
Balance as of 31.12. of financial year	**25.2**	**24.4**	**40.4**	**36.1**	**65.6**	**60.5**
Accumulated amortization as of 31.12. of financial year	81.5	75.9	85.3	76.4	166.7	152.3
Gross as of 31.12. of financial year	**106.7**	**100.3**	**125.7**	**112.5**	**232.3**	**212.8**

* Comparatives after restatement.

Other intangible assets have a useful life between three and ten years.

[3] Tangible Assets

Change in the Financial Year	2007 €million	2006* €million
Gross as of 31.12. of previous year	167.3	172.0
Accumulated depreciation as of 31.12. of previous year	144.7	146.3
Balance as of 31.12. of previous year	22.7	25.7
Additions	17.1	8.9
Disposals	0.1	4.0
Scheduled depreciation	10.0	7.9
Balance as of 31.12. of financial year	**29.7**	**22.7**
Accumulated depreciation as of 31.12. of previous year	150.8	144.7
Gross as of 31.12. of financial year	**180.5**	**167.3**

* Comparatives after restatement.

The balance consists exclusively of operating and office equipment.

[4] Investment Property

Change in the Financial Year	2007 €million	2006* €million
Gross as of 31.12. of previous year	0.1	1.0
Accumulated depreciation as of 31.12. of previous year	0.1	0.0
Balance as of 31.12. of previous year	0.0	1.0
Change in scope of consolidation	0.3	0.0
Additions	0.0	0.0
Disposals	0.0	0.9
Scheduled depreciation	0.0	0.1
Balance as of 31.12. of financial year	**0.3**	**0.0**
Accumulated depreciation as of 31.12. of previous year	0.0	0.1
Gross as of 31.12. of financial year	**0.3**	**0.1**

* Comparatives after restatement

The fair value of investment property comes to €0.3 million (PY: €1.0 million).

[5] Shares in Affiliated and Associated Companies

Four (PY: eight) associated companies were carried at equity, i.e., at the proportionate share of equity in the amount of €101.4 million (PY: €100.3 million), in the consolidated financial statements for the financial year. The fair value of these associated companies comes to €91.9 million (PY: €117.8 million).

Shares in Associated Companies – Consolidated at Equity

	2007 €million	2006* €million
Proportionate share of equity	101.4	100.3
Goodwill	4.7	5.3
Balance as of 31.12. of financial year	**106.1**	**105.6**

* Comparatives after restatement

The decrease in goodwill resulted from deconsolidation of Gothaer Invest- und Finanz-Service GmbH.

The proportionate share of assets of associated companies consolidated at equity comes to a total of €119.9 million (PY: €159.0 million) and that of liabilities to €19.3 million (PY: €62.5 million). Income for the financial year comes to €19.0 million (PY: €30.4 million). The proportionate share of profit for the year came to a total of €12.2 million (PY: €3.0 million).

Non-consolidated interests in affiliated and associated companies are recognized at fair value under available for sale investments. Unrealized gains or losses are taken into account under equity.

Shares in Affiliated and Associated Companies – Non-Consolidated

	Amortized cost		Unrealized gains		Unrealized losses		Fair value	
	2007 €million	2006* €million	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million
	234.1	**197.9**	**67.8**	**59.2**	**3.0**	**0.7**	**298.9**	**256.4**

* Comparatives after restatement.

[6] Held to Maturity Investments

	Amortized cost		Unrealized gains		Unrealized losses		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million
Bearer bonds	249.8	239.0	0.0	0.5	21.0	7.1	228.8	232.4
Other loans	0.9	0.9	0.0	0.0	0.0	0.0	0.9	0.9
Total	**250.7**	**239.9**	**0.0**	**0.5**	**21.0**	**7.1**	**229.7**	**233.3**

Maturities
Held to Maturity Investments

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million
Up to 1 year	10.3	0.9	8.3	0.9
1 to 2 years	6.0	10.0	5.9	10.1
2 to 3 years	2.4	6.0	2.3	6.0
3 to 4 years	24.0	2.4	23.4	2.3
4 to 5 years	33.5	13.8	32.5	13.4
5 to 10 years	146.4	161.5	132.8	156.9
After 10 years	28.1	45.3	24.5	43.7
Total	**250.7**	**239.9**	**229.7**	**233.3**

Rating Classes
Held to Maturity Investments

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million
AAA	0.0	0.0	0.0	0.0
AA	7.8	0.0	7.5	0.0
A	126.2	100.7	116.2	97.0
BBB	106.9	137.7	97.7	134.8
BB	9.8	1.5	8.3	1.5
B	0.0	0.0	0.0	0.0
CCC and lower	0.0	0.0	0.0	0.0
Non-rated	0.0	0.0	0.0	0.0
Total	**250.7**	**239.9**	**229.7**	**233.3**

[7] Loans

	Amortized cost		Unrealized gains		Unrealized losses		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million
Mortgage loans	5.9	6.8	0.0	0.2	0.0	0.1	5.8	6.9
Loans and advance payments on insurance policies	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Loans to affiliated and associated companies	225.8	214.9	0.0	0.0	0.0	0.0	225.8	214.9
Other loans	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Bearer bonds	262.5	272.5	0.1	0.1	7.1	7.1	255.5	265.5
Promissory loans	423.9	379.7	0.7	1.6	29.5	12.0	395.2	369.3
Total	**919.1**	**874.0**	**0.8**	**1.9**	**36.6**	**19.2**	**883.3**	**856.7**

Gothaer Finanzholding AG, the parent company of Gothaer Allgemeine Versicherung AG, accounts for €200.0 million (PY: €200.0 million) of the loans to affiliated and associated companies. In addition, Kilos Beteiligungs GmbH & Co. Vermietungs-KG, which is carried at equity, accounts for €10.2 million (PY: €0.0 million) and non-consolidated associated companies account for €15.6 million (PY: €14.9 million).

Maturities
Loans

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million
Up to 1 year	48.3	30.6	48.0	30.3
1 to 2 years	117.9	37.2	114.9	36.7
2 to 3 years	149.8	118.0	144.5	114.7
3 to 4 years	63.7	149.8	61.1	144.7
4 to 5 years	134.7	70.4	123.1	68.5
5 to 10 years	288.6	376.0	284.7	373.5
After 10 years	116.1	92.0	107.0	88.3
Total	**919.1**	**874.0**	**883.3**	**856.7**

Rating Classes
Loans

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006 €million
AAA	306.6	267.4	298.2	260.6
AA	249.8	256.0	232.5	249.4
A	328.7	327.2	318.7	323.3
BBB	0.0	0.0	0.0	0.0
BB	0.0	0.0	0.0	0.0
B	0.0	0.0	0.0	0.0
CCC and lower	0.0	0.0	0.0	0.0
Non-rated	34.0	23.4	33.9	23.4
Total	**919.1**	**874.0**	**883.3**	**856.7**

Impairment
Loans

	2007 €million	2006 €million
Amortized cost before impairment	0.1	1.6
Change in fair value		
Due to significant change in creditworthiness	0.0	1.5
Due to significant decrease in fair value	0.0	0.0
Fair value after impairment	**0.1**	**0.1**

[8] Available for Sale Investments

	Amortized cost		Unrealized gains		Unrealized losses		Fair value	
	2007 €million	2006 €million	2007 €million	2006* €million	2007 €million	2006 €million	2007 €million	2006* €million
Non-fixed-income securities	404.8	374.8	35.2	81.8	21.0	7.3	418.9	449.2
Fixed-income securities								
– Bearer bonds	566.7	578.9	2.6	5.9	22.0	11.8	547.4	573.1
– Promissory notes	61.1	0.0	0.0	0.0	0.0	0.0	61.1	0.0
– Other loans	12.4	12.2	0.0	0.0	1.1	1.1	11.3	11.1
Total	**1,045.0**	**965.9**	**37.8**	**87.7**	**44.1**	**20.2**	**1,038.7**	**1,033.4**

* Comparatives after restatement.

Maturities
Available for Sale Investments
Fixed-income

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006* €million
Up to 1 year	21.0	13.0	20.9	12.9
1 to 2 years	67.3	29.9	66.6	29.4
2 to 3 years	60.3	58.1	58.9	56.8
3 to 4 years	48.3	60.2	46.6	58.4
4 to 5 years	50.4	57.5	48.0	56.2
5 to 10 years	276.2	262.8	272.4	261.5
After 10 years	116.7	109.6	106.4	109.0
Total	**640.2**	**591.1**	**619.8**	**584.2**

* Comparatives after restatement.

Rating Classes
Available for Sale Investments
Fixed-income

	Amortized cost		Fair value	
	2007 €million	2006 €million	2007 €million	2006* €million
AAA	287.6	361.4	280.8	356.4
AA	139.5	70.5	138.1	71.7
A	112.6	102.5	103.8	99.6
BBB	27.0	37.1	25.4	35.8
BB	17.6	14.8	17.7	15.5
B	6.8	3.6	6.5	3.8
CCC and lower	0.1	0.0	0.1	0.0
Non-rated	49.0	1.2	47.4	1.4
Total	**640.2**	**591.1**	**619.8**	**584.2**

* Comparatives after restatement.

Concentration of default risks is avoided through strict limits across all fixed-income securities imposed by the supervisory bodies of the Gothaer Allgemeine Group. In addition, the amounts and ratings of individual exposures are constantly monitored to permit timely identification of possible defaults.

The effective interest rates on our fixed-income securities lie between 3.3% and 16.3%. All valuation categories include financial instruments with variable coupons that are dependent upon market conditions or specific corporate events.

Impairment
Available for Sale Investments

	2007 €million	2006 €million
Amortized cost before impairment	42.3	9.8
Impairment		
Due to significant decrease in fair value	8.5	1.5
Due to permanent negative fair value reserve	0.8	0.1
Due to repeated impairment of impaired investments	3.9	0.4
Fair value after impairment	**29.1**	**7.8**

[9] Investments Measured at Fair Value through Profit or Loss

	2007 €million	2006* €million
Non-fixed-income	13.9	16.0
Fixed-income	36.1	34.0
Total	**50.0**	**50.0**

* Comparatives after restatement.

Derivatives are financial instruments whose value changes as a function of the changes in one or more underlying assets. Derivative financial instruments are used within the Gothaer Allgemeine Group for purposes of performance management and protection of investment portfolios against falling prices. In particular, forward foreign exchange contracts are used to protect against exchange rate risks and interest swaps to protect against changes in interest rates. All derivative financial instruments are recognized on the basis of conventional option, future and swap models.

Since the Gothaer Allgemeine Group does not use hedge accounting within the meaning of IAS 39, all derivative financial instruments are shown under Investments measured at fair value through profit or loss.

Embedded derivatives that have to be separated from the host contracts and shown under this item. Hybrid financial instruments are normally fixed-income securities that have been united with a derivative. All embedded derivatives are separated from their host contracts in compliance with the provisions of IAS 39.11(a) when their characteristics and risks are not closely related to those of the respective host contracts and they go beyond the interest risks of the respective host contracts. Host contracts are normally recognized as fixed-income securities at amortized cost under loans or investments held to maturity.

The Gothaer Allgemeine Group also holds bonds with interest coupons and/or redemptions that are linked to a reference instrument (e.g., stock indexes or hedge funds). Such structures consist of a plain vanilla bond and a long call or a total return swap on the underlying reference asset.

Derivative financial instruments normally have no cost. Derivative financial instruments with a negative fair value are shown in equity and liabilities under the heading D. V.

Maturities
Investments Measured at Fair Value through Profit or Loss
Fixed-Income

	2007 €million	2006* €million
Up to 1 year	5.0	1.2
1 to 2 years	0.2	0.0
2 to 3 years	4.6	1.6
3 to 4 years	4.5	5.4
4 to 5 years	13.8	5.1
5 to 10 years	8.0	20.6
After 10 years	0.0	0.1
Total	36.1	34.0

* Comparatives after restatement.

Rating Classes
Investments Measured at Fair Value through Profit or Loss
Fixed-Income

	2007 €million	2006* €million
AAA	0.0	1.3
AA	0.0	0.0
A	0.0	0.0
BBB	0.0	0.0
BB	0.0	0.0
B	0.0	0.0
CCC and lower	0.0	0.0
Non-rated	36.1	32.7
Total	**36.1**	**34.0**

* Comparatives after restatement.

[10] Other Investments

	2007 €million	2006 €million
Deposits with ceding untertakings	17.4	16.2
Bank deposits	63.6	120.9
Total	**81.0**	**137.1**

The carrying amount of Other investments corresponds to fair value.

[11] Receivables

	2007 €million	2006* €million
Receivables from direct insurance business		
from policyholders	54,1	46,7
from mediators	60,5	128,5
Accounts receivable in connection with reinsurance business	62,1	38,0
Accounts receivable from affiliated and associated companies	14,0	46,9
Deferred interest and rent	31,5	28,9
Other	130,2	125,4
Total	**352,4**	**414,4**

* Comparatives after restatement.

The carrying amount of receivables corresponds to fair value.

Other Investments/Receivables
Maturities

	Deposits with ceding untertakings		Deposits with financial institutions		Other receivables	
	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006* €million
Up to 1 year	17.4	16.2	63.6	120.9	319.8	344.7
1 to 2 years	0.0	0.0	0.0	0.0	3.8	3.7
2 to 3 years	0.0	0.0	0.0	0.0	3.4	3.5
3 to 4 years	0.0	0.0	0.0	0.0	3.2	3.3
4 to 5 years	0.0	0.0	0.0	0.0	3.0	3.1
5 to 10 years	0.0	0.0	0.0	0.0	12.5	3.0
After 10 years	0.0	0.0	0.0	0.0	43.1	55.5
Total	**17.4**	**16.2**	**63.6**	**120.9**	**388.8**	**416.8**

* Comparatives after restatement.

In addition to the receivables under heading D. of the balance sheet, Other receivables include tax assets from current taxation due in the amount of €36.4 million (PY: €2.4 million) shown under H.I. on the face of the balance sheet.

Changes in Impairment

	2007 €million	2006 €million
Carrying amount as of 31.12. of previous year	18.4	12.7
Reversals	9.8	4.9
Allocation	5.4	10.6
Carrying amount as of 31.12. of financial year	**14.0**	**18.4**

Impairment of receivables is shown in impairment accounts. The changes in these accounts are shown above.

[12] Deferred Acquisition Costs (net)

	2007 €million	2006 €million
Balance as of 31.12. of the previous year		
Gross	84.9	105.2
Reinsurers' share	1.2	2.0
Net	83.7	103.2
Adjustment of previous year		
Gross	– 10.5	0.0
Reinsurers' share	0.0	0.0
Balance as of 01.01. of the financial year		
Gross	74.4	105.2
Reinsurers' share	1.2	2.0
Net	73.2	103.2
New deferred acquisition costs		
Gross	26.4	28.0
Reinsurers' share	1.2	1.2
Amortization		
Gross	55.3	48.3
Reinsurers' share	1.8	2.0
Balance as of 31.12. of the financial year		
Gross	**45.5**	**84.9**
Reinsurers' share	0.6	1.2
Net	**44.9**	**83.7**

[13] Tax Assets

Deferred tax assets involve essentially recognition of investments at a lower amount under IFRS and higher underwriting reserves compared to their tax base.

In the current financial year, corporate income tax loss carryforward in the amount of €65.9 million (PY: €0.8 million) and trade tax loss carryforward in the amount of €82.8 million (PY: €0.0 million) were considered not utilizable so that no deferred tax was recognized. The increase is due on the one hand to the increase in the interest of Gothaer Allgemeine Versicherung AG in CC-Grundfonds Vermittlungs GmbH, which was then fully consolidated. On the other hand, due to an unclarified situation with the tax administration as regards Munich Carlyle Productions GmbH & Co. KG, the tax loss carryforward is considered no longer utilizable and was therefore reversed.

Deferred tax assets in connection with tax loss carryforward decreased in the financial year €8.0 million from the figure of €9.8 million a year earlier.

[14] Other Assets

	2007 €million	2006* €million
Inventories	0.1	0.1
Receivables in connection with assumption of debt	19.7	18.6
Other assets	1.0	0.8
Total	**20.8**	**19.5**

* Comparatives after restatement.

Notes to the Consolidated Balance Sheet – Equity and Liabilities

[15] Other Reserves

	2007 €million	2006* €million
Unrealized gains and losses on available for sale investments	58.5	126.0
Less:		
Deferred taxes	– 6.2	– 1.1
Total	**64.7**	**127.2**

* Comparatives after restatement.

The amount shown on line A. III. on the face of the balance sheet under equity and liabilities also includes a separate reserve in the amount of €1.2 million (PY: €1.3 million) resulting from the reclassification of securities.

Changes in Other Reserves

	2007 €million	2006 €million
Allocations/reversals shown directly in equity	– 7.8	32.6
Allocations/reversals shown in the income statement	– 54.8	– 30.1
Total	**– 62.6**	**2.5**

Investments previously classified as available for sale were reclassified as investments held to maturity or loans when revised IAS 39 was adopted in 2005. Unrealized gains and losses on these reclassified investments are shown as a separate reserve under Other Reserves. This reserve is either reversed upon disposal of the reclassified investments or amortized over the residual term of the investments.

On the one hand, changes in Other Reserves are carried to the income statement upon disposal of securities and realization of the related positive or negative reserves. On the other hand, “hidden” losses are reversed and carried to the income statement and shown as write-downs in the income statement in the event of impairment. Expense in the amount of €0.7 million was incurred in the financial year 2007 due to write-downs.

Changes in unrealized gains and losses on available for sale investments that remained in the portfolio of the Group are on the other are shown directly in equity.

[16] Minority Interests in Equity

	2007 €million	2006 €million
Unrealized gains and losses on available for sale investments	0.0	0.0
Share of net profit for the year	0.2	0.0
Other equity	0.6	1.2
Balance as of 31.12. of financial year	**0.8**	**1.2**

[17] Underwriting Reserves

	2007			2006		
	Gross €million	Re €million	Net €million	Gross €million	Re €million	Net €million
Unearned premiums	254.5	34.2	220.3	252.0	39.8	212.2
Policy reserves	50.5	0.0	50.5	49.6	0.0	49.6
Reserves for unpaid claims	1,742.6	459.7	1,282.9	1,702.7	487.4	1,215.2
Reserves for premium refunds	10.9	0.0	10.9	12.1	0.0	12.1
Other underwriting reserves	10.8	5.9	4.9	4.2	– 2.8	7.1
Total	**2,069.3**	**499.8**	**1,569.5**	**2,020.6**	**524.4**	**1,496.2**

Changes in Reserves for Unpaid Claims

	2007 €million	2006 €million
Balance as of 31.12. of previous year		
Gross	1,702.7	1,702.7
Reinsurers' share	487.4	495.9
Net	1,215.3	1,206.8
Plus claims expenses (net)		
Losses in the financial year	797.3	718.3
Losses in the previous year	– 16.2	– 52.2
Total	781.1	666.1
Less paid claims (net)		
Losses in the financial year	407.1	356.2
Losses in the previous year	304.0	305.3
Total	711.1	661.5
Other changes	– 2.4	3.8
Balance as of 31.12. of financial year		
Net	**1,282.9**	**1,215.2**
Reinsurers' share	459.7	487.4
Gross	**1,742.6**	**1,702.7**

Run-Off of Gross Reserves for Unpaid Claims of Gothaer Allgemeine Versicherung AG (direct business)

Year of occurrence		Financial year						
		2001 €million	2002 €million	2003 €million	2004 €million	2005 €million	2006 €million	2007 €million
2001	Reserves 01.01.	–	500.0	205.9	143.2	109.7	97.3	81.0
	Payments	535.1	258.2	59.2	25.7	14.7	10.4	7.1
	Reserves 31.12.	500.0	205.9	143.2	109.7	97.3	81.0	69.9
	Run-off result	–	35.9	3.5	7.8	−2.3	5.9	4.0
2002	Reserves 01.01.	–	–	498.0	199.1	129.7	109.0	87.3
	Payments	–	568.5	256.7	62.7	30.4	18.3	13.9
	Reserves 31.12.	–	498.0	199.1	129.7	109.0	87.3	76.9
	Run-off result	–	–	42.2	6.7	−9.7	3.4	−3.5
2003	Reserves 01.01.	–	–	–	407.4	171.3	122.3	92.7
	Payments	–	–	449.5	204.1	58.3	23.9	13.3
	Reserves 31.12.	–	–	407.4	171.3	122.3	92.7	80.6
	Run-off result	–	–	–	32.0	−9.3	5.7	−1.2
2004	Reserves 01.01.	–	–	–	–	399.9	170.8	116.0
	Payments	–	–	–	433.5	196.5	52.8	23.9
	Reserves 31.12.	–	–	–	399.9	170.8	116.0	93.0
	Run-off result	–	–	–	–	32.6	2.0	−0.9
2005	Reserves 01.01.	–	–	–	–	–	385.1	171.2
	Payments	–	–	–	–	403.9	209.8	53.6
	Reserves 31.12.	–	–	–	–	385.1	171.2	128.7
	Run-off result	–	–	–	–	–	4.1	−11.1
2006	Reserves 01.01.	–	–	–	–	–	–	406.4
	Payments	–	–	–	–	–	396.8	218.5
	Reserves 31.12.	–	–	–	–	–	406.4	168.5
	Run-off result	–	–	–	–	–	–	19.3
2007	Reserves 01.01.	–	–	–	–	–	–	–
	Payments	–	–	–	–	–	–	469.1
	Reserves 31.12.	–	–	–	–	–	–	421.1
	Run-off result	–	–	–	–	–	–	–

Changes in Reserves for Premium Refunds (bonus reserve)

	2007 €million	2006 €million
Balance as of 31.12 of previous year	12.1	12.1
Allocation	0.8	2.2
Amount used	1.4	1.3
Reversals	0.6	0.9
Gross	**10.9**	**12.1**
Reinsurers' share	0.0	0.0
Nett	**10.9**	**12.1**

Reserves for premium refunds (bonus reserve) include those amounts credited to policyholders from profit-related or non-profit-related profit in compliance with regulatory requirements or contractual conditions

[18] Provisions for Pension Benefits and Similar Obligations

The companies of the Gothaer Allgemeine Group provide pension benefits for their employees and insurance agents. Both defined benefit and defined contribution plans are used. Total obligations arising from provisions for pension benefits came to €57.1 million in the financial year (PY: €51.5 million).

Gothaer Finanzholding AG has assumed liability for pension benefits in the amount of €19.7 million (PY: €18.6 million). Both these pension benefits and a corresponding claim against Gothaer Finanzholding AG (under heading I. Other assets) are recognized in the present consolidated financial statements.

Defined Benefit Plans

In case of defined benefit plans, beneficiaries are promised specific benefits by the company or a pension plan. The contributions of the company are not fixed in advance. Pension plans are pension funds and benefit associations and societies that insure essentially employees of domestic enterprises.

Defined benefit plans are based on the use of actuarial estimates and assumptions.

Actuarial Assumptions

The basic biometric values for both years are based on the Prof. Dr. Heubeck RT 2005 G Mortality Tables. The following assumptions were also used:

	2007	2006
Discount rate	5.30 %	4.30 % – 4.50 %
Expected return on plan assets	4.50 %	4.25 %
Expected increase in salaries	2.30 %	2.00 %
Expected increase in benefits	2.00 %	1.75 % – 2.00 %
Average remaining service time (in years)	11.90 – 13.93	11.30 – 15.45
Fluctuation probability	6.00 % to age 35	6.00 % to age 35
	3.00 % to age 45	3.00 % to age 45

The present value of provisions for pension benefits as of 31 December 2007 represents total estimated obligations as of that time less plan assets and unrecognized actuarial gains. The individual steps involved in calculation are presented below in tabular form.

Reconciliation of Defined Benefit Obligations (DBO)

	2007 €million	2006 €million
Present value of defined benefit obligations as of 31.12. of previous year	322.0	324.6
Current service cost, including interest	6.3	6.9
Interest cost	14.2	13.6
New actuarial gains/losses on liabilities	– 24.0	– 12.2
Pension benefits paid from plan assets	– 10.6	– 10.0
Pension benefits paid by employer	– 1.0	– 0.8
Transfers out	0.0	0.0
Present value of defined benefit obligations as of 31.12. of financial year	**306.8**	**322.0**

Capital cover comes to 83.56% (PY: 77.88%).

Reconciliation of Plan Assets

	2007 €million	2006 €million
Plan assets as of 31.12. of previous year	250.7	255.8
Expected return on plan assets	10.5	10.8
Actuarial gains/losses on plan assets	2.2	– 7.2
Employer contributions to plan assets	3.6	1.4
Pension benefits paid from plan assets	– 10.6	– 10.0
Plan assets as of 31.12. of financial year	**256.4**	**250.7**

Pension plan reinsurance and direct insurance account for 1.6% of plan assets and assets of the pension plans for 98.4%.

Reconciliation of Actuarial Gains/Losses

	2007 €million	2006 €million
Unrecognized gains/losses as of 31.12. of previous year	– 19.8	– 24.9
Actuarial gains/losses on liabilities as of 31.12. of financial year	24.0	12.2
Actuarial gains/losses on plan assets as of 31.12. of financial year	2.2	– 7.2
Recognition of actuarial gains/losses	0.2	0.1
Unrecognized gains/losses as of 31.12. of financial year	**6.6**	**–19.8**

Provisions for Pension Benefits

	2007 €million	2006 €million
Present value of defined benefit obligations as of 31.12. of financial year	306.8	322.0
Plan assets as of 31.12. of financial year	– 256.4	– 250.7
Cover deficit/surplus as of 31.12. of financial year	50.4	71.2
Unrecognized actuarial gains/losses as of 31.12. of financial year	6.6	– 19.8
Unrecognized service costs as of 31.12. of financial year	0.0	0.0
Provisions for pension benefits as of 31.12. of financial year	**57.1**	**51.5**

The estimate of provisions for pension benefits as of 31 December 2008 assumes among other things knowledge of the provisions for pension benefits as of 31 December 2007 and service costs as of 31 December 2008. Expected service costs are estimated on the basis of the future recognition. The amount of recognitions estimated on the basis of other values. The individual steps involved in the calculations are shown in the tables below.

Expected Defined Benefit Obligations (DBO)

	2007 €million	2006 €million
Present value of defined benefit obligations as of 31.12. of previous year	322.0	324.6
Current service cost, including interest	6.3	6.9
Interest cost	14.2	13.6
Pension benefits paid	– 11.9	– 11.0
Expected defined benefit obligations as of 31.12. of financial year	**330.6**	**334,1**

Experience-based adjustments for the financial year included €23.8 million for adjustments in plan liabilities, a negative €2.5 million for adjustments in plan liabilities without interest change and €4.7 million for adjustments in plan assets.

Actuarial Gains/Losses on Liabilities

	2007 €million	2006 €million
Present value of obligations as of 31.12. of financial year	306.8	322.0
Expected obligations as of 31.12. of financial year	330.6	334.1
Actual payments of pension benefits	– 11.6	– 10.9
Expected payments of pension benefits	– 11.9	– 11.0
Actuarial gains/losses on liabilities as of 31.12. of financial year	**24.0**	**12.2**

Expected Plan Assets

	2007 €million	2006 €million
Plan assets as of 31.12. of previous year	250.7	255.8
Expected return on plan assets	10.5	10.8
Expected employer contributions to plan assets	1.4	7.8
Expected pension benefits paid from plan assets	– 10.9	– 10.2
Expected plan assets as of 31.12. of financial year	**251.7**	**264.2**

Actuarial Gains/Losses on Plan Assets

	2007 €million	2006 €million
Plan assets as of 31.12. of financial year	256.4	250.7
Expected plan assets as of 31.12. of financial year	251.7	264.2
Actual employer contributions to plan assets	– 3.6	– 1.4
Actual pension benefits paid from plan assets	10.6	10.0
Expected employer contributions to plan assets	– 1.4	– 7.8
Expected benefits paid from plan assets	10.9	10.2
Actuarial gains/losses on plan assets as of 31.12. of financial year	**2.2**	**–7.2**

Pension Costs

	2007 €million	2006 €million
Current service cost, including interest	6.3	6.9
Interest cost	14.2	13.6
Expected return on plan assets	– 10.5	– 10.8
Recognition of actuarial gains/losses	0.2	0.1
Recognition of cost of plan amendments		
for vested benefits	0.0	0.0
for non-vested benefits	0.0	0.0
Pension cost	**10.2**	**9.8**

Changes in Provisions for Pension Benefits

	2007 €million	2006 €million
Provisions for pension benefits as of 31.12. of previous year	51.5	43.9
Service cost for financial year	10.2	9.8
Pension benefits paid by employer	– 1.0	– 0.8
Actual employer contributions to plan assets	– 3.6	– 1.4
Provisions for pension benefits as of 31.12. of financial year	**57.1**	**51.5**

Expected income from plan assets came to €10.5 million (PY: €10.8 million) and actual income from plan assets to €12.7 million (PY: €3.6 million). Plan assets are invested exclusively in fixed-income securities.

Recognition

	2007 €million	2006 €million
Present value of obligations as of 31.12. of financial year	306.8	322.0
Plan assets as of 31.12. of financial year	256.4	250.7
Provisions for pension benefits as of 31.12. of financial year	– 57.1	– 51.5
Unrecognized gains/losses as of 31.12. of financial year	– 6.6	19.8
Corridor pursuant to IAS 19.92	30.7	32.2
Gains/losses outside of corridor	0.1	2.1
Recognition as of 31.12. of financial year	0.0	0.2
Recognition period in years	0–19	0–19

Expected Pension Costs

	2008 €million	2007 €million
Current service cost, including interest	5.5	6.3
Interest cost	15.9	14.2
Expected return on plan assets	– 11.4	– 10.5
Recognition of actuarial gains/losses	0.0	0.2
Expected Pension Costs	**10.1**	**10.2**

Expected Provisions for Pension Benefits

	2008 €million	2007 €million
Provisions as of 31.12. of previous year	57.1	51.5
Expected service cost	10.1	10.2
Expected pension benefits paid by employer	– 1.2	– 1.0
Expected employer contributions to plan assets	– 3.5	– 1.4
Expected provisions for pension benefits as of 31.12. of financial year	**62.5**	**59.3**

Defined Contribution Pension Plans

	2007 €million	2006 €million
Pension commitments based on deferred income	0.3	0.4
Direct insurance – employers	0.0	0.0
Total	**0.3**	**0.4**

Defined contribution pension plans involve either direct commitments or direct insurance. In this case, predetermined amounts are paid, for example, as a function of compensation, and the rights of the recipient exist in the form of a pledge or title against an insurance company and the obligation of the employer is fulfilled upon payment of premiums.

[19] Accruals for Taxes

This item includes taxes on income and other taxes recognized as liabilities on the basis of provisions of national tax law. Deferred taxes are shown under tax assets and liabilities.

[20] Other Accruals

	2007 €million	2006* €million
Accrual for jubilee obligations	14.8	16.9
Accrual for part-time pre-retirement/early retirement	23.9	24.7
Accrual for payment of back taxes	0.0	0.6
Accrual for social plan / severance settlements	9.1	4.7
Other	24.4	17.3
Total	**72.2**	**64.2**

* Comparatives after restatement.

Change in Other Accruals

	2007 €million	2006 €million
Balance as of 31.12. of previous year	74.0	77.2
Adjustment of previous year	−9.7	0.0
Balance as of 01.01. of financial year	64.3	77.2
Changes in consolidation	3.9	0.0
Amount used	7.6	22.2
Reversals	6.7	6.8
Allocation	18.2	25.8
Other movements	0.1	0.0
Balance as of 31.12. of financial year	**72.2**	**74.0**

[21] Liabilities

	2007 €million	2006* €million
Long-term borrowings	**–0.2**	**0.4**
Participation certificates	**30.7**	**30.7**
Subordinate liabilities	**250.0**	**250.0**
Bonds and loans	**65.1**	**65.1**
Investments held for trading	**3.7**	**6.7**
Other liabilities		
Deposits received from reinsurers	31.1	26.9
Liabilities in connection with direct insurance business	83.6	155.0
towards policyholders	66.2	65.3
towards mediators	17.4	89.7
Liabilities in connection with reinsurance business	14.4	7.2
Liabilities toward affiliated and associated companies	59.5	62.0
Other	54.9	51.9
Total	**592.8**	**655.9**

* Comparatives after restatement.

Long-term borrowings include minority interests in Munich Carlyle Productions GmbH & Co. KG. Due to the right to termination contained in the German Civil Code, minority interests must be recognized as long-term borrowings according to IAS 32. Due to the company's loss for 2007, a claim exists against the other shareholders. The shares of the annual results of Munich Carlyle Productions GmbH & Co. KG due to other shareholders are shown in the Group income statement as interest on long-term borrowings.

Other liabilities include liabilities in connection with social security, trade payables and other liabilities.

Investments held for trading

	2007 €million	2006 €million
Non-fixed-income	0.0	2.6
Fixed-income	3.7	4.1
Total	**3.7**	**6.7**

Fixed-Income Maturities

	2007 €million	2006 €million
Up to 1 year	0.0	0.1
1 to 2 years	3.1	0.0
2 to 3 years	0.0	3.7
3 to 4 years	0.1	0.0
4 to 5 years	0.0	0.2
5 to 10 years	0.5	0.0
After 10 years	0.0	0.1
Total	**3.7**	**4.1**

Derivative financial instruments held for trading are non-rated. Derivative financial instruments normally have no cost.

Liabilities Maturities

	Participation certificates		Subordinate liabilities		Bonds and loans		Other liabilities	
	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006 €million	2007 €million	2006* €million
Up to 1 year	30.7	30.7	0.0	0.0	0.1	0.1	256.6	316.0
1 to 2 years	0.0	0.0	0.0	0.0	0.0	0.0	3.6	2.2
2 to 3 years	0.0	0.0	0.0	0.0	0.0	0.0	1.6	2.2
3 to 4 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 to 5 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 to 10 years	0.0	0.0	0.0	0.0	65.0	65.0	0.0	0.0
After 10 years	0.0	0.0	250.0	250.0	0.0	0.0	0.0	0.0
Total	**30.7**	**30.7**	**250.0**	**250.0**	**65.1**	**65.1**	**261.8**	**320.4**

* Comparatives after restatement.

The presentation of liabilities according to maturities includes tax liabilities in the amount of €18.3 million (PY: €17.4 million) that are shown on line E.I. on the face of the balance sheet.

[22] Tax Liabilities

Deferred tax liabilities taxes are essentially due to higher carrying amounts under IFRS than under the German Commercial Code in the case of investments and lower carrying amounts for underwriting reserves.

Notes to the Consolidated Income Statement

[23] Premiums

	2007 €million	2006 €million
Premiums written		
Gross	1,433.6	1,404.3
Reinsurers' share	254.0	284.4
	1,179.6	**1,119.9**
Change in unearned premiums		
Gross	− 2.5	− 3.6
Reinsurers' share	5.6	− 3.0
	−8.1	**−0.6**
Net premiums earned	**1,171.5**	**1,119.3**

Gross premiums in the amount of €1,375.5 million (PY: €1,352.2 million) were written in the area of direct insurance business in the financial year. Reinsurance assumed accounted for gross premiums in the amount of €58.1 million (PY: €52.1 million).

[24] Investment Income (per investment category)

	Income		
	Current income 2007 €million	Write-ups 2007 €million	Gains on disposals 2007 €million
Investment property	0.0	0.0	0.0
Shares in affiliated and associated companies	25.0	12.5	1.5
Held to maturity investments	12.8	0.0	1.0
Loans	40.7	0.0	0.0
Available for sale investments	98.5	0.0	63.1
Non-fixed-income	71.9	0.0	61.7
Fixed-income	26.6	0.0	1.4
Investments measured at fair value through profit or loss	0.0	12.6	14.1
Other investments	6.0	0.0	0.0
Total	**183.0**	**25.1**	**79.7**

	Expense		
	Write-downs 2007 €million	Losses on disposals 2007 €million	Total 2007 €million
Investment property	0.0	0.0	0.0
Shares in affiliated and associated companies	5.4	2.1	31.5
Held to maturity investments	1.9	0.5	11.4
Loans	0.0	0.0	40.7
Available for sale investments	11.4	7.1	143.1
Non-fixed-income	8.4	1.0	124.2
Fixed-income	3.0	6.1	18.9
Investments measured at fair value through profit or loss	5.7	3.6	17.6
Other investments	0.0	0.0	6.0
Total	**24.4**	**13.3**	**250.3**

	Income		
	Current income 2006 €million	Write-ups 2006 €million	Gains on disposals 2006 €million
Investment property	0.1	0.0	0.6
Shares in affiliated and associated companies	25.4	6.6	5.0
Held to maturity investments	11.2	0.0	0.1
Loans	26.7	0.0	2.1
Available for sale investments	70.8	0.0	26.6
Non-fixed-income	47.3	0.0	24.7
Fixed-income	23.5	0.0	1.9
Investments measured at fair value through profit or loss	0.4	11.5	23.0
Other investments	6.0	0.0	0.0
Total	**140.6**	**18.1**	**57.4**

	Expense		
	Write-downs 2006 €million	Losses on disposals 2006 €million	Total 2006 €million
Investment property	6.7	0.0	– 6.1
Shares in affiliated and associated companies	4.1	2.1	30.7
Held to maturity investments	0.0	5.2	6.2
Loans	1.5	1.5	25.9
Available for sale investments	1.6	23.5	72.3
Non-fixed-income	1.6	21.1	49.4
Fixed-income	0.0	2.4	22.9
Investments measured at fair value through profit or loss	6.4	12.3	16.2
Other investments	0.0	0.0	6.0
Total	**20.3**	**44.6**	**151.2**

Portfolio management expenses (current expenses) came to €67.9 million (PY: €38.4 million).

No disclosure is required pursuant to IFRS 7.20 (c).

Expenses and income in connection with shares in associated companies are shown below.

	2007 €million	2006 €million
Write-ups	12.8	6.8
Gains on disposals	0.6	0.0
Write-downs	0.0	0.7
Losses on disposals	1.6	0.0
Total	**11.8**	**6.1**

[25] Other Income

	2007 €million	2006 €million
Income from commissions and services	64.7	65.3
Interest and similar income	0.6	0.3
Sales revenues	97.3	94.0
Other	29.3	22.1
Total	**191.9**	**181.7**

[26] Policyholder Benefits (net)

	2007 €million	2006* €million
Claims paid		
Gross	919.8	815.8
Reinsurers' share	208.7	154.3
Net	**711.1**	**661.5**
Change in reserves for unpaid claims		
Gross	35.2	–4.6
Reinsurers' share	–28.2	–9.2
Net	**63.4**	**4.6**
Change in policy reserves and other reserves		
Gross	7.5	1.0
Reinsurers' share	8.7	1.1
Net	**–1.2**	**–0.1**
Premium refunds		
Gross	1.3	2.3
Reinsurers' share	0.0	0.0
Net	**1.3**	**2.3**
Other underwriting income (–) / expense (+)		
Gross	9.5	8.4
Reinsurers' share	3.1	4.2
Net	**6.4**	**4.2**
Total	**781.0**	**672.5**

* Comparatives after restatement.

[27] Underwriting Expenses (net)

	2007 €million	2006 €million
Acquisition expenses (gross)		
Payments	68.9	66.8
Change in deferred acquisition costs	28.9	20.3
	97.8	**87.1**
Administrative expenses (gross)	**370.1**	**364.0**
Operating expenses for insurance business (gross)	**467.9**	**451.1**
Commissions and profit sharing received on reinsurance business ceded		
Payments	71.2	88.3
Change in deferred acquisition costs	0.5	0.8
	71.7	**89.1**
Underwriting expenses (net)	**396.2**	**362.0**

[28] Other Expenses

	2007 €million	2006* €million
Expenses for commissions and services	60.8	69.0
Interest and similar expense	5.2	2.7
Personnel expense	44.1	44.6
Other amortization and depreciation	14.8	13.6
Other	94.2	91.3
Total	**219.1**	**221.3**

* Comparatives after restatement.

Personnel expense does not include expenses of the insurance companies. Those costs are assigned to functional areas through cost unit accounting.

Other amortization and depreciation essentially include amortization of intangible assets and depreciation of operating and office equipment. This item does not include amortization and depreciation of the insurance companies. As in the case of personnel expense, the latter are allocated to functional areas.

[29] Taxation

	2007 €million	2006 €million
Actual tax expense for the financial year	–4.9	7.8
Actual non-period tax expenses	–0.1	0.2
Deferred taxes as a result of the occurrence or reversal of temporary differences	4.5	14.9
Deferred taxes resulting from changes in tax rates	–39.6	0.1
Taxes on income	**–40.1**	**23.0**

The taxes shown in the income statement also include current taxes to be paid by the various Group companies as well as deferred tax assets and liabilities. Deferred taxes result from temporary and semi-permanent differences between IFRS financial statements and the tax base as well as from differences due to consolidation.

Tax rates that reflect the respective tax situation of the companies were used for purposes of calculation of deferred taxes.

The rate applied for purposes of determining deferred taxes was revised in the financial year due to a change in the provisions of tax law. A rate of 16% was used for both deferred taxes on income and deferred trade tax.

In addition to the tax expense shown in the income statement for the financial year, changes in differed taxes in the amount of €4.9 million (PY: €6.1 million) were taken directly to equity.

Taxation
Reconciliation

		2007 €million	2006 €million
	Profit for the year after transfer of profit – before taxation	45.3	64.0
x	Group tax rate		
=	Expected taxes on income	30.7	23.4
	Adjusted to correct for:		
+	Tax-exempt income/expense	–28.7	–6.3
+	Non-period taxes	–0.1	5.5
+	Effects of tax losses	4.5	–0.1
+	Changes in tax rates	–39.1	0.0
+	Other effects	–7.4	0.4
=	**Taxes on income**	**–40.1**	**23.0**

Supervisory Board

Dr. Roland Schulz, Chairman
Former Managing Director,
Düsseldorf

*Diethelm Garvelmann *),* Vice Chairman
Employee,
Gleichen

Dieter Bick
Diplom-Betriebswirt,
Management Consultancy,
Cologne

Carl Graf von Hardenberg
Chairman of the Supervisory Board of
Hardenberg-Wilthen AG,
Nörten-Hardenberg

*Judith Kerschbaumer *)*
Trade Union Secretary of ver.di,
Lawyer,
Berlin

*Michael Nicolai *)*
Manager of Captive Agency Organization,
Klingenmünster

Franz-Josef Röllgen
Agricultural Operator,
Kerpen-Türnich

*Edgar Schoenen *)*
Employee,
Cologne

*Peter-Josef Schützeichel *)*
Employee,
Öhringen

Dr. Hans Joachim Vits
Lawyer,
Managing Director of
Vermögensverwaltung Vits GbR,
Wuppertal
Up to 25 April 2007

*Eckhard Voßkötter *)*
Employee,
Frankfurt/M.

Dr. Gerd Gustav Weiland
Lawyer,
Hamburg

Dr. Ulrike Wolff
Dr. Wolff Managementberatung,
Berlin
As of 25 April 2007

*) Elected by employees.

Management

Thomas Leicht, Chief Executive Officer
Cologne
Executive Officer up to 29 February,
Chief Executive Officer as of 1 March 2008

Dr. Werner Görg
Cologne
Chief Executive Officer up to 29 February,
Executive Officer as of 1 March 2008

Ronald van het Hof
Kürten-Bechen
Up to 31 March 2007

Dr. Helmut Hofmeier
Bergisch-Gladbach

Michael Kurtenbach
Bornheim

Jürgen Meisch
Cologne

Dr. Hartmut Nickel-Waninger
Cologne

Dr. Herbert Schmitz, Director of Human Resources
Cologne

Gerd Schulte
Overath

The list of names of members of the Supervisory Board and Management also rep resents a disclosure in the notes pursuant to section 314 No. 6 of the German Commercial Code.

Advisory Board
Gothaer Allgemeine Versicherung AG

Werner Dacol
Managing Director of Aachener Siedlungs- und Wohnungsgesellschaft mbH,
Cologne

Clemens August Freiherr von Ketteler-Harkotten
Agricultural and Forest Operator,
Freiherrlich von Ketteler'sche Verwaltung,
Sassenberg-Füchtorf
Up to 15 June 2007

Eckhard Netzmann
Diplom-Ingenieur,
Corporate Consultant,
Berlin

Dr. Berthold Reinartz
Notary,
Neuss
Up to 14 June 2007

Gerhard Schulz
Managing Director of
Interessengruppe Mittelständische Bauwirtschaft, Bauelemente Schulz GmbH,
Leipzig
Up to 15 June 2007

Prof. Dr. jur. Jürgen Vocke
Judge (Retd),
Member of the Parliament of Bavaria,
President of Landesjagdverband Bayern e.V.,
Ebersberg

Axel F. Waschmann
Executive Officer of EWE Aktiengesellschaft (Retd),
Oldenburg

Helmut Weissheimer
Managing General Partner of
Friedrich Weissheimer Malzfabrik,
Andernach
Up to 6 March 2007

Other Information

Personnel Expenses

	2007 €million	2006 €million
Wages and salaries	178.1	166.6
Social security contributions and employee benefits	30.0	30.9
Post-retirement benefits	5.2	12.0
Total	**213.3**	**209.5**

Number of Employees (average for the year)

	2007	2006*
In house	2,764	2,771
Field	521	518
	3,285	**3,289**
Apprentices	138	134
Total	**3,423**	**3,423**

* Comparatives after restatement.

Remuneration of Members of the Supervisory Board and Management

Disclosure Pursuant to Section 314(1) No.6 of the German Commercial Code snd IAS 24.16

Management received compensation in the amount of €0.6 million (PY: €0.9 million) in 2007. Compensation of former members of management came to €0.4 million (PY: €0.0 million). Retirement and survivors' benefits for former members of management came to €0.1 million (PY: €0.0 million). Further accruals in the amount of €3.8 million (PY: €2.0 million) exist for current and earned post-employment benefits for this group of individuals.

Compensation paid to the Supervisory Board came to €0.3 million (PY: €0.3 million). No payments were made to former members of the Supervisory Board and the Advisory Board or deferred.

No loans were granted to members of the Management or the Supervisory Board in the financial year.

Expenses for the Statutory Auditor

The cost of the annual audit came to €0.5 million. As in the previous year, no confirmation or consulting services, tax accountancy services or other services were required.

Contingent Liabilities

The Group had recorded no contingent liabilities in the financial year or the previous year.

Other Financial Commitments

The Group has liabilities in the amount of €121.1 million (PY: €100.3 million) arising from commitments to make payments in connection with investments.

Gothaer Allgemeine Versicherung AG and Janitos Versicherung AG are members of "Verkehrsopferhilfe e.V." Membership entails an obligation to contribute to the funds this association requires to carry out its activities. Contributions are based on the respective shares of the premium income generated by member companies from direct automotive and liability insurance in the year before the past calendar year. Gothaer Allgemeine Versicherung AG is also a member of a pharmaceutical and nuclear energy pool. In addition, the Group holds an interest in EXTREMUS Versicherungs-AG.

Related Party Disclosures

In compliance with IAS 24, Related Party Disclosures, business relationships with non-consolidated companies that could from the point of view of the Gothaer Group be of significant importance are reported below.

GSC Gothaer Schaden-Service-Center GmbH

GSC Gothaer Schaden-Service-Center GmbH carries out communication-intensive business processes (call center) and other services and also adjusts claims. Revenues came to €11.5 million (PY: €10.5 million) in 2007, 98.2% of which was generated by business with Gothaer Allgemeine Versicherung AG. At €6.2 million (PY: €5.4 million), personnel represented the largest expense item.

Receivables from affiliated companies in the amount of €70.1 thousand were significantly down from the comparable figure of €0.3 million for the previous year+. Liabilities towards affiliated companies in the amount of a total of €3.0 million (PY: €2.9 million) consist to 83.2% of liabilities towards Gothaer Allgemeine Versicherung AG, including a loan in the amount of €1.7 million to Gothaer Schaden-Center-Service GmbH.

GKC Gothaer Kunden-Service-Center GmbH

GKC Gothaer Kunden-Service-Center GmbH performs services involving communication-intensive business processes (call center) as well as other services such as policy processing and sales support for Gothaer Allgemeine Versicherung AG.

Revenues in the amount of €20.5 million (PY: €16.8 million) recorded in 2007 resulted almost exclusively from the processing of contractually defined business transactions and the handling of telephone queries in connection with the personal insurance business of Gothaer Allgemeine Versicherung AG.

Revenues were offset in particular by personnel expense in the amount of €7.0 million (PY: €4.7 million) and other operating expenses in the amount of €15.1 million (PY: €13.9 million). The latter amount includes essentially start-up costs for EDP and communication systems.

Of the €2.0 million (PY: €3.1 million) due to affiliated companies, €0.2 million consists of liabilities toward Gothaer Allgemeine Versicherung AG (PY: €2.9 million). Liabilities towards affiliated companies in the amount of a total of €14.7 million (PY: €16.3 million) include €0.7 million (PY: €0.8 million) due to IDG Informationsverarbeitung und Dienstleistungen GmbH.

Gothaer Risk-Management GmbH

The goal of Gothaer Risk-Management GmbH is to offer customers seamless risk management services. Significant items in the income statement for 2007 included revenues in the amount of €2.4 million (PY: €2.2 million) and personnel expense in the amount of €1.3 million (PY: €1.2 million). €0.9 million (PY: €1.5 million) of revenues belongs to business with Gothaer Allgemeine Versicherung AG.

Leasing

Finance leases are used exclusively for hardware (net carrying amount €4.3 million, PY: €0.0 million). These lease agreements have a residual term of three years. This results in minimum lease payments in the amount of €4.5 million (PY: €0.0 million). This amount is shown below according to terms.

Minimum Lease Payments under Finance Leases

	2007 €million	2006 €million
Up to 1 year	1.6	0.0
1 to 2 years	1.6	0.0
2 to 3 years	1.3	0.0
3 to 4 years	0.0	0.0
4 to 5 years	0.0	0.0
5 to 10 years	0.0	0.0
After 10 years	0.0	0.0
Total	**4.5**	**0.0**

Operating leases are used essentially for software and company vehicles. Total future minimum lease payments in connection with operating leases come to €43.2 million (PY: €63.2 million). This amount is shown below according to residual terms.

Minimum Lease Payments under Operating Leases

	2007 €million	2006 €million
Up to 1 year	27.9	28.8
1 to 2 years	8.7	12.5
2 to 3 years	4.7	9.6
3 to 4 years	1.9	6.9
4 to 5 years	0.0	5.4
5 to 10 years	0.0	0.0
After 10 years	0.0	0.0
Total	**43.2**	**63.2**

Post-Balance Sheet Events

No events occurred after the reporting date that would require separate disclosure.

The management of Gothaer Allgemeine Versicherung AG approved the consolidated financial statements for submission to the Supervisory Board on 4 June 2008. The Supervisory Board is responsible for examining the consolidated financial statements and issuing a statement as to whether or not it approves the consolidated financial statements.

Cologne, 4 June 2008

Executive Board

Leicht Dr. Görg Dr. Hofmeier Kurtenbach

Meisch Dr. Nickel-Waninger Dr. Schmitz Schulte

Auditor's Report

We audited the consolidated financial statements prepared by Gothaer Allgemeine Versicherung, Cologne – consisting of the balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements – and the report of management on the group for the financial year from 1 January to 31 December 2007. In accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and the complementary provisions of commercial law pursuant to Section 315a(1) of the German Commercial Code, management of the parent company is responsible for the preparation of the consolidated financial statements and the report of management on the Group. Our responsibility is to provide an opinion on the consolidated financial statements and the report of management on the Group on the basis of our audit.

We conducted our audit of the consolidated financial statements in compliance with section 317 of the German Commercial Code and the German generally accepted principles for the audit of annual financial statements issued by the Institut der Wirtschaftsprüfer (IDW). Accordingly, an audit is to be planned and performed to obtain reasonable assurance of detecting material misstatements or non-compliance with laws and regulations in the presentation of the net assets, financial position and results of operations in the consolidated financial statements and the Report of management on the Group in accordance with applicable accounting principles. Auditing procedures are determined to take into account knowledge of the business activities as well as of the economic and legal context of the Group and an evaluation of possible misstatements. The audit includes assessment of the efficacy of the internal system of control procedures and, primarily on a test basis, examination of evidence supporting amounts and disclosures in the consolidated financial statements and the report of management on the Group. The audit includes assessment of the annual financial statements of consolidated companies, the scope of consolidation, the accounting and valuation principles applied and significant estimates made by the management of the Company as well as evaluation of the overall presentation of the consolidated financial statements and the report of management on the Group. We believe that our audit provides a sufficiently reasonable basis for our opinion.

Our audit resulted in no reservations.

In our opinion, on the basis of the knowledge acquired in the course of our audit, the annual financial statements are in compliance with statutory provisions and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German generally accepted accounting principles. The report of management on the Group is consistent with the consolidated financial statements, conveys a true and fair view of the situation of the Group and accurately presents the opportunities and risks of future developments.

Cologne, 6 June 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Beerlage)	(Glößner)
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board monitored the conduct of business in the course of the financial year in fulfillment of its duties under the law and the bylaws of the Company. Management regularly submitted written reports on business developments and the situation of the Company and reported orally to the Board at four meetings. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and the Executive Committee each met three times. It was not necessary to convene the committee established pursuant to section 27(3) of the German Co-Determination Act *(Mitbestimmungsgesetz)*.

The issues addressed regularly included developments as regards the Company's premiums, losses incurred and underwriting costs as well as investment policy and the effect thereof on the financial statements. In addition, Management regularly reported to the Supervisory Board on the basic issues involved in corporate planning, the Company's risk exposure and the results of benchmarking comparisons with similarly structured companies.

Reports also focused on quantitative and qualitative performance in terms of service quality and the work situation of the Gothaer Customer Service Center and the Gothaer Operations Service Center, both of which have shown significant improvement as a result of measures carried out in the financial year 2007. The needs of the marketplace show the necessity for further automation and industrialization of business processes, and Management presented future organizational models intended to achieve this end to the Supervisory Board.

Management reported to the Supervisory Board on planning activities in connection with the Gothaer campaign intended to target medium-sized companies (GOMit). The Company will continue to pursue its customer-driven orientation and earnings-driven growth in the context of the Gothaer Future Initiative 2.0. In keeping with this Group strategy, Gothaer Allgemeine Versicherung AG will realign its activities in the Corporate Clients segment as well as in the area of loss adjustment.

The Supervisory Board continued to devote special attention to the objectives of growth strategy against the background of persistently intensive price competition in the area of commodity products, in particular in the automotive segment, and declining premium income from industrial property insurance. It is true that Gothaer Allgemeine has not fully achieved its growth targets; the Company has, however, adjusted well to changes in the market in the Composite Corporate Clients areas with its business policy. It was possible to take advantage of opportunities for growth, in particular in the areas of Renewable Energy and dedicated products for specific target audiences. Continued commitment to value-driven corporate management remains in the foreground as a major priority.

The financial strength derived from the Company's earnings-driven growth orientation is reflected in the results of ratings in 2007. Gothaer Allgemeine Versicherung AG confirmed once again its ratings of Standard & Poor's (A-) and Fitch (A).

The financial statements for the 2007 financial year and the accompanying management report as well as the consolidated financial statements for 2007 prepared in accordance with internationally accepted accounting principles (IFRS) and the accompanying management report on the Group were audited, which audits included in each case assessment of the early-warning system, by the auditor appointed pursuant to section 341k of the German Commercial Code, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Both sets of financial statements received an unqualified audit opinion from the audit firm. The auditors attended the corresponding meetings of the Supervisory Board and reported on the material results of the audit.

The Supervisory Board received the audit reports submitted and took note of and approved the results of the audits.

After examination of the presented financial statements and management report for the 2007 financial year and the consolidated financial statements and report of management on the Group for the 2007 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2007. The financial statements are therefore adopted pursuant to section 172 of the German Stock Corporation Act *(Aktiengesetz)*.

The Supervisory Board thanks management and all employees of the Gothaer Allgemeine Group for their work in the course of the past year.

Cologne, 24 June 2008

The Supervisory Board

Dr. Roland Schulz
Chairman

Gothaer Allgemeine Versicherung AG
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